

# HOME BUYER'S HANDBOOK

Presented by

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1. Loan Pre Approval

2. Offer / Acceptance

3. Escrow Opened

4. Lock Rate / GFE

5. Inspections

6. Final Loan Approval

7. Remove Contingencies

8. Hazard Insurance / Title

9. Loan Documents

10. Funding

11. Close of Escrow

**Welcome Home!**

# Outline of Loan Process

## 1. Loan Pre Approval

- Application package with income and savings documentation submitted to loan officer: via personal appointment, mail, e-mail, or web site.
  - Loan program *See Page 3, Loan Programs*
  - Loan amount and strategy
  - Down payment
  - Closing Costs – Good Faith Estimate *See Pages 4, 5, 6, 7, 8 9 and 10*

## 2. Offer / Acceptance

- Pre-approval letter presented by realtor with offer *See Page 12*
  - Seller is assured you have the ability to get financing
  - Seller may favor your offer over those without pre-approval
- Copy of contract to loan officer and open escrow – realtor may coordinate

## 3. Escrow Opened

- Typically the selling agent has opened escrow with an escrow/title company. *See Page 13*
- Once contract is executed, earnest money is deposited in escrow account.
- Preliminary Title Report is ordered and provided to you, your agent and loan officer for review. *See Page 14*
- Title Company will provide insurance to the buyer and to the lender to insure that there is clear title with no outstanding liens at close of escrow. *See Page 15*

## 4. Lock Rate / GFE

- Interest can be locked with lender. *See Page 16*
- Updated Good Faith Estimate provided to you which reflects general terms of loan, estimated costs of your transaction, and total funds needed. *See pages 9 – 11.*

## 5. Inspections

- Appraisal -- ordered by loan agent per sales contract
- Pest Inspection -- ordered by real estate agent per sales contract
- Roof Inspection -- ordered by real estate agent per sales contract
- Home Inspection -- ordered by real estate agent per sales contract
- Septic/well if applicable -- ordered by real estate agent per sales contract

## 6. Final Loan Approval

- Loan Agent advises you and real estate agent of loan approval
- Loan Agent reviews any loan approval conditions with you

## 7. Remove Contingencies

- All reports reviewed and approved by you with real estate agent

- Loan agent authorizes removal of financing contingency
- You agree to remove contingencies and normally will increase your deposit in escrow to 3% of the sales price.

#### **8. Hazard Insurance / How to Hold Title**

- Research and decide on homeowner's insurance.
- Notify Escrow and loan officer of your decision. *See Page 16*
- Decide the manner in which you want to hold title. You may want to discuss this with your attorney and/or CPA. Notify Escrow and loan officer of your decision. *See Page 17.*

#### **9. Loan Documents**

- Loan officer orders loan documents from lender when all lender conditions have been satisfied.
- Appointment for loan sign-off, usually at title company.
- Loan officer will attend sign-off and review note and estimated closing statement for accuracy and answer your questions regarding the loan.

#### **10. Funding**

- Loan officer will coordinate with lender to have loan funds received by escrow (title company) one day before your close of escrow.
- Your funds must be deposited for the remainder of your down payment and closing costs into escrow the day before your close of escrow. Title company will provide instructions for wiring funds if requested.

#### **11. Close of Escrow**

- Title company will record at the County Recorder's Office
- Refer to *Page 18* for Property Tax Schedule
- Title company will disburse funds to seller and other appropriate parties.
- You will receive the keys to your new home.

**Congratulations --- It's Yours**

## Loan Programs

Following is a basic list of loan programs. Many more products are available.

**Fixed Rate** A fixed rate loan has an interest rate that remains constant over the life of the loan most typically a 30 year or 15 year term.

**Buy Down** The interest rate is reduced for a specific period of time by paying a portion of the interest in advance.

**Balloon Loan** These loans are amortized using thirty year amortization payments, but at the end of a shorter term (3, 5, 7 or 10 years) the remaining balance is due. Most balloon loans have an option to be extended at a rate determined by adding a margin to an index for the remainder of the term of the loan. Thus a 3-27, 5-25, 7-23, 10-20.

**Adjustable Rate (ARM)** Many different versions of adjustable rate mortgages exist. They all have an initial fixed rate (from one month to ten years) after which time the rate becomes fully indexed. The fully indexed rate is determined by adding an index to a margin. The initial period can be one month, three months, six months, one year, three years, five years, seven years, or ten years.

*Example:* A 5/1 adjustable rate loan is fixed for five years, and then converts to an annual adjustable rate determined by the index (typically one year treasury index) plus a margin (typically 2.75%).

**Negative Amortization Loans** These loans are adjustable rate loans. A minimum payment is established for a short term using a below current market interest rate. At the end of this introductory period, the loan becomes fully indexed based on the index plus the margin. The borrower has three options each month: 1) pay the fully indexed payment, 2) pay interest only, or 3) pay the minimum payment. To the extent that the minimum payment does not cover interest, the difference is added to the loan balance, thus “negative amortization” or “neg-am.” When either of the following occurs: 1) five years from date of recordation or 2) the loan reaches 115% of the original loan amount, the borrower must make the fully indexed payment so as to amortize the loan over the remaining term of the loan.

**Interest Only** Some lenders offer interest only payments on some of their adjustable rate loans. Typically the interest only period matches the fixed term of the loan. In most cases the interest rate for interest only loans is slightly higher than for amortizing loans.

**Equity Line Loans** Home equity line of credit (HELOC) loans are typically based on the Wall Street Journal bank prime-lending rate. They may have an introductory rate at below prime for up to six months, at the end of which period they become fully indexed at prime plus a margin. They have a “draw” period of up to ten years, during which time the borrower can draw funds and/or repay principal. Required payments are interest only during the draw period, although principal payments can be made. After the draw period, the loan must be amortized over the remaining term.

# Mortgage Notes



## How Much is Enough?

Few knowledgeable Realtors (or buyers) would dispute the need for serious homebuyers to get mortgage loan approval before making an offer to purchase in today's hectic market. The question of how much loan to get approved for is often asked.

Virtually without exception, the answer to this question is – “get approved for as much as you can.” Take it to the limit because you can always back off.

Most potential buyers come to us with some preconceived idea of how much they will be willing to spend to buy a house. Our experience tells us that when we obtain loan approval only at the comfort level established by these buyers, it is rarely enough.

Invariably the buyer who wanted (and got) approved for a \$400,000 loan and a \$500,000 purchase will fall in love with a \$525,000 house.

This is frequently “love at first sight” and offers to purchase must be made within hours of cupid's arrow having found its mark. Invariably there is not enough time to increase the approved loan amount in time to make an

offer before someone else gets the house. Another case of love gone wrong.

Besides this rather obvious reason for taking the initial loan approval to the max, there are others.

If a potential buyer knows the maximum he or she can pay for a home, that buyer knows the futility of looking at a home with a price tag above the limit. We all tend to have champagne tastes and beer budgets, but it's preferable to find a good beer rather than order champagne that you can't afford.

Another reason for going to the max is that it gives a feeling of comfort to a the buyer when making an offer well within the established maximum. Equally important, it gives the seller comfort, and we all know the value of seller comfort.

Some buyers hesitate to go above their comfort level because they fear that their Realtor might push them to the highest level possible, perhaps just to make a larger commission. We have two responses to such expressed fear.

1. If a buyer cannot trust their Realtor more than that, they should look for another Realtor. Purchasing a home requires team effort –

Realtor, buyer, lender – and trust among the members of the team is essential.

2. Although it is normally a mistake to center concern on how much someone else is making in a real estate transaction, let's do some quick figures.

Let's say a buyer is approved for \$600,000 purchase, but wants to keep the approval at \$575,000 for fear the Realtor will push for \$600,000. We're talking about a sales price difference of \$25,000.

The selling Realtor's office typically gets ½ of the total (6%) commission on sales. So, 3% of \$25,000 is \$750. Let's be generous and say the selling Realtor gets 70% of that with the other 30% going to the office. Thus \$25,000 is only \$525 to the selling Realtor who otherwise makes \$12,075 on a sale of \$575,000.

There is very little incentive for a Realtor to take advantage of the client for such a relatively small amount. Few if any Realtors would find it worthwhile to push a client into a higher priced home simply to make the few extra bucks per the above example.

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# Mortgage Notes



## Things To Avoid in the Loan Process

With thanks to David Letterman, we give you the “top ten (make that eleven) things borrowers should not do during the loan process. By “during” we mean from the time you make application until after you have closed the loan.

11) **Don't go shopping for a car.** If you must visit the showroom, at least don't give anyone your social security number. This enables the dealer to check your credit. Each credit inquiry lowers your credit score even if you do not buy a car. Lenders are increasingly using credit scores to assist in mortgage credit decisions and to price an individual's loan. High credit scores are good. Low scores aren't.

10) **Don't respond in the affirmative to “you are pre-approved for a credit card” mailings.** A credit inquiry will result with the same impact as 11) above.

9) **Don't incur any new debt.** This increases your debt-to-income ratio, reducing the amount you can borrow.

8) **Don't file for divorce.** This is not advice from Dear Abby. Once you file for divorce, most lenders will not make a mortgage loan until the final decree, setting forth settlement terms, is recorded.

7) **Don't move money designated for down payment from one account to another.** But if you must, always keep a detailed paper trail of the movement. Lenders frequently request it.

6) **Don't fail to keep records of stock liquidation if used for down payment.** Same reasoning as 7), above.

5) **Don't change the source of your down payment.** If your loan application states down payment is from sale of stock, do not simply deliver a cashier's check into escrow from your bank account. Any change in the source of funds for down payment may require the loan to be underwritten again. Best case is a loss of time and worst case may be denial of the loan.

4) **Don't leave town without telling your loan agent and leaving a contact number.** You may be needed for a decision or to provide additional documentation. And of course

you will need to be available to sign loan documents.

3) **Don't quit or change your job.** Lenders typically call your employer the day before they fund your loan to verify that you still have a job. If your employer says you are no longer there, the lender will stop the loan from recording. **Don't forget to make the payments on all of your present loans or credit cards.** This is obvious, but once in awhile a buyer forgets, putting the loan (and escrow close) in jeopardy.

1) **Don't fail to inform your loan agent of any changes to the transaction.** Last minute changes such as holdbacks, seller credits or termite work can create havoc with closing dates.

All is not lost if a buyer does a “don't”. We can minimize or eliminate permanent damage to the transaction, even though delays and stress can occur. But it is best if you refrain from committing any of the eleven deadly sins.

If you have any questions, please feel free to contact me. I am happy to help.

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# Mortgage Notes



## What is the APR?

APR is an acronym for “annual percentage rate.” It is different from interest rate shown on note, and it is (typically) slightly higher.

Failure by a mortgage broker to disclose the APR in accordance with Department of Real Estate regulations could result in loss of a license. And we don't mean that the license is simply misplaced. We mean “loss of” in the most desperate interpretation of the word.

In spite of the importance attached to the need to disclose the APR figure, it is only a calculated figure. It never appears on the note borrowers sign. It never is used to figure the amount of payment a borrower must make to repay the amount borrowed. It is never used to calculate another figure.

So what good is it and why is it necessary to disclose it? Essentially, the APR is the result of an effort to inform borrowers of the “true cost” of borrowing money on a home loan. As such, it represents not only the interest rate that appears on the note, but also it includes the costs of getting the loan. Thus, the theory goes, borrowers are better informed and can make more accurate decisions.

The basic calculation involved in determining the APR is quite simple – for fixed rate loan. It is also simple for

adjustable rate loans, but, as we will explain later, less meaningful. Those with HP12C's or the like can easily make this calculation. Here's how it works.

First, enter the loan amount, the term of the loan, and the interest rate and solve for monthly payment. We'll do it for you - \$400,000 loan at 6.5% for 30 years – monthly P&I payment is \$2,528.27

Next, reduce the loan amount by the estimated cost of getting the loan. Title costs, appraisal, underwriting, credit report and other “Non-recurring costs” may total \$3,500. So you now have a loan amount of \$396,500.

Apply the monthly payment of \$2,528.27 to this new (lower) loan amount and solve for interest rate. The resultant figure (6.593%) is the APR.

Let us say that in addition to the normal nonrecurring costs of \$3,500, the borrower pays 2 points. We deduct another \$8,000 from the loan amount, giving a revised loan amount of \$388,500. Using the same original monthly payment of \$2,528.27, and solving for interest we get a new APR of 6.81%.

Without this disclosure, a borrower may not realize the impact of paying points on the cost of his loan. So there is justification for the requirement to disclose. And the figure does

have some meaning when applied to a fixed rate loan.

The calculation for adjustable rate loans is essentially the same as for fixed, however, since the calculation on a variable rate loan is based on the “fully indexed” rate, the APR figure is less meaningful for ARMS.

Depending on what happens to the underlying index between now when the loan becomes fully indexed (three, five, seven, or ten years from now) the rate could be wildly different.

But still it must be disclosed. The APR figure for an adjustable rate loan is meaningless, but essential. If this seems like a contradiction in terms, it is.

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# Mortgage Notes



## What's The Point?

This is in response to the many questions we get from borrowers about points.

**What is a point?** A point is 1% of the amount of the loan. Two points is (are) 2% of the amount of the loan. A quarter point is .25% of the amount of the loan. Points are paid up front, to the lender, at the time the loan closes.

**What is the result of paying points?** In exchange for receiving some of his profit up front, the lender lowers the interest rate. Different lenders and different loan products have different formulas (formulae) for how much the rate is lowered by paying points.

As a general rule of thumb, it will take approximately five years to get back the dollars you have paid in points on a 30- year fixed rate loan. For example, a \$400,000 fixed rate loan at 6.500% calls for a payment of \$2,528.27. One point costs \$4,000.00 and lowers the rate to 6.250%, and a monthly payment of \$2,462.99. \$4,000.00 divided by the difference in monthly payment (\$65.28) equals 61.27 months. That's how long it takes to get your money back.

Any circumstance which necessitates paying off the loan

during this time means that you leave money in the lender's hands. You have made an "investment" in the loan that takes over five years to get back.

### **Do I have to pay points?**

No. This is always an option, but it is not necessary to pay any points to get a loan. There are plenty of loans and loan products available at zero points.

### **Are points tax deductible?**

*We always advise our clients to consult with a tax attorney, accountant, or CPA regarding any tax questions.* As we understand the rules however, points paid for loans when purchasing a home are deductible in the year they are paid. Points paid in connection with a refinance must be spread over the term of the loan. (1/30<sup>th</sup> per year.)

However, assume you have paid points to refinance two years ago and have therefore deducted only 2/30<sup>ths</sup> of the amount points you paid. If you now refinance, you can now deduct any amount you have not already deducted. Again, we emphasize that you should consult your tax advisor about these and any other tax questions.

### **If I don't pay points, how do mortgage brokers get paid?**

A question close to our hearts. We place loans through the

wholesale division of a lender's organization. We are paid by the lender to make the loan.

For the rates we quote as "zero points", wholesale lenders typically pay 1% of the loan amount as a commission or rebate. For rates we quote with one point (1%) the lender gives no rebate and the borrower pays us one point.

Lenders with both wholesale and retail lending arms price their loans in both divisions so as to create parity, thus borrowers may choose to either go through a broker or through "retail" and get the same rate.

What appears to be a complex pricing system is really quite simple once you understand it. Our goal is to give you several options on your loan rates, so you can make an informed choice. If you have questions in the meantime, please feel free to give us a call.

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# Mortgage Notes



## How Important is A FICO Credit Score?

Start with the premise that if lenders could, they would completely eliminate all expenses associated with making loans. There would be no loan processors, no appraisers, no customer service employees, and – no loan underwriters. Loans would be automatically originated, evaluated, approved, signed, and closed. One person could run the whole operation.

Although this may sound far-fetched, lenders will strive mightily toward that goal. They will strive to replace as many people as possible. And one way they attempt to do this is by using credit scores to assist them in approving or rejecting (underwriting) loans.

Credit scores have been around for years, but with the advent of computers, it became possible to compile statistics on millions of loans and millions of borrowers. This permitted a statistical evaluation of the history of loan repayment based on borrower characteristics and payment history.

The result of all of this is that each of us now has three credit scores – calculated by three different companies. Scores that might replace underwriters. The most commonly known score is that prepared by the Fair Issac Company. Thus FICO has

become a near generic term for credit scores.

So, now we have a tool that lenders use to take a step nearer their goal. So far, human underwriters have not been completely eliminated. But make no mistake about it – they are on the endangered species list and their numbers will diminish.

A borrower may ask, “What difference could this make to me?” Here is a well-grounded answer. “Quite a lot.”

Some lenders use credit scores to determine who is eligible for specific loan products, loan amounts, loan to value, and loan pricing. So far this had been expressed as “credit enhancements.”

A borrower with a score above 720 may get a rate reduction of ¼%. Conversely, a borrower with a score below 660 may pay a premium of ¼%.

**As credit scoring improves, we will likely see (and very soon) a complex matrix of credit scores, loans to value and loan amounts, which further rewards high scores and punishes low scores. Depending on your point of view, this is “credit enhancement” or “credit deduction.”**

The implication to borrowers is obvious. It is important to have as high a credit score as possible. A difference of one point in a credit score can mean

hundreds of dollars in loan payments.

Even if a potential purchase (and loan) is way into the future, call us. It may be wise to get a credit report and score and take action to correct erroneous information or close unnecessary accounts, for example.

As lenders increasingly rely upon credit scores to punish or reward borrowers, mortgage rates that are posted in newspapers and on the Web may become increasingly less useful.

It takes expertise to know what corrective action to take to improve a score and it takes time for credit scores to reflect this action. Although we do not know the precise formulae used to determine individual credit scores, we do have experience in dealing with this issue.

We can help our clients position themselves to be the beneficiaries of “credit enhancement.” Give us a call today if you have any questions on your credit scores.

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# Mortgage Notes



## Closing Costs & The GFE

By law, all Mortgage Brokers must complete a Good Faith Estimate of Closing Costs (GFE) within three days of the date of a loan application. The GFE is a detailed estimate of the anticipated borrower costs associated with the transaction. Further, the GFE discloses the compensation to the broker.

The accuracy of the GFE depends on the competency and integrity of the preparer. Most competent and ethical mortgage brokers guarantee the accuracy of the GFE with respect to lender fees.

Some borrowers confuse closing costs with lender fees. Without an understanding of the distinction between these two terms, borrowers can make a well-intentioned but wrong decision.

For example, one of our agents recently had a client who made an initial decision to use a different mortgage broker versus Diversified Capital Funding based on a perceived \$3,000 difference in closing costs between the two. In fact, the real difference between the two was \$25. Here's how the confusion arose.

A GFE is supposed to include all buyer costs associated with the transaction. These costs are

broken down into two basic categories: non-recurring closing costs and recurring closing costs.

The recurring costs consist of pre-paid items such as one year's insurance premium, interest to the end of the month in which the transaction closes, and any prepaid property taxes.

***Recurring costs are ongoing costs of home ownership.***

***The non-recurring costs are those costs attributable to the transaction itself, such as appraisal, title costs, etc. They are one time costs. Non-recurring costs consist of costs paid to the mortgage broker and costs paid to others.***

Here's how the confusion referred to above happened.

- 1) Our agent's GFE set forth, as a recurring cost, 20 day's interest from date of closing to the end of the month. This is a recurring cost (roughly \$2,400) that the other agent did not include in their GFE.
- 2) Our agent's good faith estimate included a transfer tax (roughly \$600) that she knew the city in which the property is located would collect. The other agent failed to include this in their GFE.

***There is very little difference in actual costs paid to one mortgage broker or lender versus another. Rarely would***

***the difference be greater than a couple hundred dollars.***

There can be significant differences in other costs, however, that are totally unrelated to the lender or broker. This can create the situation wherein the broker who prepares a complete GFE, including all known or anticipated costs may be erroneously judged to be more expensive.

In addition to the two costs referred to above, there are a couple of other items that may be stated differently or even omitted, depending on the preparer.

- 1) The estimated one year insurance premium cost may differ.
- 2) The title charges may assume the purchase is in a "seller pay" county when in fact it is in a "buyer pay" county.

It is vital that buyer/borrower compare line item to line item when looking at different GFE's. And it is vital that they find out to what extent the figures are guaranteed by the preparer. Without a thorough understanding, a wrong decision might be made.

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**ADDITIONAL REQUIRED CALIFORNIA DISCLOSURES**

I. Proposed Loan Amount: \$ 520,000.00

Initial Commissions, Fees, Costs and Expenses Summarized on Page 1: \$ 5,546.54

Payment of Other Obligations (List):

Credit Life and/or Disability Insurance (see VI below) \$ \_\_\_\_\_

Purchase Price / Payoff \$ 520,000.00

\_\_\_\_\_ \$ \_\_\_\_\_

\_\_\_\_\_ \$ \_\_\_\_\_

**Subtotal of All Deductions:** \$ 525,546.54

**Estimated Cash at Closing**  To You  That you must pay \$ 5,546.54

II. Proposed Interest Rate: 6.000 %  Fixed Rate  Initial Variable Rate

III. Proposed Loan Term: 360/360  Years  Months

IV. Proposed Loan Payments: Payments of \$ 3,117.66 will be made  Monthly  Quarterly  Annually for 360 (number of months, quarters or years). If proposed loan is a variable interest rate loan, this payment will vary (see loan documents for details).

The loan is subject to a balloon payment:  No  Yes. If Yes, the following paragraph applies and a final balloon payment of \$ \_\_\_\_\_ will be due on \_\_\_\_\_ [estimated date (month/day/year)].

**Notice to Borrower: If you do not have the funds to pay the balloon payment when it comes due, you may have to obtain a new loan against your property to make the balloon payment. In that case, you may again have to pay commissions, fees, and expenses for the arranging of the new loan. In addition, if you are unable to make the monthly payments or the balloon payment, you may lose the property and all of your equity through foreclosure. Keep this in mind in deciding upon the amount and terms of this loan.**

V. Prepayments: The proposed loan has the following prepayment provisions.

- No prepayment penalty.
- Other (see loan documents for details).
- Any payment of principal in any calendar year in excess of 20% of the  original balance  unpaid balance will include a penalty not to exceed \_\_\_\_\_ months advance interest at the note rate, but not more than the interest that would be charged if the loan were paid to maturity (see loan documents for details).

VI. Credit Life and/or Disability Insurance: The purchase of credit life and/or disability insurance by a borrower is NOT required as a condition of making this proposed loan.

VII. Other Liens: Are there liens currently on this property for which the borrower is obligated?  No  Yes

If Yes, describe below:

Lienholder's Name	Amount Owing	Priority
_____	_____	_____
_____	_____	_____

Liens that will remain or are anticipated on this property after the proposed loan for which you are applying is made or arranged (including the proposed loan for which you are applying):

Lienholder's Name	Amount Owing	Priority
<b>TO BE DETERMINED</b>	<b>520,000</b>	<b>FIRST</b>
_____	_____	_____

**NOTICE TO BORROWER:** Be sure that you state the amount of all liens as accurately as possible. If you contract with the broker to arrange this loan, but it cannot be arranged because you did not state these liens correctly, you may be liable to pay commissions, costs, fees, and expenses even though you do not obtain the loan.

VIII. Article 7 Compliance: If this proposed loan is secured by a first deed of trust in a principal amount of less than \$30,000 or secured by a junior lien in a principal amount of less than \$20,000, the undersigned licensee certifies that the loan will be made in compliance with Article 7 of Chapter 3 of the Real Estate Law.

A. This loan  may  will  will not be made wholly or in part from broker controlled funds as defined in Section 10241(j) of the Business and Professions Code.

B. If the broker indicates in the above statement that the loan "may" be out of broker-controlled funds, the broker must inform the borrower prior to the close of escrow if the funds to be received by the borrower are in fact broker-controlled funds.

**DRE license information telephone number : 916-227-0 931**

Name of Broker <u>30 WHITNEY STREET</u> <u>LOS ALTOS, CA 94022</u> Broker's Address	License # _____	Broker's Representative _____	License # _____
Signature of Broker _____	Date _____	OR Signature of Representative _____	Date _____

IX. **NOTICE TO BORROWER: THIS IS NOT A LOAN COMMITMENT.** Do not sign this statement until you have read and understood all of the information in it. All parts of this form must be completed before you sign. Borrower hereby acknowledges the receipt of a copy of this statement.

Borrower \_\_\_\_\_ Date \_\_\_\_\_

Review completed on \_\_\_\_\_ Date \_\_\_\_\_ by \_\_\_\_\_ Broker or Designated Representative \_\_\_\_\_ Dept. of Real Estate License # \_\_\_\_\_

## Sample Pre Approval Letter

November 4, 2003

To Whom It May Concern,

Please be advised that I have pre approved Mr. and Mrs. Buyer for a residential loan in the amount of \$350,000. This pre approval is based on a loan-to-value ratio of 80%, up to a purchase price of \$437,500.

This pre approval is based on two things: the property involved in the transaction meets the lender's standards and there is no dramatic shift in the financial markets that would render the current loan program obsolete.

Please call with any questions regarding this approval.

Sincerely,

Loan Officer

## **About Escrow**

### ***What is Escrow?***

Escrow is an arrangement in which a neutral third party, called an “escrow holder”, holds legal documents and funds on behalf of a buyer and seller and distributes them according to the buyer’s and seller’s instructions.

When opening an escrow, the buyer and seller establish terms and conditions for the transfer of ownership of that property. When the parties deliver documents and money to the Escrow Officer to be held for further delivery until certain conditions have been met, we say the documents are held “in escrow”. Each of the principals of the escrow (seller, buyer, lender) will give the escrow holder written instructions setting out the conditions under which further delivery is to be made. The Escrow Officer usually types these instructions or the Escrow Assistant from oral information supplied by the principals or from a contract signed before they arrived at the escrow office.

### ***How Does the Escrow Process Work?***

The escrow is a depository for all monies, instructions and documents necessary for the sale of your home. This includes the Buyer providing funds for a down payment with the Escrow Holder and the Seller depositing the Deed and any other necessary papers with the Escrow Holder. The Buyer instructs the Escrow Holder to deliver the money to the Seller when the Escrow Holder:

1. Records the deed with the county
2. Delivers to the Buyer a policy of title insurance, which shows title to the property signed over to the Buyer.

The Escrow Holder is authorized to deliver the Deed to the Buyer when the Buyer has deposited the agreed upon purchase price and fulfilled any other conditions specified in the escrow instructions. The Escrow Holder effects the pro-ration and adjustment on any fire/hazard insurance, real estate taxes, rents, interest, etcetera, based on the escrow instructions of both parties.

The Escrow Holder thus acts for both parties and protects the interest of each within the authority of the escrow instructions. Escrow cannot be completed until the instructions have been fully satisfied and all parties have signed escrow documents. The Escrow Holder takes instructions based on the terms of the purchase agreement and the Lender’s requirements.

The same company in California generally handles the escrow and the title insurance.

## Preliminary Title Report

The preliminary title report contains vital information, which may affect the willingness and ability of the parties to close escrow. The information on the preliminary report includes:

- The Ownership of the subject property
- The manner in which the current owner hold title.
- Matters of record which specifically effect the subject property or its owners
- A legal description of the property
- An informational plat map
- The type of title insurance offered by the title company.
- Exclusion and exceptions in Title Insurance coverage
- Recorded deeds of trust
- Easements
- Agreements
- Covenants
- Conditions and Restrictions (CC&Rs)
- Taxes

### **Reviewing the Preliminary Report:**

Your Real Estate Agent will review the preliminary report as soon as it arrives, with particular attention to certain areas:

*Verify the ownership vesting:* The names on the report should match the names on the purchase contract. Sometimes the name of an unexpected owner will appear and corrective documents may be required.

*Verify the property address:* The plat map and legal description should match the address. An owner could own two properties adjacent to or across the street from each other, causing confusion in identifying the correct property.

Read the informational notes for pertinent items about the property, i.e., transfer taxes monument fees, homeowners' association fees, etc.

Review the exceptions, including current taxes, bonds, deeds of trust, Mello-Roos assessment district items, CC&Rs and easements.

Always look for surprises. If you can't locate an easement, an unexpected deed of trust shows up, or you see an item you weren't aware of before: call the escrow officer to discuss the matter. The company should be a problem solver, and top-notch escrow officers and title companies go out of their way to resolve quickly the majority of "red flag" areas.

## **Title Insurance**

You are required by your lender to have title insurance both for yourself and for the lender. Title insurance in your name is a one-time premium paid when you close the real estate transaction and continues until you no longer own the property. The lender's policy continues until that loan is paid off, either by refinancing or total elimination of the debt.

The goal of title companies is to conduct such a thorough search and evaluation of public records that no claims will ever arise to challenge the right to your property. Their technical experts are trained to identify the rights that others may have in your property, such as liens, legal actions, disputed interests, rights of way or other encumbrances on your title. Before closing escrow on your transaction, the title company will proceed to "clear" those encumbrances, which you do not wish to assume.

Proper title plant maintenance, research, evaluation and legal interpretation are the foundations upon which a title policy rests. Of course, where there is human error and changing legal interpretations, there are times where their search may not uncover all claims to the property. When claims arise, professional claims personnel are assigned to handle them according to the terms of the title insurance policy.

Title companies' rates are filed with the California Department of Insurance and each company is required to publicly post its schedule of fees.

The same company generally does the title insurance and the escrow.

# Mortgage Notes



## What Does “Locking In Rate Mean?”

Sometimes we folks in the mortgage business get so used to a term that we use many times a day, we forget there are those who are not at all familiar with the term, its meaning or its significance. So today we address the term “locking in an interest rate.” We know what it means and after reading this bulletin, so will you.

Technically, a “lock-in” or “rate lock” is a commitment from a lender to loan money at a certain rate for a certain period of time. Example: today we can lock in a 30-year fixed rate jumbo loan for 6.125% for 30 days. This means that if we lock this rate, the lender agrees that 6.12% will be the rate provided the loan closes within the 30-day (lock) period.

If rates go up, the borrower is protected. If rates go down, the borrower usually does not benefit from lower rate.

Note that the *rate lock* is not to be confused with *loan approval*. Locking in the rate does not mean that the loan is approved. Approval of a loan does not mean that the rate is locked. We can lock an interest rate at the time of loan

application and prior to loan approval.

The ability to lock in a rate prior to formal loan approval is extremely valuable. Interest rates can and do change daily – sometimes even hourly. A borrower can rely on the rate being quoted only if it is possible to lock the quoted rate immediately.

Many loans found on the Internet can be locked only after the loan is formally approved and loan conditions are met. This limitation means that an advertised rate may or may not be available when the loan is approved – a process which could take a couple of weeks or more.

We can also get a loan approved without locking the rate. For most purchase loans, buyers get pre-approved for a loan prior to making an offer. This rate is not locked. It “floats.”

We normally advise buyers to lock the rate as soon as they are officially under contract to purchase. This ensures that they can count on this rate, thus they are protected against potential rate increases prior to close of escrow.

Some buyers opt not to lock at this point, preferring to “float” for two reasons. First, they hope for lower rates. Second, they

know that a 15-day lock gets a lower rate than a 30-day lock.

But – while it is true that at a given point in time a 15 day lock is cheaper than a 30 day lock, rates 15 days from now might increase so as to negate the difference. Or worse, rates may increase such that a 15-day lock (in 15 days) costs more than a 30-day lock costs today. And – the rate must be locked (usually) no later than 10 days before close in order to close on time, so a “floating” borrower could get caught in a high swell.

Buyers should ask this question. “Which makes me feel worse – to lock today and leave 1/8% on the table if rates drop or – don’t lock today and I have to pay 1/8% more if rates climb?” The soul-searching answer will help determine whether to lock – or float.

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## Common Ways of Holding Title

These methods of holding title (vesting) have certain significant legal and/or tax consequences. Advice from an attorney, tax consultant or another qualified professional is recommended.

### *Sole Ownership*

Single man/woman: a person who has not been legally married.

An unmarried man/woman: a person who was previously married and is now legally divorced or is now widowed.

A married man/woman as his/her sole and separate property: a married person who wishes to acquire title in his or her name alone. The company insuring title will require the spouse of the married man or woman acquiring title to specifically disclaim or relinquish his or her interest in the property. This is usually done with a grant deed or quit claim deed.

### *Co-Ownership*

Community property: property owned by husband and wife during their marriage. In California real property conveyed to a man or woman is presumed to be community property unless otherwise stated. Under community property law each spouse has the right to dispose of one half of the community property, including transfers by will.

Joint tenancy: property owned by two or more persons, who may or may not be married, in equal interest, subject to the right of survivorship by the surviving joint tenant. When a joint tenant dies, title to the property is automatically conveyed by operation of law to the surviving joint tenant. Joint tenancy property is not subject to disposition by will.

Community property with right of survivorship: Property owned by husband and wife during their marriage. This is a combination of community property's proposed future tax benefits and joint tenants automatic right of survivorships.

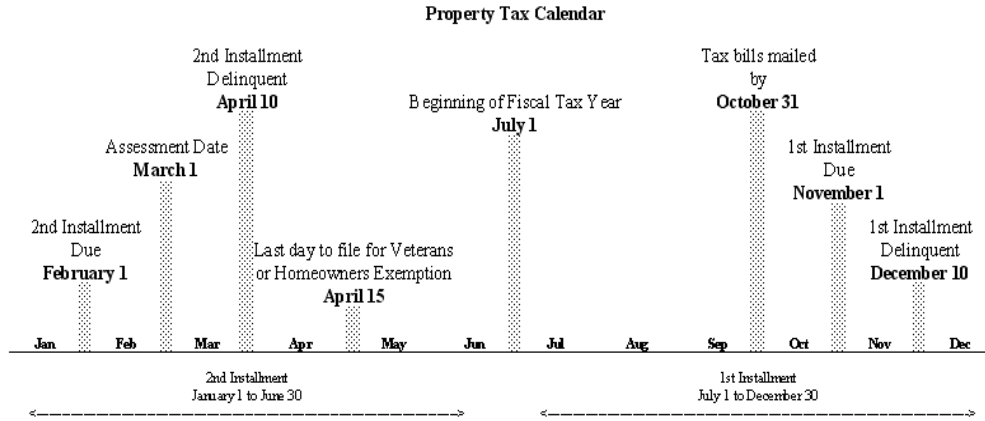
Tenancy in common: property owned by any two or more individuals in undivided fractional interests. These fractional interests may be unequal in quantity or duration and may arise at different times. Each tenant in common owns a share of the property. Each co-tenant may sell, lease or will to heirs their share of the property.

### *Other Ways of Holding Title*

A trust: an arrangement whereby legal title to property is transferred by the grantor to a person called a trustee to be held and managed by that person for the benefit of the people specified in the trust agreement, the beneficiaries.

NOTE: Some lenders will not lend to individuals who hold the property vested in a trust. They would require that the property be deeded out of the trust for the purpose of completing the loan.

# Property Tax Schedule



(1) Penalties for delinquent payments are 10% on date of delinquency, plus administrative costs. Thereafter, 1.5% per month of original tax bill.

San Mateo County Tax Collector  
 220 Broadway Street  
 Redwood City, CA 94063

650.363.4142

Santa Clara County Tax Collector  
 70 W. Hedding Street  
 San Jose, CA 95110

408.299.2241

**Provided by:**  
**Stephanie Channing**  
**Diversified Capital Funding**  
**30 Whitney Street**  
**Los Altos, CA 94022**  
**650.917.6688x222**

Your APN # is \_\_\_\_\_

Always reference the APN# on your check

## Glossary

**Acceleration Clause:** A clause in a Deed of Trust or note that accelerates or hastens the time when the debt becomes due. For example, most deeds of trust of loans contain a provision that the note shall become due immediately upon the sale or transfer of title of the loan, or upon failure to pay an installment of principal or interest. This is also called a due on sale clause.

**Acknowledgment:** A formal declaration made before an authorized official (usually a notary public), by the person who has executed (signed) a document, that such execution is his/her own act and deed. In most instances a document must be acknowledged (notarized) before it can be accepted for recording.

**Adjustable Rate Mortgage(ARM):** A mortgage with an interest rate that changes over time in line with movements in the index.

**Adjustment Period:** The length of time between interest rate changes on an ARM. For example, a loan with an adjustment period of one year is called a one-year ARM, which means that the interest rate can change once a year.

**Affidavit:** A sworn statement in writing, made before an authorized official.

**Agency:** Any relationship in which one party (agent) acts for or represents another (principal) under the authority of the principal. Agency involving real property should be in writing, such as listing, trust, powers or attorney, etc.

**A.L.T.A.:** Abbreviation for American Land Title Association.

**Amortization:** Repayment of a loan in equal installments of principal and interest, rather than interest-only payments.

**Annual Percentage Rate (APR):** The total finance charges (interest, loan fees, points) expressed as a percentage of the loan amount.

**Appraisal:** An opinion of value, based on factual analysis. Legally, an estimation of value by two disinterested persons of suitable qualifications.

**Assessments:** Specific and special taxes (in addition to normal taxes) imposed on real property to pay for public improvements within a specific geographic area.

**Assumption of Mortgage:** A buyer's agreement to assume the liability under an existing note that is secured by a mortgage or deed of trust. The lender must approve the buyer in order to release the original borrower (usually the seller) from liability.

**Attorney-in-Fact:** An agent authorized to act for another under the power of attorney.

**Balloon Payment:** A lump sum principal payment due at the end of some mortgages or other long term loans.

**Beneficiary:** As used in a trust deed, the lender is designated as the beneficiary, i.e. obtains the benefit of the security.

**Binder:** Sometimes known as an offer to purchase or an earnest money request. A binder is the acknowledgement of a deposit along with a brief written agreement to enter into a contract for the sale of real estate.

**Borrower:** One who borrows funds, with the express or implied intention of repaying the loan in full, or giving the equivalent.

## Glossary

**Cap:** The limit on how much an interest rate or monthly payment can change, either at each adjustment or over the life of the mortgage.

**CC&Rs:** Covenants, Conditions and Restrictions. A document that controls the use, requirements and restrictions of a property.

**Certificate of Reasonable Value (CRV):** A document that establishes the maximum value and loan amount for a VA guaranteed mortgage.

**Cloud on Title:** An invalid encumbrance on real property, which if valid, would affect the rights of the owner. For example: A sells lot 1, tract 1, to B. The deed is mistakenly drawn to read lot 2 tract 1. A cloud is created on lot 2 by the recording of the erroneous deed. The cloud may be removed by quitclaim deed or, if necessary, by court action.

**Conventional Loan:** A mortgage loan which is not insured or guaranteed by a governmental agency.

**Closing Statement:** The financial disclosure statement that accounts for all of the funds received and accepted at the closing, including deposits for taxes, hazard insurance and mortgage insurance.

**Condominium:** A form of real estate ownership. The owner receives title to a particular unit and has a proportionate interest in certain common areas. The unit itself is generally a separately owned space whose interior surfaces (walls, floors and ceilings) serve as its boundaries.

**Contingency:** A condition that must be satisfied before a contract is binding. For instance, a sales agreement may be

contingent upon the buyer obtaining financing.

**Conversion Clause:** A provision in some ARMs that enables you to change an ARM to a fixed-rate loan, usually after the first adjustment period. The new fixed rate is generally set at the prevailing interest rate for fixed rate mortgages. This conversion feature may cost extra.

**Conveyance:** Transfer of title to land. Includes most instruments by which an interest in real estate is created, mortgaged or assigned.

**CRB:** Certified Residential Broker. To be certified, a broker must be a member of the National Association of Realtors, have five years experience as a licensed broker and have completed five required Residential Division courses.

**Deed:** Written instrument by which the ownership of land is transferred from one person to another.

**Deed of Trust:** Written instrument by which the ownership of land is transferred to a trustee as security for a debt or other obligation. Also called trust Deed. Used in place of mortgages in California and in many states.

**Deposit Receipt:** Used when accepting "Earnest Money" to bind an offer for property by a prospective purchaser; also includes terms of a contract.

**Documentary Transfer Tax:** A state tax on the sale of real property, based on the sale price.

**Due-on-Sale Clause:** An acceleration clause that requires full payment of a mortgage or

## Glossary

deed of trust when the secured property changes ownership.

**Earnest Money:** The portion of the down payment delivered to the seller or escrow agent by the purchaser with a written offer as evidence of good faith.

**Easement:** A right or power of the government to take property for a public purpose upon payment of just compensation.

**Encumbrance:** A claim, lien, charge, or liability attached to and binding real property. Any right to, or interest in, land which may exist in one other than the owner, but which will not prevent the transfer of fee title.

**Escheat:** The reversion of property to the state when an owner dies leaving no legal heirs, devisees or claimants.

**Fair Credit Reporting Act:** A federal law giving one the right to see his/her credit report so that errors may be corrected. A lender refusing credit based on a credit report must inform the buyer which company issued the report. The buyer may see the report without charge if refused credit.

**Escrow:** A procedure in which a third party acts as a stakeholder for both the buyer and the seller, carrying out both parties instructions and assuming responsibility for handling all of the paperwork and distribution of funds.

**FHA Loan (Federal Housing Administration):** A federal agency, created by the National Housing Act of 1934, for the purpose of expanding and strengthening home ownership by making private mortgage financing possible on a

long-term, low down payment basis. The vehicle is a mortgage insurance program, which premiums paid by the homeowner, to protect lenders against loss on these higher-risk loans. Since 1965, FHA has been part of the newly created Department of Housing and Urban Development (HUD).

**Federal National Mortgage Association (FNMA):** Popularly known as Fannie Mae. A privately owned corporation created by Congress to support the secondary mortgage market. It purchases and sells residential mortgages by FHA or guaranteed by the VA, as well as conventional home mortgages.

**Fee Simple:** An estate in which the owner has unrestricted power to dispose of the property he wishes, including leaving by will or inheritance. It is greatest interest a person can have in real property.

**Finance Charge:** The total cost a borrower must pay, directly or indirectly, to obtain credit according to Regulation Z.

**Graduated Payment Mortgage:** A residential mortgage with monthly payments that start at low level and increase at a predetermined rate.

**Grant:** A transfer of real property.

**Grantee:** The person whom a grant is made.

**Grantor:** The person who makes the grant.

**GRI:** Graduated Realtors Institute. A professional designation granted to a member of the National Association of Realtors who has successfully completed three courses covering Law, Finance, and Principles of Real Estate.

**Home Inspection Report:** A qualified inspector's report on a property's overall condition. The report usually includes an

## Glossary

evaluation of both the structure and mechanical systems.

**Home Warranty Plan:** Protection against failure of mechanical systems within the property. Usually includes plumbing, electrical, heating systems and installed appliances.

**Impound Account:** Funds retained by a lender to cover such items as taxes and hazard insurance premiums.

**Index:** The basis for the interest rates on ARM loans. Moves up and down with general movement of interest rates. If index moves up, so does your mortgage rate. If it moves down, so does your mortgage rate.

**Joint Tenancy:** An equal undivided ownership of property by two or more persons. Upon death of an owner, the survivors take the decedent's interest in the property.

**Lease:** An agreement by which an owner of real property gives the right of possession to another for a specific period of time and for a specified consideration (rent). Title does not pass.

**Legal Description:** A method of geographically identifying a parcel of land, which is acceptable in a court of law. A description of a parcel of land sufficient to identify the property such as a lot and tract number.

**Lien:** An encumbrance against property for money, either voluntary or involuntary. All liens are encumbrances but all encumbrances are not liens.

**Lis Pendens:** A legal notice recorded to show pending litigation relating to real

property and giving notice that anyone acquiring an interest in said property subsequent to the notice may be bound by the outcome of the litigation.

**Loan Commitment:** A written promise to make a loan for a specified amount on specified terms.

**Loan-to-Value Ratio:** The relationship between the amount of the mortgage and the appraised value of the property, expressed as a percentage of the appraised value.

**Margin:** A percentage that the lender adds to the index rate to calculate the ARM interest rate at each adjustment.

**Marketable Title:** Title which can be readily marketed (sold) to a reasonably prudent purchaser aware of the facts and their legal meaning concerning liens and encumbrances.

**Mechanics Lien:** A lien created by statute for purpose of securing priority of payment for the price or value of work performed and materials furnished in constructions or repair of improvements to land and which attaches to the land as well as the improvements.

**Mortgage Banker:** A company or individual engaged in the business of originating mortgage loans with its own funds, selling those loans to long-term investors and servicing the loans for the investor until they are paid in full.

**Mortgage Broker:** A company that negotiates and places mortgage loans with wholesale lenders on behalf of borrowers. Mortgage Brokers (in California) must be licensed by the California Department of Real Estate.

**Mortgage Insurance:** Insurance written by an independent mortgage insurance company

## Glossary

protecting the mortgage lender against loss incurred by a mortgage default, thus enabling the lender to lend a higher percentage of the sale price. The Federal government writes this form of insurance through the FHA and VA.

**Mortgage Life Insurance:** A type of term life insurance often bought by mortgagors. The coverage decreases as the mortgage balance declines. If the borrower dies while the policy is in force, the debt is automatically covered by insurance proceeds.

**Negative Amortization:** This occurs when monthly payments fail to cover the interest cost. The interest that isn't covered is added to the unpaid balance, which means that even after several payments you could owe more than you did at the beginning of the loan. Negative Amortization can occur when an ARM has a payment cap that results in monthly payments that aren't high enough to cover the interest.

**Note:** A unilateral agreement containing an express and absolute promise of the signer to pay to a named person, order or bearer, a defined sum of money at a specified date or on demand. Usually provides for interest and concerning real property, is secured by a mortgage or trust deed.

**Notice of Default:** A notice filed to show that the borrower under a mortgage or deed of trust is in default (behind on the payments).

**Original Fee:** A fee or charge for work involved in evaluating, preparing and submitting a proposed mortgage loan. The fee is limited to 1 percent for FHA and VA loans.

**Personal Property:** Moveable property; all property which is not real property. Property consisting of chattels as contrast to real estate; e.g. furniture, car, clothing.

**Piggyback Loan:** A loan made jointly by two or more lenders on the same property under one mortgage or trust deed.

**PITI:** Principle, interest, taxes and insurance.

**Planned Unit Development (PUD):** A zoning designation for property developed at the same or slightly greater overall density than conventional development sometimes with improvements clustered between open, common areas. Uses may be residential, commercial or industrial.

**Point:** An amount equal to 1 percent of the principal amount of the investment or note. The lender assess loan discount points at closing to increase the yield on the mortgage to a position competitive with other types of investments.

**Power of Attorney:** An authority by which one person (principle) enables another (attorney-in-fact) to act for him (1) General power – authorizes sale, mortgaging, etc., of all property of the principle. This is invalid in some jurisdictions. (2) Specific power specifies property, buyers, price and terms. How specific it must be varies in each state.

**Preliminary Title Report:** A report showing the condition of title before a sale or loan transaction. After completion of the transaction, a title insurance policy is issued.

**Pre-Payment Penalty:** A fee charged to a mortgagor who pays a loan before it is due. This is not allowed with FHA or VA loans.

**Promissory Note:** A promise in writing, and executed by the maker, to pay a specified

## Glossary

amount during a limited time, or on demand, or at sight, to a named person, or on order, or to bearer.

**Purchase Agreement:** A written document in which the purchaser agrees to buy certain real estate and seller agrees to sell under stated terms and conditions. Also called a sales contract, earnest money contract, or agreement for sale.

**Quitclaim Deed:** A deed operating as a release; intended to pass any title, interest, or claim which the grantor may have in the property, but not containing any warranty of a valid interest or title in the grantor.

**Real Property:** Land and buildings as opposed to personal property or chattels.

**Realtor:** A real estate broker or associate active in a local real estate board affiliated with the National Association of Realtors.

**Reconveyance:** An instrument used to transfer title from a trustee to the equitable owner of real estate, when title is held as collateral security for a debt. Most commonly used upon payment in full of a trust deed. Also called a deed of reconveyance or release.

**Recordation:** Filing for record in the office of the county recorder

**Regulation Z:** The set of rules governing consumer lending issued by the Federal Reserve Board of Governors in accordance with the Consumer Protection Act.

**Right of Survivorship:** The right of a survivor of a deceased person to the property of said deceased. A distinguishing characteristic of a joint tenancy relationship.

**Statement of Identity:** Also called Statement of Information, a confidential form filled out by the buyer and seller to help a title company determine if any liens are recorded against either.

**Tax Lien:** (1) a lien for nonpayment of property taxes. It attaches only to the property upon which the taxes are unpaid. (2) A federal income tax lien. May attach to all property for the one owing taxes

**Tenancy in Common:** A type of joint ownership of property between two or more persons with no right of survivorship.

**Title:** Evidence of a person's right or the extent of his interest in property.

**Title Insurance Policy:** A policy that protects the purchaser, mortgage or other party against losses.

**Transfer Tax:** State tax on the transfer of real property. Based on purchase price or money changing hands. Also called documentary transfer tax.

**Trustee:** (1) One who is appointed, or required by law, to execute trust. (2) One who holds title to real property under the terms of a deed of trust.

**Trustor:** The borrower under deed of trust. One who deeds his property to a trustee as security of the repayment of a loan.

**Wrap-Around Mortgage:** A second or junior mortgage with a face value of both the amount it secures and the balance due under the first mortgage. The mortgage under the wrap-around collects a payment based on its face value, then pays the first mortgage.

