Buying a Residential Property in the USA

Expert knowledge means success

Contents

Note: This publication has not been updated since it was last published. Some of the hyperlinks may have changed and may need updating. In addition, some of the information in this publication may be out of date.

Introduction

The USA is a large and (until the recent sub-prime and other economic problems) has been a booming property market appealing to many investors looking for long-term security. Many foreign property buyers of US property opt for a holiday home in one of the popular holiday destinations and although this market is somewhat saturated it can still provide some superb opportunities particularly with a weakened dollar reducing the effective cost price for UK buyers.

With more than 300 million residents and the vast majority falling into the 15 to 64 age group, it is easy to see why the property market in the USA has remained buoyant throughout the cycles of the economy.

The USA is an enormously diverse country and the process of buying a property can be hugely dependent on where the property is located and the laws that are applicable to a particular State. In the USA, a federal legal system governs the entire country, but there are also individual State laws and these vary across the country.

The fact that the USA is an English-speaking nation is a big plus for British home buyers, who, with large number of house hunters from Canada and northern Europe, find themselves spoilt for choice in the property market. At prices far lower than one would pay at home, a buyer can find apartments, condos and houses in a wide range of locations – beach, marina, rural, suburban or on a golf course. The USA has something for everyone, in some of the world's most exciting, extravagant cities to amazing natural landscapes.

But it is not all good news - Robert Liebman of the Daily Mail (see www.thisismoney.co.uk) says that America's property boom is over. It has long been predicted that a sustained period of growth in the country would result in a downturn and considerable doom and gloom - now it's official. But while this is bad news for domestic buyers, tumbling prices are opening up opportunities for overseas investors. Across the US, annual property prices dropped in 2007 for the first time in decades. Sales of new homes initially rose against the trend by 16.2%, but this impressive figure was achieved only because developers lured buyers with huge discounts and incentives. And with no domestic buyers in sight, developers are shutting show homes and suspending construction on partially-built communities. In a growing number of areas, owners can't shift their properties, even after steep price cuts. Meanwhile, more and more homes are coming on to the market and reducing prices further. Recovery is not around the corner, with far too many properties chasing a dwindling number of buyers. After years of easy mortgages, especially to high-risk (sub-prime) borrowers, lenders have tightened their criteria for all borrowers.

The US authorities are particularly wary about issuing visas and although it is easy for visitors to stay for up to 90 days a year in their holiday home, any periods that exceed this time-frame will require a visa, which is both time consuming and often costly to obtain. For this reason, most property investors tend to visit their US property infrequently, if at all.

The Different Property Options

The real estate market across the USA is as varied and expansive as the country itself and there is literally something available that is suitable for everyone.

Those intending to purchase property in the USA should be aware that there are actually two very different approaches available to the property investor: the holiday home route (the boom that has recently hit Florida and continues to sweep across popular holiday destinations is attracting widespread outside investment) and the longer term rental option in areas that are likely to see significant appreciation in property values.

Both approaches have their merits and risks. Some holiday home regions have seen a considerable boom lately, particularly with the favourable exchange rate allowing investors to purchase luxury properties that they would not otherwise be able to afford. This has led to saturation in some markets and a lower rental income than was originally anticipated. Nevertheless, there are still some very good investments to be had in locations such as Florida; they are simply harder to find than they were a decade ago.

History and Background

The United States of America lies between Canada and Mexico and is bordered by both the North Atlantic Ocean and the North Pacific Ocean. It is the world's fourth-largest country and covers 4 time zones - 6 including Alaska and Hawaii.

Britain's American colonies broke with Britain in 1776 and were recognized as the new nation of the United States of America following the Treaty of Paris in 1783. During the 19th and 20th centuries, 37 new states were added to the original 13 as the nation expanded across the North American continent and acquired a number of overseas possessions. The two most traumatic experiences in the nation's history were the Civil War (1861-65) and the Great Depression of the 1930s. Buoyed by victories in World Wars I and II and the end of the Cold War in 1991, the USA remains the world's most powerful nation state. The economy is marked by steady growth, low unemployment and inflation, and rapid advances in technology.

The USA has a population of some 300 million people - around 4 per cent of the world's population - distributed over 50 states and 1 federal district. The most densely populated states in the USA are New Jersey, Rhode Island, and Massachusetts. In America, you will see many ethnic combinations that do not exist in Europe. According to researchers at the Manhattan Institute, the number of foreign born Americans is currently around 33 million. How different racial and ethnic groups are integrated into society is a major issue within America.

Buying a longer term rental property may seem like a better option, particularly as renting is more popular generally in the USA than in the UK and there is, therefore, a larger pool of available tenants keen to find suitable properties. Bear in mind, however, that following the long-term rental strategy requires a sound understanding of the US property market. For example, different regions of the USA and even neighbouring streets can offer very different propositions. Without local knowledge, this type of investment can be very risky, especially for a new investor.

Where to Buy?

Source: http://www.worldofproperty.co.uk

America has long been a favourite destination for UK property buyers looking overseas. In particular, Florida has always remained at the top of the list due to its popularity as a tourist destination, meaning that a good rental income is achievable.

Buying a home in the US is a lot more straightforward than it is in the UK. In some states including Florida, the majority of purchases can be completed without involving a lawyer and the whole process from offer to completion, could take as little as a fortnight but in any case no longer than 90 days. Ensure that when you have found the property you wish to purchase the offer is written up on a real estate contract for that particular state and that it contains all the terms and conditions that must be met before the contract becomes legally binding. You will have to pay a deposit of a few thousand dollars so will need access to an American bank account. If your offer is accepted the contract will be signed by buyer and seller and becomes legally binding to all the clauses. If you then decide to back out you could lose your deposit and be forced to purchase the home anyway. However you cannot be gazumped.

Destination Hot Spots

California

America's most populous state and economically the most powerful with its Silicon Valley industries California is a popular destination for the British.

Los Angeles is the main city and the country's second largest, a beautiful place for the beautiful people where property tends to be expensive with 2 bedroom and 2 bathroom houses costing around $450,000 going up to $700,000 for a 3 bedroom and 3 bathroom townhouse on the outskirts of the main city. Sacramento founded in1849 and is the oldest incorporated city in California has a wider range of properties with 2 and 3 bedroom townhouses from $269,000 upwards.
San Francisco historic and highly cultural is where most California bound Brits like to settle. Properties are not cheap with one bedroom apartments costing upwards of $275,000 and 3 bedroom houses in the centre of the city costing $1,000,000+

Palm Beach is another quite expensive area with a 4 bedroom, 4 bathrooms detached house costing in the region of $1.8m.

New York

The city is the most expensive area to buy property and a one bedroom apartment in downtown New York off Broadway will set you back a cool $500,000. For a 5 bedroom detached house outside the city you will not get much change from $2.5m. However along the Hudson Valley, property starts to get more reasonable and further inland at Franklin County there are properties available from just $60,000 for a 2 bedroom, 2 bathroom apartment and 4 bedroom detached houses for $110,000.

Texas

More British migrants settle here each year than the sunshine state of Florida. With its big cities, beautiful beaches and lush back country it not just cowboys and deserts. Property prices throughout the state even in Houston and Dallas are affordable and reasonable.

Dallas property prices are around $160,000 for a 3 bedroom, 2 bathroom house rising to upwards of $400,000 for a 4 bedroom, 3 bathroom detached house.

A Houston 3 bed, 3 bathroom apartment can sell for $110,000 up to $400,000 for a 5 bedroom house

Austin situated inland property prices are much lower and for $109,000 you will be able to purchase a substantial 4 bedroom house and gardens or for $90,000 a large 3 bedroom apartment

Fort Worth is equally well priced with 3 bedroom properties selling for $93,000 and 4 bedroom townhouses for $119,000. A 4 Bedroom house on a large corner plot with 2 bathrooms, 2 living rooms and 2 dining areas can be yours for around $135,000.

Looking for a Permanent Move to USA?

With 50 states covering a total of 4 million square miles the cost of living and the lifestyle in the United States can differ widely depending on the location you choose to live. The east and west coasts are very varied and modern in outlook while the south can be very religious and traditional with old fashioned family ideals.

To read an article on how to emigrate to the USA and the necessary visa requirements you will need, please go to www.worldofproperty.co.uk/emigrate-48.htm

Florida

With its year-round sunshine and relaxing beaches this is the ideal destination to purchase a new home. Because of its ever increasing popularity the price of property has risen significantly over the last few years and between July 2004 and July 2005 the increase was a massive 33%. Property prices vary dramatically throughout the state with the most expensive being those in Miami and the Florida Keys which can cost millions of dollars.

A one bedroom apartment on Lake Buena Vista a stones throw from Disney will set you back a massive $196,000 whilst a large waterfront property with 3 bedrooms and 2 bathrooms in Key Largo will cost a whopping $1,195,000. In Miami a large luxury detached six bedroom house with 7 bathrooms will be around $2,980,000.

Orlando is not as expensive as Miami but nevertheless compared to some areas this is still fairly expensive, a 2 bedroom apartment in College Park the up-market quarter of the city will cost $279,000 whilst just outside the main area a luxury 6 bedroom detached property with swimming pool, Jacuzzi and hot tub can be purchased for $350,000.

The Buying Process

Source and acknowledgement:
www.globalpropertyguide.com/North-America/United-States/Buying-Guide

There are minor restrictions on foreign ownership of real estate in America but they are insignificant for buy-to-let investment purposes. At the federal level there are only a few restrictions on non-resident aliens (NRAs) owning or investing in real property although for most practical purposes these restrictions are unimportant:

- The Agricultural Foreign Investment Disclosure Act of 1978 (FIDA);
- The International Investment Survey Act of 1976 (IISA);
- The Foreign Investment in Real Property Tax Act of 1980 (FIRPTA)).

It should be noted that in Oklahoma, foreigners are not allowed to buy land but they can buy condominiums.

Specific procedures vary from Sate to State, as well as between counties and cities. As an outline, the procedure below is followed in New York City.

- Make an offer orally through your agent, who will convey it either to the seller's agent or to the seller directly. The seller may counter your offer, beginning a negotiation process that, hopefully, will lead to an agreement on price, terms, and closing date;
- The seller's attorney begins preparation of the contract of sale. He or she obtains and reviews the following documents: the deed, survey, title insurance policy, promissory notes or mortgages on the property, certificates of occupancy, tax bills, fuel and utility bills, leases, permits for elevator, pools, etc;
- Meanwhile your attorney (a real estate attorney is required in all property transactions in New York City) examines the financial condition of the condominium where you want to buy;
- The buyer's attorney reviews and negotiates the contract deed, title search and title insurance policy, as well as the documents referred to in the title policy, such as survey, certificate of occupancy, real property tax bill, heating, cooling and electric bills;
- After your attorney concludes that the condominium's financial condition is satisfactory, that the by-laws of the building are acceptable to you, and that the contract of sale is also acceptable, he will allow you to sign the contract. You will then usually be required to present a deposit of 10% of the purchase price. The contract plus the deposit will then be forwarded to the seller for signature. This money will be held in the seller's attorney's escrow account until closing. It is important to note that until all parties have signed the contract, and it has been delivered, the seller can still entertain and accept other offers;
- You will then receive from your real estate agent the board requirements and application materials. For condominiums, the sale is conditional upon the Board of Managers' Waiver of the Right of First Refusal approving the purchaser, unless you are purchasing directly from the developer. Your purchase contract will stipulate that you must promptly submit your application for board approval after the issuance of a financing commitment, if any. You must cooperate with the condominium board requests and provide any documentation it requires to issue the waiver. The required materials typically include: an application, a financial statement signed by a Certified Public Accountant, all requisite support for your financial statement, three years of tax returns, bank statements, letters of personal and financial reference, letters of professional reference, the contract of sale, bank documents (if necessary) indicating that your loan is in place, etc;

Buy Land and Build your own Home

Many people are now turning to buying land for their dream home. The reasons for this are simple. It's either because they want to:

- build a custom home to their own specifications; or
- defer the building work until they can afford it.

Buying land in the US requires a extensive amount of research, planning and preparation. You will need to hook up with the right professionals who can guide you through to a successful purchase. With a weak Dollar fuelling the real estate market in the USA, international buyers are revelling in the prospect of buying land at much lower prices than in recent years.

Useful books on this subject include:

"How to Plan, Contract and Build Your Own Home" by Richard M. Scutella, published by McGraw-Hill Professional.

"So... You Want To Build a House" by J M Gore and William Null, published by McGraw-Hill Professional.

"Where, How and Why to Buy Real Estate Before 2009" by Andrew R. Garvey, published by Garvey Publishing.

"How to Find and Buy a Building Plot" by Roy Speer, Michael Dade, and Michael Cheal, published by Stonepound Books.

- Your application will be reviewed, and if all required materials are included and in order, an approval is typically granted. After which you can proceed with the closing ceremonies;
- Closing practices are dictated by custom and vary from region to region. Generally, all necessary parties are present, their identity is verified, the documents are finalized, financial calculations and adjustments are reviewed and documents, money and information are exchanged. The closing usually takes place at the office of the seller's attorney, but occasionally at the office of the lenders' counsel. Various costs are payable at closing, which vary according to jurisdiction. The purchaser typically pays fees to record the deed and the mortgage, utility bills, escrow fees, bank attorney's fee, taxes, special assessments, financing charges, inspection fees, origination fees, adjustments and other fees that may be imposed by the State and local government;
- In order to protect a purchaser or lender from third party rights over the real estate, it is advisable to instruct your lawyer to record the relevant documents by filing in a public recording office, usually a country office.

Summary

The Buying Process can be summarised as follows:

- When a property has been chosen, the buyer and seller draw up a contract setting out the conditions of the sale, which also includes title checks and property inspections. Both parties are represented by different agents, who act through a broker;
- A deposit of at least 10% is paid at this point. The buyer loses this if he/she withdraws from the deal, but if the property fails to meet the conditions of the sale outlined in the contract the deposit is refunded;
- The buyer and seller then both appoint a settlement company in order to complete the transaction. The balance is paid by the buyer and both parties sign the final documents;
- The transfer of ownership is then registered with local authorities;
- When buying from the UK you might want to consider giving a US representative power of attorney to act on your behalf. Making frequent trips can be difficult to arrange, not to mention expensive;
- You might also need to find an American notary in the UK to oversee the paperwork.

Different types of homes...

Townhouses
A townhouse is a home that is attached to one or more other houses, but which sits directly on a parcel of land that you also own.
Condominiums
The easiest way to understand the idea of condominium ownership is to see it as an apartment you own directly with a shared ownership with others of the land on which it sits and other shared amenities in the grounds.
Single Family Homes
By far the most common form of housing in North America is the single family detached home - ranging from tiny bungalows to sprawling mansions.

Tax on Rental Income from Your Property

If you receive rental income from renting to others, a dwelling unit, such as a house or an apartment, you may deduct certain expenses. These expenses, which may include interest, taxes, casualty losses, maintenance, utilities, insurance, and depreciation, will reduce the amount of rental income that is taxed. You will generally report such income and expenses on IRS Forms 1040 and Schedule E. If you are renting to make a profit and do not use the dwelling unit as a home, your deductible rental expenses can be more than your gross rental income, subject to certain limits. Your rental losses, however, may be limited by the "at-risk" rules and the passive activity loss rules. For information on these limits, refer to IRS Publication 925, *Passive Activities and At-Risk Rules*. However, if you rent a dwelling unit that you also use as a home, your deductible rental expenses will be limited.

Source: Internal Revenue Service, US Department of the Treasury
www.irs.gov/taxtopics/tc415.html
For more information, go to:
www.irs.gov/newsroom/article/0,,id=172596,00.html

Property Transaction Costs

Tax Rates

Transaction Costs Summary		
Category	**% of Property Price**	**Payable by:**
Title search and insurance	0.5% - 1.0%	Buyer
Recording Fee	0.5% - 0.2%	Buyer
Legal Fees	0.5% - 1.0% 0.5% - 1.0%	Buyer Seller
Real Estate Transfer Tax	0.01% - 2.0%	Seller
Real Estate Broker's Fee	6.00%	Seller
Costs paid by buyer total is: 1.05% - 2.20%		
Costs paid by seller total is: 6.51% to 9%		
Source: www.globalpropertyguide.com		

The above costs are explained in detail below:

- **Title Search and Insurance**
  Title insurance fees vary depending on the location of the property. It is common practice to obtain title insurance from one of the competing title insurance companies. The title insurance can only be acquired at closing, after the transaction has been completed between buyer and seller and the price has been paid.

  A title report, although not mandatory, is an essential prerequisite to secure title insurance. Title companies do not provide title insurance without a title report tracing the deed history and clearly articulating the liens, covenants and other limitations on title.

  The total cost of title insurance and search differs widely based on the size and value of the property, the location and the coverage and complexity of the search and insurance. It is beneficial to shop around to look for the best value. As a general guide it should be around 0.5% of the property value.
- **Recording Fees**
  Recording fees are charged by the government for entering an official record of the change of ownership of the property. It can be paid by either party but is usually paid by the buyer. Recording fees are usually fixed amounts and are minimal.
- **Attorney's Fees**
  Attorney's fees may vary depending on location and the complexity of the transaction. Most lawyers charge a percentage of the selling price, about 0.5% to 1%, while some lawyers charge a fixed fee or on an hourly basis. Each party pays for their own lawyer.
- **Real Estate Transfer Taxes**
  Transfer tax varies depending on the location of the property, ranging from 0.01% in Colorado to 2% in Delaware. Five states do not impose transfer taxes (Mississippi, Missouri, New Mexico, North Dakota and Wyoming). The National Association of Realtors has a list of the amount of real estate transfer tax imposed by different states.
- **Real Estate Broker's Fees**
  Real estate agent or broker's fee is typically negotiable. Although the standard rate is 6% some agents are willing to reduce their rate just to close a deal. Some agents impose a higher fee but include other functions such as title search. It is usually paid by the seller.

The *Federation of Tax Administrators* provides a useful Table regarding State taxes levied on the sale or transfer of real property cross the USA. Please go to http://www.taxadmin.org/fta/rate/Realtytransfer.html#Table for more information. Their website has other very useful tax information: http://www.taxadmin.org/

USA Country Profile

Full name: United States of America

Population: 305.8 million (UN, 2007)

Capital: Washington DC

Largest city: New York City

Area: 9.8 million sq km (3.8 million sq miles)

Major language: English

Major religion: Christianity

Life expectancy: 76 years (men), 81 years (women) (UN)

Monetary unit: 1 US dollar = 100 cents

Main exports: Computers and electrical machinery, vehicles, chemical products, food and live animals, military equipment and aircraft

GNI per capita: US $43,740 (World Bank, 2006)

Internet domain: .us

International dialling code: +1

Source: http://news.bbc.co.uk/1/hi/world/americas/country_profiles/1217752.stm

Tax Position for UK Investors

Source: www.property-tax-portal.co.uk/international_property_tax_essentials.shtml#6

If you are investing in the USA, as a non-resident property owner, you could be liable for the taxes mentioned in the Table below:

Tax On Rental Income	The standard withholding tax rate of 30% is applicable to rental income. If a US return is filed claiming property expenses and mortgage interest and a depreciation allowance (this will be clawed back on sale and not allowed for UK tax purposes); then the income will be taxed at progressive US rates from 15% -35%. In some states there will be "State Income Tax", as well.
Capital Gains Tax (CGT)	If the property is owned for more than one year, then the US Capital Gains rates will be either 8% up to 15% for larger gains. Under a US law called FIRPTA, the purchaser or his agent must withhold 10% of the purchase price and pay it over to the US IRS on account of your Capital Gains tax liability. There is a little known exemption to this namely when the property is sold for less than $300,000 and the purchaser or a member of his family will occupy it as their residence and they certify to that effect. Obviously, if the withholding is made you can make a repayment claim if it exceeds the Capital gains.
Inheritance Tax (IHT)	Although US Estate tax rates offer a generous exemption, Non-Citizens cannot benefit and only have a $60,000 exempt amount. After that they are subject to progressive rates rising to 48% in 2004 and 47% next year 2005. Don't forget, there is State Inheritance tax that is levied either on top of, or as a deduction from Federal Estate Tax. If you give away your property during your life, there is a wholly separate Gift tax, with its own rules to consider.

Although US Income and Capital Gains rates are fairly low, Inheritance Tax is the real problem and needs to be planned for. Holding the property through a special type of Offshore Company may help, as may planning to leave the property in a "Special US Qualifying Domestic Trust" to your Spouse as this will produce a Spouse exemption up to the US exempt amount currently $1.5 million. It all needs specialist advice, taking into account the UK aspects as well.

US Company owning your property

Source: www.coddan.co.uk

Companies established in Delaware may offer some advantages to a UK property investor who arranges for his/her property to be owned by a company rather than held in personal names. Taking advice from a specialist in such matter is very important.

With a Delaware company, a single individual may simultaneously hold all of the executive offices and titles of a corporation, including: chairman of the board, president, vice president, secretary and treasurer. Unlike other US States that require as many as three different individuals to hold the posts of officers and/or directors, Delaware allows for a one-person corporation. The Delaware corporation may be based, headquartered and/or operated in any State or territory of the United States (or in any city in any country in the world) providing that you retain the services of a Delaware registered agent (one of these is Coddan whose details may be found at: www.coddan.co.uk.

Known as the Diamond State, Delaware is the home to more than half of the Fortune 500 corporations, and many small business owners around the globe have also incorporated in Delaware for a number of reasons. Delaware is also known as the First State because it was the first State to ratify the Constitution of the United States; Delaware's business laws, its Chancery Court with nationally recognized expertise and governmental services make Delaware a corporate haven.

A Delaware Corporation which is properly formed and operated as a corporation assumes a separate legal and tax life distinct from its shareholders. A corporation pays taxes at its own corporate income tax rates and files its own corporate tax forms each year (IRS Form 1120). As a separate entity, it can buy real estate, enter into contracts, sue and be sued completely separate from its owners.

Caution: Get professional advice

Taxes on income and gains in the USA will vary according to where you live and whether you are considered US resident or non-resident for tax purposes. Local taxes are levied to cover education and other services. USA income taxes and capital gains taxes are fairly low, but inheritance tax needs good planning. It is essential to employ a professional to guide you through the tax system.

Mortgages

Just as there is more than one kind of home, there is more than one way to finance it. Mortgage lenders have come up with many different methods of helping you pay for a home – each one with its own advantages and disadvantages.

First of all, you should know that HUD itself does not provide financing. You obtain financing through a bank or mortgage lender. Since many HUD Homes are eligible for FHA-insured mortgage loans, this can make financing easier to obtain. However, you are not required to get an FHA loan to buy a HUD Home.

Mortgages.co.uk report that:

- All 50 US States base their mortgage lending on affordability. To gather this information, lenders look at income vs expenditure:
- The maximum loan available to borrowers is usually 80 per cent of either the purchase price or a property valuation, whichever figure is the lowest.
- Banks in the USA have a minimum lending figure of $50,000 and mortgage costs can be quite expensive.
- UK citizens buying into the USA property market also need to be aware that they need a USA Social Security Number, a Green Card, or a US Passport in order to borrow over 70 per cent loan to value. These documents show that the borrower is registered in the US. To borrow under 70 per cent loan to value, a UK passport will serve. Furthermore, to borrow over 70 per cent LTV, borrowers will need to prove their income. Loans under 70 per cent are typically self-certification.

Summary of Mortgage Options

There are many different types of mortgage available to buy a US home. These are covered in the glossary later in this publication but some are summarised next:

- **Fixed-Rate Mortgage**
  With a fixed-rate mortgage, the interest rate stays the same for the term of the mortgage, which is usually for 30 years. Your principal and interest payment remains stable, making it easier to plan a monthly budget. However, initial interest rates tend to be higher than with other types of loans.
- **Adjustable-Rate Mortgage**
  With an ARM mortgage, your interest rate and monthly payments starts lower than with a fixed-rate, but your rate and payments can change either up or down, depending on where interest rates in general are going.
- **FHA-Insured Mortgage**
  Here, the Federal Government insures the lender against loss if the home buyer defaults on the loan. This program was set up so that Americans who can't afford the 10 percent to 20% deposit required by most lenders can still buy a home. Many HUD Homes can be bought with FHA-insured mortgages, which allow you to purchase the home with a low-down payment. You do not have to be a first-time buyer in order to qualify for an FHA loan.
- **Assumable or Non-Assumable Mortgage**
  You may find a home with a mortgage loan you can "assume" from the previous owner. This means that the lender is willing to transfer the old loan on the home to you. These loans can be wonderful bargains, and the paperwork is usually not very complicated.
- **80-10-10 Mortgage**
  This is a type of blended mortgage loan which avoids private mortgage insurance (PMI). It consists of an 80% 30 year first lien loan at market rates, a 10% 15 year second lien at a slightly higher interest rate, and a 10% down payment. Instead of having to come up with a 20% down payment, a buyer is able to avoid PMI with only 10% down. While the interest rate on the second note is a bit higher, the total monthly payment is usually lower than a 90% mortgage with PMI. In addition, the extra interest paid for the second lien is tax deductible, whereas PMI is not. It is also possible to payoff just the second lien, thereby lowering the future monthly payments. Some lenders also offer 75-15-10 and 80-15-5 programs. This type of mortgage also gives the consumer the option of having a non-escrowing loan without a 20% down payment.
- **100% Mortgage**
  This gives a house buyer with little or no cash the opportunity to buy a home. The loan is usually backed up by assets owned by the borrower – such as stocks and bonds. There are two significant drawbacks to the 100% mortgage namely higher interest rates and the possibility that the borrower's securities will be liquidated to cover a collateral call.
- **Balloon Mortgage**
  This is a mortgage in which the borrower's monthly payments are amortized over a longer period than the actual term of the mortgage. As a result, at the end of the loan term, the borrower must pay off the remaining balance with a single lump sum payment or refinance the loan.

- **Bi-weekly Payment Mortgage**
  This is a mortgage with payments due every two weeks (instead of monthly). There are extra charges normally associated with this type of mortgage – the idea behind this increased frequency of payment is that the loan is paid off earlier. You could save money by doing the same thing yourself without paying the extra costs of this type of mortgage.
- **Convertible ARM Mortgage**
  This is an adjustable-rate mortgage (ARM) that allows the borrower to convert the loan to a fixed-rate mortgage under specified conditions.
- **Seller Take-Back (or Seller Carry-Back)**
  This involves an agreement in which the seller of a property provides financing to the buyer for the home purchase.

Other Information

Business Hours

Business hours are variable depending on the state or industry, starting from 07.00 or 09.00 until 16.00 or 18.00. Do not be surprised to be asked to a breakfast meeting or to work late hours. US executives typically work long hours and part of the weekend. Asking for an evening meeting may impinge upon the time they spend with their families, time which many executives find precious. Government offices are open 08.30-17.30 Monday to Friday. Banks are open 09.00-15.00 Monday to Friday. Shops are open 09.30-21.00 Monday to Saturday; 12.00-17.00 Sunday.

Business Etiquette

There are differences in formality between coasts: business dress is formal on the east coast and tends to be smart casual on the west coast. Meetings may take place in either an office or in a relaxed environment such as a bar. Their content will however typically be formal with agendas and non-disclosure agreements where applicable. Pricing and legal matters are often introduced at an early stage of negotiations.
Punctuality, follow-up and commitment are all important considerations; so is appreciation of cultural differences.

Passports/Visas

A Passport is required to visit the USA. Passports should have at least six months left before the expiry date. Extensive regulations govern visa requirements, and travellers should make detailed enquiries as far in advance of their intended visit as possible about the visa appropriate to their circumstances and the method of applying for such visas. In particular, the law relating to aliens working in the US has become even more rigid in recent years. Anyone employed in the US must be legally entitled to work and live there. From 1 January 2003, the US Government has introduced the National Security Entry-Exit Registration System, a new entry requirement for people travelling on business, pleasure and transit. It is vital that you check the current travel advice at www.fco.gov.uk regarding the new guidelines for travellers to the USA as this new policy could affect your travel plans. Alternatively, visit the US Embassy London website at:
www.usembassy.org.uk/cons_web/visa/visaindex.htm

Useful Contacts

- **World of Property**
  www.worldofproperty.co.uk
- **The International Law Partnership: English Solicitors and International Lawyers**
  www.lawoverseas.com/buying-a-property-in-united-states-c603.html
- **Home Buying Institute**
  www.homebuyinginstitute.com/
- **Newbuyer.com**
  www.newbuyer.com/homes/homeguide/buying/
- **Century21**
  www.century21.com/buy/learn.aspx
- **Ohio Department of Commerce -** Division of Real Estate & **Professional Licensing: Home Buyer's Guide**
  www.com.state.oh.us/real/pub/HBGWebVersion.pdf
- **Minnesota Attorney General's Office: Home Buyer's Handbook**
  www.ag.state.mn.us/consumer/housing/HmBuyers/Default.asp
- **Global Property Guide**
  www.globalpropertyguide.com
- **Real-Estate-Agents.com**
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Tips from Real-Estate-Agents.com

Real-Estate-Agents.com is a directory of links to real estate agents in the US and Canada. They claim that somewhere in their website is the house or property of your dreams and list more agents than any other directory. In addition to the listing of real estate agents, they also provide valuable tips on buying a home in North America at http://real-estate-agents.com/in/Tips_and_Articles/Buying_a_Home/ including:

- Mistakes to Avoid
- Different types of ownership - Townhouses, Condominiums and
- Single Family Homes
- Inspection Checklist
- The Art of Negotiation
- Sales Contracts
- Mortgage Prequalification
- Choosing a Mortgage
- Mortgage Hints
- Mortgage Life Insurance
- Home Inspections
- The Final Walkthrough
- The Closing

Geography

The USA shares its borders with Mexico in the south and Canada to the north. To the west is the Pacific Ocean, to the south, the Caribbean and Gulf of Mexico; to the east, the Atlantic Ocean. Two states are separated from mainland USA: Alaska and Hawaii (3,200 km west of the Californian coast). The USA covers a total land and water area of 9,631,418 sq km (not including Alaska and Hawaii. Mt. McKinley is the highest point in North America and Death Valley the lowest point on the continent.

The geography of the USA is hugely diverse ranging from glacier and tundra to sub-tropical forest and desert, vast plains and lofty mountain ranges such as the Rockies in the west and the Appalachians which form the boundary of the eastern plain. Terrain in the east ranges from the rugged mountains and forests of New England in the north, through the Savannah in the south and sub-tropical swamplands of parts of Florida. Mountain ranges also form part of many of the central states, as do the Great Plains around the Mississippi/Missouri river basin. The west is scrub and desert in the south and high plateaus, and verdant temperate forests in the north-west, and along much of the coast.

States

The United States of America is divided into 50 states and 1 district*;

Alabama	Alaska
Arizona	Arkansas
California	Colorado
Connecticut	Delaware
District of Columbia*	Florida
Georgia	Hawaii
Idaho	Illinois
Indiana	Iowa
Kansas	Kentucky
Louisiana	Maine
Maryland	Massachusetts
Michigan	Minnesota
Mississippi	Missouri
Montana	Nebraska
Nevada	New Hampshire
New Jersey	New Mexico
New York	North Carolina
North Dakota	Ohio
Oklahoma	Oregon
Pennsylvania	Rhode Island
South Carolina	South Dakota
Tennessee	Texas
Utah	Vermont
Virginia	Washington
West Virginia	Wisconsin
	Wyoming

Climate

The climate is temperate throughout the USA and generally gets hotter the further south you go with more extreme seasonal weather in the far north and inland from the coasts. Winters in the northeast and upper Midwest can bring long periods of freezing weather even though in Southern California and Florida it might still be warm enough to go swimming in the sea.

A summary of various regions is given below.

Midwest

The area around the great lakes has the most extreme seasonal climate of the whole USA. Springs and autumns are cool and pleasant, summers hot and sticky and winter is usually harshly cold with biting winds and heavy snowfall. Further south winters are milder and summers warmer with clearer sunny skies.

Northeast

Summers are generally warm often accompanied by hot, humid conditions and cold winters (usually below freezing) with copious snowfall and biting winds. The average temperature varies with altitude. Rainfall is spread throughout the year.

Southeast

Summer is very humid and hot, both inland and on the coast, with frequent thunderstorms. During the hurricane season. Between five to eight hurricanes or tropical storms reach the Gulf Coast shore. Winters are severe in the higher elevations of the southern Appalachians, with frequent and heavy snowfalls, but summer is mild, if wet and misty. Along the east coast winters are very mild with only the occasional cold snap. Florida and Texas are warm all year.

West Coast

The western states experience the hottest, the coldest, the wettest and the driest climates in the whole country. Parts of the south west below 3,000 feet can reach the high 40ºCs. The humidity in much of the southern states is very low and the night temperatures in the southern part of the region can fall by between 10ºC to 15ºC, occasionally dropping below freezing in winter. Temperatures lessen with altitude usually accompanied by more rain or snow. Mountain valleys often have localised microclimates. In the high Rockies, summers are mild and winters can be severe with much snowfall; frequent, violent thunderstorms are common all year. The worst effects of the winter can be moderated by the warm, dry Chinook winds which come off the mountains.

Rainfall is particularly abundant along the coastal areas of the Pacific Northwest. Summer evenings are warm with average temperatures around 27ºC. Winters are generally wet but mild, damp and foggy, with snow on the higher elevations.

Fog is the primary characteristic of the northern Californian coast. This can bring chilly conditions after a sunny spell; in winter there is less fog and less variation in temperature. The inland valleys have a more agreeable climate. Southern California, including Los Angeles, has a desert climate but is protected from extremes of temperature by the mountain ranges to the north and west. August and September are the hottest months with January and February the coolest. Onshore breezes keep the coast cooler. Dry inland winds blow in summer, sometimes fanning bush fires.

Hawaii

Hawaii is generally balmy and warm with the Trade Winds providing a refreshing breeze. There is little seasonal variation. The windward sides of the islands generally receive more rain and this mainly falls on the higher slopes and mountains. Rains are roughly twice as heavy between December and March.

Alaska

In Alaska it is often below freezing in winter, dropping to below minus 40ºC in the interior. In the summer it can be pleasantly mild, even hot on occasions, the long days providing plenty of light. From June until late August, night is replaced by twilight and it never gets really dark. Generally, the weather is extremely variable owing to the influence of the surrounding seas, and the low angle of the sun. Rainfall is greater along the coast and in the south, with the interior and north averaging only four inches a year.

Glossary of Terms

This glossary, many terms of which have been excerpted from Fannie Mae whose copyright therein is acknowledged, is an extensive listing of real estate and mortgage terms used when transacting in US residential property.

- **80-10-10** - a type of blended mortgage loan which avoids private mortgage insurance (PMI). It consists of an 80% 30 year first lien loan at market rates, a 10% 15 year second lien at a slightly higher interest rate, and a 10% down payment. Instead of having to come up with a 20% down payment, a buyer is able to avoid PMI with only 10% down. While the interest rate on the second note is a bit higher, the total monthly payment is usually lower than a 90% mortgage with PMI. In addition, the extra interest paid for the second lien is tax deductible, whereas PMI is not. It is also possible to payoff just the second lien, thereby lowering the future monthly payments. Some lenders also offer 75-15-10 and 80-15-5 programs. This type of mortgage also gives the consumer the option of having a non-escrowing loan without a 20% down payment.
- **100% Mortgage** - this gives a house buyer with little or no cash the opportunity to buy a home. The loan is usually backed up by assets owned by the borrower – such as stocks and bonds. There are two significant drawbacks to the 100% mortgage namely higher interest rates and the possibility that the borrower's securities will be liquidated to cover a collateral call.
- **Abstract of Title** - a condensed version of the history of title to a piece of land that lists any transfers in ownership, as well as any liabilities attached to it, such as mortgages.
- **Abutting** - the joining, reaching, or touching of adjoining land. Abutting pieces of land have a common boundary.
- **Acceleration Clause** - a provision in a mortgage note that gives a lender the right to demand repayment of the entire balance of the loan under certain conditions - the most common reasons for accelerating a loan are if the borrower defaults on the loan or transfers title to another individual without informing the lender.
- **Acceptance** - an offeree's consent to enter into a contract and be bound by the terms of it.
- **Accretion** - an addition to land or property through natural causes.
- **Acknowledgment** - a declaration made by a person to a notary public, or other public official authorized to take acknowledgments, that the instrument was executed by him and that it was his/her free and voluntary act.
- **Additional Principal Payment** - an amount paid by a borrower of more than the scheduled principal amount due. This type of payment reduces the remaining balance and shortens the term of the loan. Also called a "principal curtailment."
- **Adjustable-Rate Mortgage (ARM)** - a mortgage that permits the lender to periodically adjust the interest rate on the basis of changes in a specified index. All ARMs are tied to indices.
- **Adjustment Date** - the date on which the interest rate changes for an adjustable-rate mortgage (ARM).
- **Adjustment Period** - for an adjustable-rate mortgage, the time period between interest rate change dates, as stated in the mortgage note.
- **Ad Valorem** - designates an assessment of taxes against property. A Latin terms meaning, literally, according to value.
- **Adverse Possession** - the right of an occupant of land to acquire title against the real owner, where possession has been actual, continuous, hostile, visible, and distinct for the statutory period. The requirements for adversely possessing property vary between US States, but usually include continuous and open use for a period of five or more years and paying taxes on the property in question.
- **Affidavit** – a written statement signed and sworn before a person authorized to take an oath.
- **Affordability Analysis** - an estimation of a borrower's ability to afford the purchase of a home and/or the payment on a loan. An affordability analysis may consider income, liabilities, the type of mortgage, the loan amount, purchase price, the expected closing costs, and other factors.

- **Agent** - an individual who represents a seller, a buyer or both in the purchase or sale of real estate.
- **Amortization** - the gradual reduction of the mortgage debt through regularly scheduled payments over the term of the loan. Except on an interest only loan, each loan payment consists of a portion which will be applied to pay the accruing interest on a loan, with the remainder being applied to the principal. Over time, the interest portion decreases as the loan balance decreases, and the amount applied to principal increases so that the loan is paid off (amortized) in the specified time.
- **Amortization Schedule** - a timetable for payment of a mortgage loan. An amortization schedule shows: the amount of each payment; the amount to be applied to principal and interest; and the remaining principal balance after each payment is made.
- **Amortize** - to repay a mortgage with regular payments that cover both principal (the amount borrowed) and interest.
- **Annual Percentage Rate (APR)** - the measure of the cost of credit stated as a yearly rate; includes such items as the stated interest rate, plus certain charges. It is a value created according to a US government formula intended to reflect the true annual cost of borrowing, expressed as a percentage. The APR is always higher than the actual note rate on your loan.
- **Annuity** - an amount paid yearly or at other regular intervals, often at a guaranteed minimum amount. It can also be a type of insurance policy in which the policy holder makes payments for a fixed period or until a stated age, and then receives annuity payments from the insurance company.
- **Application** - the form used to apply for a mortgage loan, containing information about a borrower's income, savings, assets, debts, and more.
- **Appraisal** - a written estimate or opinion of a property's value prepared by a qualified appraiser. It is primarily based on an analysis of comparable sales of similar homes nearby.
- **Appraised Value** - an opinion of a property's fair market value, based on an appraiser's knowledge, experience, and analysis of the property. Since an appraisal is based primarily on comparable sales, and the most recent sale is the one on the property in question, the appraisal usually comes out at the purchase price.
- **Appraiser** - an individual qualified by education, training, and experience to estimate the value of real property and personal property. Although some appraisers work directly for mortgage lenders, most are independent.
- **Appreciation** - the increase in the value of a property due to changes in market conditions, inflation, or other causes.
- **Assessed Value** – typically, the value placed on property by a public tax assessor for the purpose of levying taxation.
- **Assessment** - the placing of a value on property for the purpose of taxation.
- **Assessor** - a public official who establishes the value of a property for taxation purposes.
- **Asset** - anything of monetary value that is owned by a person or company. Assets include real property, personal property, stocks, shares, mutual funds, etc.
- **Assignment of Mortgage** - a document evidencing the transfer of ownership of a mortgage from one person to another.
- **Assumable Mortgage** - a mortgage loan that can be taken over ("assumed") by the buyer when a home is sold. An assumption of a mortgage is a transaction in which the buyer of real property takes over the seller's existing mortgage; the seller remains liable unless released by the lender from the obligation. If the mortgage contains a due-on-sale clause, the loan may not be assumed without the lender's consent.
- **Assumption Fee** - a fee a lender charges a buyer who will assume the seller's existing mortgage.
- **Automated Underwriting** - an automated process performed by a technology application that streamlines the processing of loan applications and provides a recommendation to the lender to approve the loan or refer it for manual underwriting.
- **Balance Sheet** - a financial statement that shows assets, liabilities, and net worth as of a specific date.
- **Balloon Mortgage** - a mortgage in which the borrower's monthly payments are amortized over a longer period than the actual term of the mortgage. As a result, at the end of the loan term, the borrower must pay off the remaining balance with a single lump sum payment or refinance the loan.
- **Balloon Payment** - the final lump sum payment that is made at the maturity date of a balloon mortgage.

- **Bankruptcy** - a legal process that allows debtors (borrowers) to eliminate or restructure debts when they have financial difficulties. By filing in a US federal bankruptcy court, an individual or individuals can restructure or relieve themselves of debts and liabilities. Bankruptcies are of various types, but the most common for an individual seems to be a "Chapter 7 No Asset" bankruptcy which relieves the borrower of most types of debts. A borrower cannot usually qualify for an "A" paper loan for a period of two years after the bankruptcy has been discharged and requires the re-establishment of an ability to repay debt.
- **Before-Tax Income** - income before taxes are deducted. It is also known as "gross income."
- **Bill of Sale** - a written document that transfers title to personal property. For example, when selling an automobile to acquire funds which will be used as a source of down payment or for closing costs, the lender will usually require the bill of sale (in addition to other items) to help document this source of funds.
- **Bi-weekly Payment Mortgage** - a mortgage with payments due every two weeks (instead of monthly). There are extra charges normally associated with this type of mortgage – the idea behind this increased frequency of payment is that the loan is paid off earlier. You could save money by doing the same thing yourself without paying the extra costs of this type of mortgage.
- **Bona Fide** – a Latin term meaning “in good faith, without fraud”.
- **Bond Market** – this usually refers to the daily buying and selling of thirty year treasury bonds. Lenders follow this market closely because as the yields of bonds go up and down, fixed rate mortgages do approximately the same thing. The same factors that affect the US Treasury Bond market also affect mortgage rates at the same time. That is why rates change daily, and in a volatile market can and do change during the day as well.
- **Bonus to selling agent (BTSA)** - compensation, above and beyond the sales commission, offered to the real estate agent who brings the buyer to the transaction. A BTSA is used to provide an extra incentive for real estate agents to show a particular listing. Often the bonus is tied to closing within a certain time period or the property selling for a certain price. A buyer's agent should not consider the BTSA a factor in any negotiations between buyer and seller. Realistically, most BTSA's tend to disappear during initial negotiations, even though they should never be considered as negotiable after they have been offered. Any bonus to selling agent should be contained in a written agreement between the seller and listing broker. The BTSA is technically offered by the listing broker, not the seller, and thus should not be a subject of negotiation.
- **Bridge (or Bridging) Loan** - a short-term loan secured by the borrower's current home (which is usually for sale) that allows the proceeds to be used for building or closing on a new house before the current home is sold. It is also known as a "swing loan."
- **Broker** - an individual or firm that acts as an agent between providers and users of products or services, such as a mortgage broker or real estate broker. See also "Mortgage Broker".
- **Building Code** - local regulations that set forth the standards and requirements for the construction, maintenance and occupancy of buildings. The codes are designed to provide for the safety, health and welfare of the public.
- **Building Line** - a line fixed at a certain distance from the front and/or sides of a lot beyond which no structure can project.
- **Buydown** - an arrangement whereby the property developer or another third party provides an interest subsidy to reduce the borrower's monthly payments typically in the early years of the loan. A buydown usually refers to a fixed rate mortgage where the interest rate is "bought down" for a temporary period, usually one to three years. After that time and for the remainder of the term, the borrower's payment is calculated at the note rate. In order to buy down the initial rate for the temporary payment, a lump sum is paid and held in an account used to supplement the borrower's monthly payment. These funds usually come from the seller (or some other source) as a financial incentive to induce someone to buy their property. A "lender funded buydown" is when the lender pays the initial lump sum. They can accomplish this because the note rate on the loan (after the buydown adjustments) will be higher than the current market rate. One reason for doing this is because the borrower may get to "qualify" at the start rate and can qualify for a higher loan amount. Another reason is that a borrower may expect his earnings to go up substantially in the near future but wants a lower payment right now.

- **Buydown Account** - an account in which funds are held so that they can be applied as part of the monthly mortgage payment as each payment comes due during the period that an interest rate buydown plan is in effect.
- **Buyer's Agent** - a Real Estate Agent that has made an agreement to represent the buyer exclusively, rather than the seller.
- **Cap** - for an adjustable-rate mortgage (ARM), a limitation on the amount the interest rate or mortgage payments may increase or decrease. See also "Lifetime Payment Cap," "Lifetime Rate Cap," "Periodic Payment Cap," and "Periodic Rate Cap".
- **Cash-out Refinance** - a refinance transaction in which the borrower receives additional funds over and above the amount needed to repay the existing mortgage, closing costs, points, and any subordinate liens.
- **Certificate of Deposit** - a document issued by a bank or other financial institution that is evidence of a deposit, with the issuer's promise to return the deposit plus earnings at a specified interest rate within a specified time period.
- **Certificate of Deposit Index** - one of the indices used for determining interest rate changes on some adjustable rate mortgages. It is an average of what banks are paying on certificates of deposit.
- **Certificate of Eligibility** - a document issued by the U.S. Department of Veterans Affairs (VA) certifying a veteran's eligibility for a VA-guaranteed mortgage loan.
- **Chain of Title** - the history of all of the documents that have transferred title to a parcel of real property, starting with the earliest existing document and ending with the most recent.
- **Change Orders** - a change in the original construction plans ordered by the property owner or general contractor.
- **Channelling** - the illegal practice of directing people to, or away from, certain areas or neighbourhoods because of ethnic/minority status.
- **Clear Title** - ownership that is free of liens, defects, or other legal encumbrances.
- **Closing (sometimes also called "Financial Closing")** - the process of completing a financial transaction. For mortgage loans, the process of signing mortgage documents, disbursing funds, and, if applicable, transferring ownership of the property. In some jurisdictions, closing is referred to as "escrow," a process by which a buyer and seller deliver legal documents to a third party who completes the transaction in accordance with their instructions. Also see "Settlement".
- **Closing Agent** - the person or entity that coordinates the various closing activities, including the preparation and recordation of closing documents and the disbursement of funds. (May be referred to as an escrow agent or settlement agent in some jurisdictions.) Typically the closing is conducted by title companies, escrow companies or attorneys.
- **Closing Costs** - the fees charged in connection with a mortgage loan transaction. Money paid by a buyer (and/or seller or other third party, if applicable) to effect the closing of a mortgage loan, generally including, but not limited to a loan origination fee, title examination and insurance, survey, attorney's fee, and prepaid items, such as escrow deposits for taxes and insurance.
- **Closing Date** - the date on which the sale of a property is to be finalized and a loan transaction completed. Often, a real estate sales professional coordinates the setting of this date with the buyer, the seller, the closing agent, and the lender.
- **Closing Statement** - see "HUD-1 Settlement Statement"
- **Cloud on Title** - any conditions revealed by a title search that adversely affect the title to real estate. Usually clouds on title cannot be removed except by deed, release, or court action.
- **Co-borrower** - any borrower other than the first borrower whose name appears on the application and mortgage note, even when that person owns the property jointly with the first borrower and shares liability for the note.
- **Collateral** - an asset that is pledged as security for a loan. The borrower risks losing the asset or having the asset sold if the loan is not repaid according to the terms of the loan agreement. Also simply called "Security".
- **Collection** - the efforts that a lender takes to collect past due payments from a borrower. When a borrower falls behind, the lender contacts them in an effort to bring the loan up to date. The loan goes to "collection." As part of the collection effort, the lender must mail and record certain documents in case they are eventually required to foreclose on the property.
- **Commission** - the fee charged for services performed, usually based on a percentage of the price of the items sold (such as the fee a real estate agent earns on the sale of a house).

- **Commitment Letter** - a binding offer by a lender to lend money at a future date subject to the borrower's compliance with stated conditions.
- **Common Area Assessments** - In some areas they are called Homeowners Association Fees. They are charges paid to the Homeowners Association by the owners of the individual units in a condominium or planned unit development (PUD) and are generally used to maintain the property and common areas.
- **Common Areas** - the portions of a building, land, or improvements and amenities owned by a planned unit development (PUD) or condominium project's homeowners' association (or a cooperative project's cooperative corporation) that are used by all of the unit owners, who share in the common expenses of their operation and maintenance. Common areas include swimming pools, tennis courts, and other recreational facilities, as well as common corridors of buildings, parking areas, means of ingress and egress, etc.
- **Community Property** - in some US States, especially the southwest, property acquired by a married couple during their marriage is considered to be owned jointly, except under special circumstances. This is an outgrowth of the Spanish and Mexican heritage of the area.
- **Comparables** - an abbreviation for "comparable properties," which are used as a comparison in determining the current value of a property that is being appraised (valued). It relates to recent sales of similar properties in nearby areas and is used to help determine the market value of a property. Also referred to as "comps" or “Comparable Market Analysis (CMA)”.
- **Condominium** - a real estate project in which each unit owner holds title to an individual unit in a building, and an undivided interest in the common areas.
- **Condominium Hotel** - a condominium project that has rental or registration desks, short-term occupancy, food and telephone services, and daily cleaning services and that is operated as a commercial hotel even though the units are individually owned. These are often found in resort areas like Hawaii.
- **Construction Loan** - a loan for financing the cost of construction or improvements to a property; the lender disburses payments to the builder at periodic intervals during construction.
- **Contingency** - a condition that must be met before a contract is legally binding. For example, home purchasers often include a home inspection contingency; the sales contract is not binding unless and until the purchaser has the home inspected.
- **Conventional Mortgage -** a mortgage loan that is not insured or guaranteed by the federal government or one of its agencies, such as FHA, VA or RHS. Contrast with "Government Mortgage."
- **Conversion Option** - a provision of some adjustable-rate mortgage (ARM) loans that allows the borrower to change the ARM to a fixed-rate mortgage at specified times after loan origination.
- **Convertible ARM** - an adjustable-rate mortgage (ARM) that allows the borrower to convert the loan to a fixed-rate mortgage under specified conditions.
- **Cooperative (Co-op) Project** - a project in which a corporation holds title to a residential property and sells shares to individual buyers, who then receive a proprietary lease as their title.
- **Cost of Funds Index (COFI)** - an index that is used to determine interest rate changes for certain adjustable-rate mortgage (ARM) plans. It is based on the weighted monthly average cost of deposits, advances, and other borrowings of members of the Federal Home Loan Bank of San Francisco.
- **Credit Bureau** - an independent agency that gathers and maintains information on the debts and repayment records of individuals and businesses.
- **Credit History** - a record of an individual's debts and repayment record. A credit history helps a lender to determine whether a potential borrower has a history of repaying debts in a timely manner.
- **Credit Life Insurance -** a type of insurance that pays off a specific amount of debt or a specified credit account if the borrower dies while the policy is in force.
- **Credit Report** - a document provided by a credit reporting agency containing information about an individual's previous mortgage history, bank loans, credit cards, and public records dealing with financial matters.
- **Credit Score** - a numerical value that ranks a borrower's credit risk at a given point in time based on a statistical evaluation of information in the individual's credit file that has been proven to be predictive of loan performance.
- **Creditor** - a person or company to whom money is owed.
- **Debt** - an amount owed by a borrower to a lender.

- **Debt-to-Income Ratio** - the relationship between a borrower's total monthly debt payments (including proposed housing expenses) and his or her gross monthly income; this calculation is used in determining the mortgage amount that a borrower qualifies for.
- **Deed** - the legal document conveying title to a property (i.e., transferring the ownership of real property from one party to another.)
- **Deed-in-Lieu of Foreclosure** - the transfer of title from a borrower to the lender to satisfy the mortgage debt and avoid foreclosure. Also called a "voluntary conveyance."
- **Deed of Trust** - a legal document that conveys title to real estate to a disinterested third party (a "trustee") who holds the title until the borrower has repaid the debt. In some US States, this document is used in place of a mortgage.
- **Default** - the failure to make a scheduled payment or otherwise comply with the terms of a mortgage loan or other contract.
- **Delinquency** - failure to make a payment when it is due. It is the condition of a loan when a scheduled payment has not been received by the due date, but is generally used to refer to a loan for which payment is 30 or more days overdue.
- **Depreciation** - a decline in the value of property; the opposite of appreciation. Depreciation is also an accounting term which shows the declining monetary value of an asset and is used as an expense to reduce taxable income. Since this is not a true expense where money is actually paid, lenders will add back depreciation expense for self-employed borrowers and count it as income.
- **Discount Point** - a fee paid by the borrower at closing to reduce the interest rate. A point equals 1 percent of the loan amount.
- **Down Payment** - the amount of cash a buyer puts toward a purchase.
- **Due-on-sale Clause** - a provision in a mortgage that allows the lender to demand repayment in full of the outstanding balance if the property securing the mortgage is sold.
- **Earnest Money (or "Good Faith") Deposit** - a deposit submitted with a purchase offer to show that the buyer's offer is being made in "good faith."
- **Easement** - a right to the use of, or access to, land owned by another.
- **Effective Age** - an appraiser's estimate of the physical condition of a building. The actual age of a building may be shorter or longer than its effective age.
- **Eminent Domain** - the right of a government to take private property for public use upon payment of its fair market value. Eminent domain is the basis for condemnation proceedings.
- **Employer-Assisted Housing –** an arrangement in which companies assist their employees in purchasing homes by providing assistance with the down payment, closing costs, or monthly payments.
- **Encroachment** - the intrusion onto another's property without right or permission.
- **Encumbrance -** any claim on a property, such as a lien, mortgage or easement.
- **Equal Credit Opportunity Act (ECOA)** – a US federal law that requires lenders to make credit equally available without regard to the applicant's race, colour, religion, national origin, age, sex, or marital status; the fact that all or part of the applicant's income is derived from a public assistance program; or the fact that the applicant has in good faith exercised any right under the US Consumer Credit Protection Act.
- **Equity** - the owner's interest in a property, calculated as the current fair market value of the property less the amount of existing liens.
- **Escheat** - the reversion of property to the state in the event the owner thereof dies without leaving a will (ie, intestate) and has no heirs to whom the property may pass by lawful descent.
- **Escrow** - an item of value, money, or documents deposited with a third party to be delivered upon the fulfilment of a condition. For example, the deposit by a borrower with the lender of funds to pay taxes and insurance premiums when they become due, or the deposit of funds or documents with an attorney or escrow agent to be disbursed upon the closing of a sale of real estate.
- **Escrow Account** - an account that a mortgage provider establishes on behalf of a borrower to pay taxes, insurance premiums, or other charges when they are due. It is sometimes referred to as an "impound" or "reserve" account.
- **Escrow Analysis** - the accounting that a mortgage servicer performs to determine the appropriate balances for the escrow account, compute the borrower's monthly escrow payments, and determine whether any shortages, surpluses or deficiencies exist in the account.

- **Et Ux –** Latin abbreviation for "et uxor" meaning "and wife".
- **Eviction** - the legal act of removing someone from real property.
- **Exclusive Listing** - a written contract that gives a licensed real estate agent the exclusive right to sell a property for a specified period of time.
- **Exculpatory Clause** - a provision in a lease that absolves the landlord from responsibility for all damages, injuries or losses occurring on the property, including those caused by the landlord's actions. Most US States have laws that void exculpatory clauses in rental agreements, which means that a court will not enforce them.
- **Executor** - a person named in the will of a deceased person who is approved by a probate court to administer the deposition of an estate in accordance with the instructions of the will.
- **Fair Credit Reporting Act** - a US consumer protection law that regulates the disclosure of consumer credit reports by credit reporting agencies and specifies procedures for challenging errors on a credit record.
- **Fair Housing Act & Fair Housing Amendments Act -** Federal laws that prohibit housing discrimination on the basis of race or colour, national origin, religion, sex, familial status or disability. The federal Acts apply to all aspects of the landlord/tenant relationship, from refusing to rent to members of certain groups to providing different services during tenancy.
- **Fair Housing Laws** - Federal, state, and local laws, particularly Title VIII of the 1968 Civil Rights Act, Title VI of the Civil Rights Act of 1964, and the Civil Rights Act of 1866, which forbid discrimination because of race, sex, colour, religion, or national origin, in the selling or renting of homes or apartments, and in other specified transactions. These laws have been recently been expanded to include familial status (having children) and disabilities (Americans with Disabilities Act).
- **Fair Market Value** - the price at which property would be transferred between a willing buyer and willing seller, each of whom has a reasonable knowledge of all pertinent facts and is not under any compulsion to buy or sell.
- **Fannie Mae (The Federal National Mortgage Association)** - a New York stock exchange company. It is a public company that operates under a federal charter and is the nation's largest source of financing for home mortgages. Fannie Mae does not lend money directly to consumers, but instead works to ensure that mortgage funds are available and affordable, by purchasing mortgage loans from institutions that lend directly to consumers. Today, Fannie Mae operates under a congressional charter that directs it to channel its efforts into increasing the availability and affordability of homeownership for low-, moderate-, and middle-income Americans. Fannie Mae receives no government funding or backing, and is one of the nation's largest taxpayers as well as one of the most consistently profitable corporations in America. Fannie Mae establishes strict guidelines for mortgage loans it is willing to purchase. As the largest buyer of mortgage loans in the US, these guidelines have become the industry standard for the majority of home loans. Any loan that meets these Fannie Mae guidelines is called a "conforming loan".
- **Fannie Mae's Community Home Buyer's Program** - an income-based community lending model, under which mortgage insurers and Fannie Mae offer flexible underwriting guidelines to increase a low- or moderate-income family's buying power and to decrease the total amount of cash needed to purchase a home. Borrowers who participate in this model are required to attend pre-purchase home-buyer education sessions.
- **Fannie Mae-Seller/Servicer** - a lender that Fannie Mae has approved to sell loans to it and to service loans on Fannie Mae's behalf.
- **Fannie Mae/Freddie Mac Loan Limit** - the 2006 Fannie Mae/Freddie Mac loan limit for a single-family home was $417,000 and is higher in Alaska, Guam, Hawaii, and the U.S. Virgin Islands. The Fannie Mae loan limit is $533,850 for a two-unit home; $645,300.00 for a three-unit home; and $801,950.00 for a four-unit home. It is also referred to as the "conventional loan limit".
- **Federal Deposit Insurance Corporation (FDIC)** – FDIC's mission is to maintain the stability of and public confidence in the nation's financial system. To achieve this goal, the FDIC has insured deposits and promoted safe and sound banking practices since 1933. FDIC insurance is offered at almost every US bank and savings and loan. In general, the FDIC insures individual accounts in each financial institution for a maximum of $100,000 per account. An individual or entity may only be insured for a total of $100,000 for all the accounts held in any one institution, or any of its branches.

Fannie Mae

Fannie Mae is a shareholder-owned company with a public mission. They exist to expand affordable housing and bring global capital to local communities in order to serve the U.S. housing market. They have a federal charter and operate in America's secondary mortgage market to ensure that mortgage bankers and other lenders have enough funds to lend to home buyers at low rates. Our job is to help those who house America.

Fannie Mae was created in 1938, under President Franklin D. Roosevelt, at a time when millions of families could not become homeowners, or risked losing their homes, for lack of a consistent supply of mortgage funds across America. The US government established Fannie Mae in order to expand the flow of mortgage funds in all communities, at all times, under all economic conditions, and to help lower the costs to buy a home.

In 1968, Fannie Mae was re-chartered by Congress as a shareholder-owned company, funded solely with private capital raised from investors on Wall Street and around the world.

Fannie Mae has a unique duty to the public it serves, and the private investors that fuel its service, to be a model company focused on service, reliability, and value.

As America continues to grow and change, Fannie Mae will be there to help meet its growing and changing housing needs.

Source: Fannie Mae

- **Federal Emergency Management Agency (FEMA)** - FEMA is the governmental unit that has leadership responsibilities for the Nation's emergency management system. Once the President has declared a major disaster, FEMA coordinates not only its own response activities but also those of as many as 28 other Federal agencies that may participate. FEMA also works with States, territories, and communities during non-disaster periods to help plan for disasters, develop mitigation programs, and anticipate what will be needed when major disasters occur. Among its many responsibilities the agency operates the Federal Insurance Administration, which makes flood insurance available to residents of communities that agree to adopt and enforce sound floodplain management practices.
- **Federal Housing Administration (FHA)** - an agency within the US Department of Housing and Urban Development (HUD). Its main activity is the insuring of residential mortgage loans made by private lenders. The FHA sets standards for construction and underwriting but does not lend money or plan or construct housing. While somewhat more expensive that a conventional loan in terms of interest rates and insurance fees, FHA loans offer slightly more liberal qualifying criteria.
- **Fee Simple** - the greatest possible interest a person can have in real estate.
- **Fee Simple Estate** - an unconditional, unlimited estate of inheritance that represents the greatest estate and most extensive interest in land that can be enjoyed. It is of perpetual duration. When the real estate is in a condominium project, the unit owner is the exclusive owner only of the air space within his or her portion of the building (the unit) and is an owner in common with respect to the land and other common portions of the property.
- **FHA Mortgage** - a mortgage that is insured by the Federal Housing Administration (FHA). Along with VA loans, an FHA loan will often be referred to as a government loan.
- **First Mortgage** - a mortgage that is the primary lien against a property.
- **First Time Home Buyer** - a person with no ownership interest in a principal residence during the three-year period preceding the purchase of the security property.
- **Fixed-Period Adjustable-Rate Mortgage** - an adjustable-rate mortgage (ARM) that offers a fixed rate for an initial period, typically three to ten years, and then adjusts every six months, annually, or at another specified period, for the remainder of the term.
- **Fixed-Rate Mortgage (FRM)** - a mortgage loan in which the interest rate does not change during the entire term.
- **Fixture** – a fixture is personal property that becomes real property when attached in a permanent manner to real estate.
- **Flood Certification Fee** - a fee charged by independent mapping firms to identify properties located in areas designated as flood zones.
- **Flood Insurance** - insurance that compensates for physical property damage resulting from flooding. It is required for properties located in federally designated flood hazard zones.
- **Foreclosure** - the legal process by which a property that is mortgaged as security for a loan may be sold and the proceeds of the sale applied to the mortgage debt. A foreclosure occurs when the loan becomes delinquent because payments have not been made or when the borrower is in default for a reason other than the failure to make timely mortgage payments.
- **Forfeiture** - the loss of money, property, rights, or privileges due to a breach of a legal obligation.
- **For Sale By Owner (FSBO)** - an individual homeowner who is attempting to sell his property without a real estate broker. The acronym, FSBO is pronounced "fizzbo".
- **Freddie Mac** - chartered by Congress in 1970, Freddie Mac is a publicly held corporation that purchases mortgages in the secondary mortgage market. Freddie Mac came into being as the Federal Home Loan Mortgage Corporation (FHLMC) with the mission to create a continuous flow of funds to mortgage lenders. By supplying lenders with the money to make mortgages and packaging the mortgages into marketable securities which are sold to investors, Freddie Mac also helps to sustain a stable mortgage credit system which in turn, reduces the mortgage rates paid by homebuyers. Over the years, Freddie Mac has been responsible for opening the door to homeownership for one out of six home buyers in America who would not have qualified otherwise.
- **Fully Amortized Mortgage** - a mortgage in which the monthly payments are designed to retire the obligation at the end of the mortgage term.

- **General Contractor** - a person who oversees a home improvement or construction project and handles various aspects such as scheduling workers and ordering supplies.
- **Good Faith Estimate (GFE)** - a form required by the US Real Estate Settlement and Procedures Act (RESPA) that discloses an estimate of the amount or range of charges, for specific settlement services the borrower is likely to incur in connection with the mortgage transaction.
- **Government Mortgage** - a mortgage loan that is insured or guaranteed by a US federal government entity such as the Federal Housing Administration (FHA) or guaranteed by the US Department of Veterans Affairs (VA), or the Rural Housing Service (RHS).
- **Government National Mortgage Association (popularly known as Ginnie Mae)** - a government-owned corporation within the U.S. Department of Housing and Urban Development (HUD) that guarantees securities backed by mortgages that are insured or guaranteed by other government agencies. It was created by Congress on 1 September 1968 and performs the same role as Fannie Mae and Freddie Mac in providing funds to lenders for making home loans. The difference is that Ginnie Mae provides funds for government loans (FHA and VA)
- **Ground Rent** - payment for the use of land when title to a property is held as a leasehold estate (that is, the borrower does not actually own the property, but has a long-term lease on it).
- **Growing-Equity Mortgage (GEM)** - a fixed-rate mortgage in which the monthly payments increase according to an agreed-upon schedule, with the extra funds applied to reduce the loan balance and loan term.
- **Habendum Clause** - the "to have and hold" clause which defines or limits the quantity of the estate granted in the premises of the deed.
- **Hazard Insurance** - insurance coverage that compensates for physical damage to a property from fire, wind, vandalism, or other covered hazards or natural disasters.
- **Hereditaments** - property, personal and real, capable of being inherited.
- **Home Equity Conversion Mortgage (HECM)** - a special type of mortgage developed and insured by the US Federal Housing Administration (FHA) that enables older home owners to convert the equity they have in their homes into cash, using a variety of payment options to address their specific financial needs. It is sometimes called a reverse annuity mortgage.

  What makes this type of mortgage unique is that instead of making payments to a lender, the lender makes payments to you. It enables older home owners to convert the equity they have in their homes into cash, usually in the form of monthly payments. Unlike traditional home equity loans, a borrower does not qualify on the basis of income but on the value of his or her home. In addition, the loan does not have to be repaid until the borrower no longer occupies the property.
- **Home Equity Line of Credit** - a type of revolving loan that enables a home owner to obtain multiple advances of the loan proceeds at his or her own discretion, up to an amount that represents a specified percentage of the borrower's equity in the property.
- **Home Inspection** - an examination of the construction, condition and internal systems of a home prior to purchase; satisfactory home inspection may be a condition of purchase.
- **Homeowner's Insurance** - a broad form of insurance coverage that combines hazard insurance with personal liability protection and other coverage.
- **Homeowner's Warranty (HOW)** - insurance offered by a seller that covers certain home and fixture repairs such as heating or air conditioning,) for a specified period of time. The buyer often requests the seller to pay for this coverage as a condition of the sale, but either party can pay.
- **Homeowners' Association** – a non-profit organization of homeowners residing within a particular area whose purpose is to ensure the provision and maintenance of community facilities and services for the common benefit of the residents.
- **Housing Expense Ratio** - the percentage of a borrower's gross monthly income that is spent on housing costs.
- **HUD Median Income** - median family income for a particular county or metropolitan statistical area (MSA), as estimated by the Department of Housing and Urban Development (HUD).
- **HUD-1 Settlement Statement** - a document that lists all closing costs on a real estate purchase or refinance transaction. It is also known as the "closing statement" or "settlement sheet". The document provides an itemized listing of the funds that were paid at closing. Items that appear on the statement include real estate commissions, loan fees, points, and initial escrow (impound) amounts. Each type of expense goes on a specific numbered line on the sheet. The totals

at the bottom of the HUD-1 statement define the seller's net proceeds and the buyer's net payment at closing. It is called a HUD1 because the form is printed by the Department of Housing and Urban Development (HUD). The HUD1 statement is also known as the "closing statement" or "settlement sheet". NOTE: Congress created the Federal Housing Administration (FHA) in 1934. And it became a part of the Department of Housing and Urban Development's (HUD) Office of Housing in 1965.

- **Income Property** - real estate developed or purchased to produce income, such as a rental unit.
- **Index** - a number used to compute the interest rate for an adjustable-rate mortgage (ARM). The index is generally a published number or percentage, such as the average interest rate or yield on U.S. Treasury bills. A margin is added to the index to determine the interest rate that will be charged on the ARM. This interest rate is subject to any caps on the maximum or minimum interest rate that may be charged on the mortgage, stated in the note.
- **Initial Interest Rate** - the original interest rate for an adjustable-rate mortgage (ARM). It is sometimes known as the "start rate."
- **Instalment** - the regular periodic payment that a borrower agrees to make to a lender.
- **Instalment Debt** - a loan that is repaid in accordance with a schedule of payments for a specified term (such as an automobile loan).
- **Interest** - the charge made by a lender to a borrower for borrowing money, usually expressed as an annual percentage of the principal.
- **Interest Accrual Rate** - the percentage rate at which interest accumulates or increases on a mortgage loan.
- **Interest Rate Cap** - for an adjustable-rate mortgage, a limitation on the amount the interest rate can change per adjustment or over the lifetime of the loan, as stated in the note.
- **Interest Rate Ceiling** - for an adjustable-rate mortgage (ARM), the maximum interest rate, as specified in the mortgage note.
- **Interest Rate Floor** - for an adjustable-rate mortgage (ARM), the minimum interest rate, as specified in the mortgage note.
- **Investment Property** - a property purchased to generate rental income, tax benefits, or profitable resale rather than to serve as the borrower's primary residence. Contrast with "second home".
- **Joint Tenancy** - a form of ownership or taking title to property which means each party owns the whole property and that ownership is not separate. In the event of the death of one party, the survivor owns the property in its entirety.
- **Judgment Lien** - A lien (charge) on the property of a debtor resulting from the decree of a court.
- **Judicial Foreclosure** - a type of foreclosure proceeding used in some US States that is handled as a civil lawsuit and conducted entirely under the auspices of a court. Other US States use non-judicial foreclosure.
- **Jumbo Loan** - a loan that exceeds the mortgage amount eligible for purchase by Fannie Mae or Freddie Mac. It is also called "nonconforming loan."
- **Junior Mortgage** - a loan that is subordinate to the primary loan or first-lien mortgage loan, such as a second or third mortgage.
- **Late Charge** - The penalty a borrower must pay when a payment is made a stated number of days. On a first trust deed or mortgage, this is usually fifteen days.
- **Lease** - a written agreement between the property owner and a tenant that stipulates the payment and conditions under which the tenant may hold the real estate for a specified period of time.
- L**easehold Estate - a** way of holding title to a property wherein the mortgagor does not actually own the property but rather has a recorded long-term lease on it.
- **Lease-Purchase Option** - an option sometimes used by sellers to rent a property to a consumer, who has the option to buy the home within a specified period of time. Typically, each month's rent payment may consist of not only the rent, but an additional amount which can be applied toward the down payment on a specified price.
- **Legal Description** - a property description, recognized by law that is sufficient to locate and identify the property without oral testimony.
- **Liabilities** - a person's debts and other financial obligations.
- **Liability Insurance** - insurance coverage that protects property owners against claims of negligence, personal injury or property damage to another party.
- **LIBOR-Index** - an index used to determine interest rate changes for certain ARM plans, based on the average interest rate at which international banks lend to or borrow funds from the London Interbank Market.

- **Lien** - a legal encumbrance claim or charge on property as security for a debt.
- **Lifetime Cap (or Life Cap)** - for an adjustable-rate mortgage (ARM), a limit on the amount that the interest rate or monthly payment can increase or decrease over the life of the mortgage/loan.
- **Line of Credit** - an agreement by a commercial bank or other financial institution to extend credit up to a certain amount for a certain time to a specified borrower.
- **Liquid Asset** - a cash asset or an asset that is easily converted into cash.
- **Listing** - a property for sale by a Real Estate Brokerage and Agent.
- **Loan Officer (also referred to by a variety of other terms, such as lender, loan representative, loan "rep," account executive, and others)** - the loan officer serves several functions and has various responsibilities: they solicit loans, they are the representative of the lending institution, and they represent the borrower to the lending institution.
- **Loan Origination** - the process by which a lender makes a loan which may include taking a loan application, processing and underwriting the application, and closing the loan.
- **Loan Origination Fee** - a fee to cover some of the administrative costs of processing a loan. It is often expressed in points. One point is equal to 1% of the loan amount.
- **Loan Servicing** - after you obtain a loan, the company you make the payments to is "servicing" your loan. They process payments, send statements, manage the escrow/impound account, provide collection efforts on delinquent loans, ensure that insurance and property taxes are made on the property, handle pay-offs and assumptions, and provide a variety of other services.
- **Loan-To-Value (LTV) Ratio** - the relationship between the loan amount and the value of the property (the lower of appraised value or sales price), expressed as a percentage of the property's value. For example, a $200,000 home with an $160,000 mortgage has an LTV of 80 percent.
- **Lock-in** - an agreement in which the lender agrees to "lock-in" the borrower's interest rate for a set period of time before closing.
- **Lock-in Period** - the time period during which the lender has guaranteed an interest rate to a borrower.
- **Manufactured Housing** - homes that are built entirely in a factory in accordance with a federal building code administered by the US Department of Housing and Urban Development (HUD). Manufactured homes may be single- or multi-section and are transported from the factory to a site and installed. Homes that are permanently affixed to a foundation often may be classified as real property under applicable state law, and may be financed with a mortgage. Homes that are not permanently affixed to a foundation generally are classified as personal property, and are financed with a retail instalment sales agreement.
- **Margin** - for an adjustable-rate mortgage (ARM), the amount that is added to the index to determine the interest rate on each adjustment date, as stated in the note. It is the difference between the interest rate and the index on an adjustable rate mortgage. The margin remains stable over the life of the loan. It is the index which moves up and down.
- **Master-planned Community** - a large scale, mixed use, real estate development that follows a long term, comprehensive plan. Master-planned communities typically blend different price ranges of residential neighbourhoods with some commercial properties designed to serve the residents' needs. Residential properties may include patio homes, townhouses, condominiums and apartment complexes in addition to neighbourhoods of single-family homes. Likewise, multiple home builders are included in the construction of the various neighbourhoods.
- **Maturity Date** - the date on which a mortgage loan is scheduled to be paid in full, as stated in the note.
- **Merged Credit Report** - a credit report issued by a credit reporting company that combines information from the three major credit repositories.
- **Modification** - any change to the terms of a mortgage loan, including changes to the interest rate, loan balance, or loan term.
- **Money Market Account** - a type of investment in which funds are invested in short term securities.
- **Mortgage** - a loan to finance the purchase of real estate, for which the borrower pledges the real property as security for the repayment of the loan. The borrower gives the lender a lien on the property as collateral for the loan.
- **Mortgage Banker** - a company that specializes in originating real estate loans, and typically uses its own funds or warehouse line of credit to close loans.

- **Mortgage Broker** - an individual or firm that brings borrowers and lenders together for the purpose of loan origination. A mortgage broker typically takes loan applications and may process loans, but generally does not use its own funds to close the loan. Mortgage brokers often act as independent contractors and not as an agent of the borrower or lender.
- **Mortgage Insurance (MI)** - insurance that protects lenders against losses caused by a borrower's default on a mortgage loan. MI typically is required if the borrower's down payment is less than 20% of the purchase price.
- **Mortgage Insurance Premium (MIP)** - the amount paid by a borrower for mortgage insurance, either to a government agency such as the Federal Housing Administration (FHA) or to a private mortgage insurance (PMI) company.
- **Mortgage Life Insurance** - a type of insurance that will pay off a mortgage if the borrower dies while the loan is outstanding; a form of credit life insurance. This type of term life insurance is often bought by borrowers. The amount of coverage decreases as the principal balance declines. Some policies also cover the borrower in the event of disability. In the event that the borrower dies while the policy is in force, the debt is automatically satisfied by insurance proceeds. In the case of disability insurance, the insurance will make the mortgage payment for a specified amount of time during the disability. Take care: often the coverage does not start immediately upon the disability, but after a specified period, sometime forty-five days
- **Mortgagee** - the institution or individual to whom a mortgage is given; the lender.
- **Mortgagor** - the owner of real estate who pledges property as security for the repayment of a debt; the borrower.
- **Multi-dwelling Units** - properties that provide separate housing units for more than one family, although they secure only a single mortgage.
- **Multi-family Mortgage** - a mortgage loan on a building with more than four dwelling units.
- **Multi-family Properties** - typically, buildings with five or more dwelling units.
- **Multiple Listing Service (MLS)** - a listing (almost always computerized) of all the properties for sale by Real Estate Brokerages in a given geographical area.
- **Negative Amortization** - an increase in the balance of a loan caused by adding unpaid interest to the loan balance; this occurs when the payment does not cover the interest due. Some adjustable rate mortgages allow the interest rate to fluctuate independently of a required minimum payment. If a borrower makes the minimum payment it may not cover all of the interest that would normally be due at the current interest rate. In essence, the borrower is deferring the interest payment, which is why this is called "deferred interest." The deferred interest is added to the balance of the loan and the loan balance grows larger instead of smaller, which is called negative amortization.
- **Net Worth** - the value of a company or individual's assets, including cash, less total liabilities.
- **No Cash-out Refinance (often referred to as a "rate and term refinance")** - a refinance transaction which is not intended to put cash in the hand of the borrower. Instead, the new balance is calculated to cover the balance due on the current loan and any costs associated with obtaining the new mortgage.
- **No-cost Loan** - many lenders offer loans that you can obtain at "no cost." You should inquire whether this means there are no "lender" costs associated with the loan, or if it also covers the other costs you would normally have in a purchase or refinance transactions, such as title insurance, escrow fees, settlement fees, appraisal, recording fees, notary fees, and others. These are fees and costs which may be associated with buying a home or obtaining a loan, but not charged directly by the lender. Keep in mind that, like a "no-point" loan, the interest rate will be higher than if you obtain a loan that has costs associated with it.
- **Non-liquid Asset** - an asset that cannot easily be converted into cash.
- **Note** - a written promise to pay a specified amount under the agreed upon conditions.
- **Note Rate** - the interest rate stated on a mortgage note, or other loan agreement.
- **Original Principal Balance** - the total amount of principal owed on a mortgage before any payments are made.
- **Origination Fee** - a fee paid to a lender to cover the administrative costs of processing a loan application. The origination fee typically is stated in the form of points. On a government loan, one point means 1% of the mortgage amount but additional points may be charged which are called "discount points". On a conventional loan, the loan origination fee refers to the total number of points a borrower pays.

- **Owner Financing** - a transaction in which the property seller provides all or part of the financing for the buyer's purchase of the property. Could also be called “Vendor Financing”.
- **Owner Occupied Property** - a property that serves as the borrower's primary residence.
- **Partial Payment** - a payment that is less than the scheduled monthly payment on a mortgage loan. Normally, a lender will not accept a partial payment, but in times of hardship you can make this request of the loan servicing collection department.
- **Payment Change Date** - the date on which a new monthly payment amount takes effect, for example, on an adjustable-rate mortgage (ARM) loan. Generally, the payment change date occurs in the month immediately after the interest rate adjustment date.
- **Payment Cap** - for an adjustable-rate mortgage (ARM) or other variable rate loan, a limit on the amount that payments can increase or decrease during any one adjustment period.
- **Periodic Payment Cap** - for an adjustable-rate mortgage where the interest rate and the minimum payment amount fluctuate independently of one another, this is a limit on the amount that payments can increase or decrease during any one adjustment period.
- **Periodic Rate Cap** - for an adjustable-rate mortgage, a limit on the amount that the interest rate can increase or decrease during any one adjustment period, regardless of how high or low the index might be.
- **Personal Property** - Any property that is not real property.
- **PITI** - an acronym for the four primary components of a monthly mortgage payment: principle, interest, taxes, and insurance (PITI).
- **PITI Reserves** - a cash amount that a borrower has available after making a down payment and paying closing costs for the purchase of a home. The principal, interest, taxes, and insurance (PITI) reserves must equal the amount that the borrower would have to pay for PITI for a predefined number of months.
- **Planned Unit Development (PUD)** - a real estate project in which individuals hold title to a residential lot and home while the common facilities are owned and maintained by a homeowners' association for the benefit and use of the individual PUD unit owners.
- **Point** - an amount equal to 1% of the loan amount.
- **Power of Attorney** - a legal document that authorizes another person to act on one's behalf. A power of attorney can grant complete authority or can be limited to certain acts and/or certain periods of time.
- **Pre-Approval** - a loosely used term which is generally taken to mean a process by which a lender provides a prospective borrower with an indication of how much money he or she will be eligible to borrow when applying for a mortgage loan. This process typically includes a review of the applicant’s credit history and may involve the review and verification of income and assets to close. A pre-approval applies only to the borrower. Once a property is chosen, it must also meet the underwriting guidelines of the lender.
- **Prepayment** - any amount paid to reduce the principal balance of a loan before the due date. Payment in full on a mortgage that may result from a sale of the property, the owner's decision to pay off the loan in full, or a foreclosure. In each case, prepayment means payment occurs before the loan has been fully amortized.
- **Prepayment Penalty** - a fee that may be charged to a borrower who pays off a loan before it is due.
- **Prepayment Penalty** - a fee that a borrower may be required to pay to the lender, in the early years of a mortgage loan, for repaying the loan in full or prepaying a substantial amount to reduce the unpaid principal balance.
- **Prime Rate** - the interest rate that banks charge to their preferred customers. Changes in the prime rate are widely publicized in the news media and are used as the indexes in some adjustable rate mortgages, especially home equity lines of credit. Changes in the prime rate do not directly affect other types of mortgages, but the same factors that influence the prime rate also affect the interest rates of mortgage loans.
- **Principal** - the amount if money owed on a loan, excluding interest. Also, it refers to that part of the monthly payment that reduces the remaining balance of a mortgage.
- **Private Mortgage Insurance (PMI)** - insurance for conventional mortgage loans that protects the lender from loss in the event of default by the borrower.
- **Promissory Note** - a written promise to repay a specified amount over a specified period of time.

- **Property Tax** - an annual or semi-annual tax paid to one or more governmental jurisdictions based on the amount of the property assessment. It is generally paid as part of the mortgage payment.
- **Public Auction** - a meeting in an announced public location to sell property to repay a mortgage that is in default.
- **Purchase and Sale Agreement** – the document that details the price and conditions for a transaction. In connection with the sale of a residential property, the agreement typically would include: information about the property to be sold, sale price, down payment, earnest money deposit, financing, closing date, occupancy date, length of time the offer is valid, and any special contingencies.
- **Purchase Money Mortgage** - a mortgage loan that enables a borrower to acquire a property.
- **Qualifying Guidelines** - criteria used to determine eligibility for a loan.
- **Qualifying Ratios** - calculations that are used in determining whether a borrower can qualify for a mortgage. There are two ratios. The "top" or "front" ratio is a calculation of the borrower's monthly housing costs (principle, taxes, insurance, mortgage insurance, homeowners' association fees) as a percentage of monthly income. The "back" or "bottom" ratio includes housing costs as will as all other monthly debt.
- **Quitclaim Deed** – a deed that transfers without warranty whatever interest or title a grantor may have at the time the conveyance is made.
- **Quality Control -** a system of safeguards to ensure that loans are originated, underwritten and serviced according to the lender's standards and, if applicable, the standards of the investor, US governmental agency, or mortgage insurer.
- **Rate Caps** - for an adjustable-rate mortgage loan, the maximum interest rate that may be charged, either at the time of each adjustment date or over the life of the loan.
- **Rate Lock** - an agreement in which a lender "locks in" or guarantees an interest rate for a specified period of time prior to closing. See also "Lock-in".
- **Real Estate Settlement Procedures Act (RESPA)** - a US federal law that requires lenders to provide home mortgage borrowers with information about transaction-related costs prior to settlement, as well as information during the life of the loan regarding servicing and escrow accounts. RESPA also prohibits kickbacks and unearned fees in the mortgage loan business.
- **Real Property** - land and anything permanently affixed thereto — including buildings, fences, trees, and minerals.
- **Realtor** - a real estate agent, broker or an associate who holds active membership in a local real estate board that is affiliated with the National Association of Realtors.
- **Recorder** - the public official who keeps records of transactions that affect real property in the area. Sometimes known as a "Registrar of Deeds" or "County Clerk".
- **Recording** - the filing of a lien or other legal documents in the appropriate public record.
- **Refinance Transaction** - the process of paying off one loan with the proceeds from a new loan using the same property as security.
- **Rehabilitation Mortgage** - a mortgage loan made to cover the costs of repairing, improving, and sometimes acquiring an existing property.
- **Rent Loss Insurance** - insurance that protects a landlord against loss of rent or rental value due to fire or other casualty that renders the leased premises unavailable for use and as a result of which the tenant is excused from paying rent.
- **Remaining Term** - the original number of payments due on the loan minus the number of payments that have been applied.
- **Repayment Plan** - an arrangement by which a borrower agrees to make additional payments to pay down past due amounts while still making regularly scheduled payments.
- **Replacement Reserve Fund** - a fund set aside for replacement of common property in a condominium, PUD, or cooperative project -- particularly that which has a short life expectancy, such as carpeting, furniture, etc.
- **Rescission** - the cancellation or annulment of a transaction or contract by operation of law or by mutual consent. Borrowers may have a right to cancel certain mortgage refinance transactions within three business days after closing, or for up to three years in certain instances.

- **Revolving Debt** – this is credit that is extended by a creditor under a plan in which (1) the creditor contemplates repeated transactions; (2) the creditor may impose a finance charge from time to time on an outstanding unpaid balance; and (3) the amount of credit that may be extended to the consumer during the term of the plan is generally made available to the extent that any outstanding balance is repaid.
- **Right of First Refusal** - a provision in an agreement that requires the owner of a property to give another party the first opportunity to purchase or lease the property before he or she offers it for sale or lease to others.
- **Right of Ingress or Egress** - the right to enter (ingress) or leave (egress) designated premises.
- **Right of Survivorship** - in joint tenancy, the right of survivors to acquire the interest of a deceased joint tenant.
- **Rural Housing Service (RHS)** - an agency within the US Department of Agriculture (USDA), which operates a range of programs to help rural communities and individuals by providing loan and grants for housing and community facilities. The agency also works with private lenders to guarantee loans for the purchase or construction of single-family housing.
- **Sale-Leaseback** - a transaction in which the buyer leases the property back to the seller for a specified period of time.
- **Second Mortgage** – a mortgage that has a lien position subordinate to the first mortgage.
- **Secondary Mortgage Market** - the market in which mortgage loans and mortgage-backed securities are bought and sold.
- **Secured Loan** - a loan that is backed by property such as a house, car, jewellery, etc.
- **Security** - The property that will be given or pledged as collateral for a loan.
- **Seller Take-Back (or Seller Carry-Back) -** an agreement in which the seller of a property provides financing to the buyer for the home purchase. See also "Owner Financing".
- **Servicer** – a firm that performs servicing functions, including collecting mortgage payments, paying the borrower's taxes and insurance and generally managing borrower escrow accounts.
- **Servicing** - the tasks a lender performs to protect the mortgage investment, including the collection of mortgage payments, escrow administration, and delinquency management.
- **Settlement** - the process of completing a loan transaction at which time the mortgage documents are signed and then recorded, funds are disbursed, and the property is transferred to the buyer (if applicable). It is also called closing or escrow in different jurisdictions. See also "Closing".
- **Settlement Statement** - a document that lists all closing costs on a real estate purchase or refinance transaction.
- **Single-Family Properties** - one- to four-unit properties including detached homes, townhouses, condominiums, and cooperatives, and manufactured homes attached to a permanent foundation and classified as real property under applicable state law.
- **Soft Second Loan** - A second mortgage whose payment is forgiven or is deferred until resale of the property.
- **Soldiers and Sailors Civil Relief Act** – a US federal law that restricts the enforcement of civilian debts against military personnel who may not be able to pay because of active military service.
- **Statute of Frauds** - the law which requires among other things, that all contracts transferring real estate, or for the leasing of property for over one year, must be in writing to be enforceable.
- **Subdivision** - a housing development that is created by dividing a tract of land into individual lots for sale or lease.
- **Subordinate Financing** - any mortgage or other lien that has a priority that is lower than that of the first mortgage.
- **Survey** - a precise measurement of a property by a licensed surveyor, showing legal boundaries of a property and the dimensions and location of improvements.
- **Sweat Equity** - a borrower's contribution to the down payment for the purchase of a property in the form of labour or services rather than cash.
- **Taxes and Insurance** - funds collected as part of the borrower's monthly payment and held in escrow for the payment of the borrower's state and local property taxes and insurance premiums.

- **Tenancy by the Entirety** - a special kind of property ownership that's only for married couples. Both spouses have the right to enjoy the entire property, and when one spouse dies, the surviving spouse gets title to the property (called a right of survivorship). It is similar to joint tenancy, but it is available in only about half the States in the US.
- **Tenancy in Common** - as opposed to joint tenancy, when there are two or more individuals on title to a piece of property, this type of ownership does not pass ownership to the others in the event of death.
- **Termite Inspection** - an inspection to determine whether a property has termite infestation or termite damage. In many parts of the US, a home must be inspected for termites before it can be sold.
- **Third-Party Origination** - a process by which a lender uses another party to completely or partially originate, process, underwrite, close, fund, or package a mortgage loan. See also "Mortgage Broker".
- **Title** - a legal document evidencing a person's right to or ownership of a property.
- **Title Company** - a company that specializes in examining and insuring titles to real estate.
- **Title Insurance** - insurance that protects the lender (lender's policy) or the buyer (owner's policy) against losses arising from defects in the title not listed in the title report or abstract.
- **Title Search** - a check of the public records to ensure that the seller is the legal owner of the property and to identify any liens or claims against the property.
- **Townhouse** - a dwelling unit usually with two, three or four floors, and shared structural walls. It is a home that is attached to one or more other houses, but which sits directly on a parcel of land that you also own (if you don't own the land, it is a condominium). Townhouses can range from duplexes and triplexes all the way through huge townhouse communities consisting of hundreds of similar homes.
- **Trade Equity** - real estate or assets given to the seller as part of the down payment for the property.
- **Transfer of Ownership** - any means by which the ownership of a property changes hands. Lenders consider all of the following situations to be a transfer of ownership: the purchase of a property "subject to" the mortgage, the assumption of the mortgage debt by the property purchaser, and any exchange of possession of the property under a land sales contract or any other land trust device.
- **Transfer Tax** - State or local tax payable when title to property passes from one owner to another.
- **Treasury Index** - an index that is used to determine interest rate changes for certain adjustable-rate mortgage (ARM) plans. It is based on the results of auctions by the US Treasury of Treasury bills and securities.
- **Truth-in-Lending** – a US federal law intended to promote the informed use of consumer credit by requiring disclosure about its terms and costs. Creditors are required to disclose the cost of credit as a dollar amount (the finance charge) and as an annual percentage rate (APR).
- **Two-step Mortgage** - an adjustable-rate mortgage (ARM) that has one interest rate for the first five or seven years of its mortgage term and a different interest rate for the remainder of the amortization term.
- **Two- to Four- Family Property** - a residential property that provides living space (dwelling units) for two to four families, although ownership of the structure is evidenced by a single deed; a loan secured by such a property is considered to be a single-family mortgage.
- **Underwriting** - in mortgage lending, the process of evaluating a loan application to determine the risk involved for the lender. Underwriting involves an analysis of the borrower's creditworthiness, ability to repay the loan, and the value of the property securing the loan.
- **Unsecured Loan** - a loan that is not backed by collateral.
- **Usufruct** - the right to use property--or income from property--that is owned by another.
- **Veterans Affairs (U.S. Department of Veterans Affairs)** – a US federal government agency that provides benefits to veterans and their dependents, including health care, educational assistance, financial assistance, and guaranteed home loans.

- **VA Guaranteed Loan** - a mortgage loan that is guaranteed by the U.S. Department of Veterans Affairs (VA).
- **Waiver** - the intentional or voluntary relinquishment of a known claim or right.
- **Walkthrough** - a common clause in a sales contract that allows the buyer to examine the property being purchased at a specified time immediately before the closing, for example, within the 24 hours before closing. It can also include the detailed inspection of a new construction home, in which workmanship is addressed, prior to final acceptance.
- **Yupcap** - a slang term for a young urban professional who cannot afford property. They are individuals in their late twenties or early thirties with a post secondary educations and a well-paid job but are unable to purchase a property due to one or more of: high real estate prices, limited personal savings and limited credit history, all of which can make it difficult to get approved for a mortgage.
- **Zoning** - laws that govern specifically how a zoned area can be used. For example, an area may be zoned for single family residential, condominiums, commercial or retail, or a mix of two or more uses.

Further Information

This guide is for general interest - it is always essential to take advice on specific issues. We believe that the facts are correct as at the date of publication, but there may be certain errors and omissions for which we cannot be responsible.

Important Notice

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