



# Mortgage Q&A

## and important Mortgage Terms

*Answers to some of the most common questions  
and concerns regarding the Mortgage Process in the US.*

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### **Q: What information is needed to apply for a Mortgage?**

A: The following information is usually needed (for U.S. Citizens) to apply for a Mortgage:

1. Last 2 years W-2, pay stubs to cover previous 30 days.
2. Residence address (including landlords) for the past two years.
3. Names & addresses of each employer, past two years.
4. Names, addresses, account numbers, and balances of all checking & savings accounts.
5. Names, addresses, account numbers, balances, & monthly payments of all open accounts.
6. Addresses of all other Real Estate owned.
7. Loan information on other Real Estate owned.
8. Certificate of eligibility and DD214's (V.A. only).
9. Check your Credit Report (score determines eligibility of financing & rates)
10. If Self-Employed ~ Provide last 2 years of tax returns. If Bond, last 3 years of tax returns.
11. Provide 2 months bank statements on all bank accounts.

### **Q: I am confused about the APR...What is it?**

A: The Annual Percentage Rate (APR) is designed to give the borrower the cost of the loan, expressed as an interest rate, after costs and future rate adjustments are considered. APR is NOT the best way to determine the "lowest" rate. The biggest problem with the APR is that it assumes the borrower will hold the loan until the end of the term. You must be 100% sure you will hold a loan for well over 10 or 15 years to benefit by taking a lower rate, higher cost loan.

The APR that is issued at the time of application is only an ESTIMATE. Unless the lender gives a guaranteed closing cost package, such as a zero cost refinance, your true APR will be different from the initial disclosure.

**Q: I was “pre-qualified” by a lender and it turned out I couldn’t get the house I wanted-WHY????**

A: The terms “pre-qualified” and “pre-approval” are often used interchangeably. HUGE MISTAKE! These are very different terms.

“Pre-Qualification” refers to an overview of income and assets. A previously run credit report may also be used in the pre-qualification process. As far as a lender is concerned, you may appear “qualified” for a certain loan amount based on the information provided...but you are by no means “approved” for the loan. The problem with pre-qualification is that unless a current credit report is run and all information in your file is verified, you won’t know exactly how much home you can afford! Why waste time guessing?

“Pre-Approval” starts with a completed application, as pre-approved mortgages are very common. With a pre-approval, your lender approves the amount of your mortgage and gives you a written confirmation or certificate for a fixed period before you start looking for a new home. Having this certificate of pre-approval is like shopping for your home with CASH-a clear advantage over other buyers who place offers when you do. The pre-approval term, usually lasting 60-90 days, also sets the mortgage rate the lender will offer you. If rates go down in that period, the lender will usually offer you the lower rate.

Pre-approval gives you a head start on house hunting since you know exactly what you can afford before you start looking. It also gives you bargaining power when you are writing an offer. If multiple buyers are making offers on the property you want, the fact that your financing is already arranged gives you a competitive edge.

Although you are pre-approved, your final approval, however, is still subject to a review of the property you are purchasing, and a credit review of your finances. Hold off on any large purchases until you have actually moved in. You don’t want to buy a new car on credit, and then get turned down on your final mortgage approval because your monthly debt load has increased!

**Q: If I am a Foreign National, what do I need to provide to get a mortgage?**

A: First of all, you will need to open a U.S. bank account. Most lenders will also require a bank reference letter, enough cash to close and possibly an additional six months mortgage reserves in your U.S. bank account sitting for at least 75 days prior to closing, along with proof of all wire transfers. Usually the lender will require your U.S. bank statement showing your cash to close and your six months mortgage reserves. If you wire money into your U.S. bank account, make sure it comes from your personal bank account back home. DO NOT wire from a business account. Make copies of all wire transfers. Some lenders will require a copy of the original wire transfer or a copy of the cancelled check that was sent to the seller for your original earnest money deposit. You will need to provide a copy of your passport. The lender may require an updated bank reference letter from your home bank. Make sure any and all disclosures you need to sign have been signed, you may check with your lender to be certain everything has been completed.

Foreign nationals usually need a minimum of 20% down. Closing costs will be in the region of 4.5% - 5% of the purchase price. This includes pre-pays (i.e. taxes, home hazard insurance) paid in advance.

# IMPORTANT TERMS TO UNDERSTAND:

To help further your understanding, we have listed below some of the terms you may come across when dealing with Mortgages in the USA. Where applicable, the 'British' definition is given in brackets or noted as 'same'...

## **Agreement of Sale or Real Estate Contract (known in Britain as Counterpart Contracts)**

A written document in which a purchaser agrees to buy property, which the vendor agrees to sell, under certain agreed conditions. Also known as a 'Sales Contract'.

## **Amortization (known in Britain as Capital Repayment)**

The process of gradually paying off the principal of the loan. As each payment toward principal is made, the mortgage amount is reduced or amortized by that amount. This is different to an interest-only mortgage payment where the principal balance is not reduced over the term.

## **Amortized Loan (known in Britain as Capital Repayment Loan)**

A loan that is completely paid off, interest and principal, by a series of regular payments that are equal or nearly equal.

## **Application (same)**

A form commonly referred to as a 1003 form, used to apply for a mortgage and to provide information regarding a prospective mortgagor and the proposed security.

## **Application Fee: see 'Origination Fee'.**

## **Appraisal (known in Britain as Valuation)**

An estimate of the market value of a piece of real estate made by a competent professional (the appraiser) who knows local property market and prices.

## **Approval (known in Britain as Agreement in Principle)**

An assessment made of an applicant's ability to pay for a home and confirmation of the amount the applicant may borrow.

## **Assessed Value (known in Britain as Council Tax)**

The value of a property for tax purposes set by a tax assessor according to a formula.

## **Assessments (not recognized in Britain)**

Special and local taxes imposed upon property, which benefits from an improvement that has been made in the area.

## **Auto Pay or ACH Payment (known in Britain as Direct Debit)**

A method to set up a regular payment to be automatically paid from a bank account.

## **Binder (not recognized in Britain)**

An agreement to consider the purchase of real estate. The agreement is secured and backed by a cash deposit as evidence of good faith on the part of the purchaser.

## **Broker (known in Britain as Agent)**

A person or firm who acts on behalf of another.

## **Building Insurance: see 'Hazard Insurance'**

**Cash Reserves (known in Britain as Surplus)**

Refers to amount of cash held by a borrower after the purchase is complete (i.e. after down payment, closing costs, etc.).

**Cash-Out Refinance (known in Britain as Equity Release)**

A refinance transaction in which the amount of money received from the new loan exceeds the total of the money needed to repay the existing first mortgage, closing costs and the amount required to redeem other mortgages against the property. In short, a refinance transaction in which the borrower receives additional cash that can be used for any acceptable purpose.

**Certificate of Title (known in Britain as Title Deeds)**

A written document stating that the title to a piece of property is legally vested in the present owner.

**Clear Title (same and also known in Britain as Unencumbered)** Title not burdened by mortgages, charges (liens) or legal questions.

**Closing (known in Britain as Completion)**

In property transactions, the delivery of a deed, the payment of the purchase price, the signing of notes, and the paying of closing costs, which completes the transaction.

**Closing Costs (known Britain as Disbursements)**

The various expenses involved in closing a property transaction that are in addition to the purchase price. Closing costs can include title insurance, appraisal fee, and credit report.

**Closing Statement (known in Britain as Settlement Statement)**

Can be known as the 'HUD-1'. The final statement of costs to be paid to close a loan or to purchase a property.

**Collateral (known in Britain as Security)**

Any property given as security for repayment of a debt.

**Combined Loan-to-Value (CLTV) (known in Britain as Equity)**

The relationship between the money owed on all the mortgages on a property (first and second etc) and the property's appraised value (or sales price, if it is lower).

**Commission or Broker Fee (known in Britain as Offer of Advance)**

A broker's fee for negotiating a real estate or loan transaction, often expressed as a percentage of the purchase price or the loan amount.

**Commitment Letter**

A formal offer that states the terms under which it has been agreed to lend money. Also known as a 'loan commitment'. This letter will indicate the conditions that must be satisfied before release of funds.

**Condominium (known in Britain as Flat)**

A structure of two or more housing units. Only interior area of a particular unit is individually owned. All the owners of the individual units jointly own the remainder of the property (land, building and other amenities).

**Contingency (known in Britain as Pre-Contractual Stipulation)**

A clause or condition within a contract stating what the buyer or seller must satisfy before the purchase can be completed.

**Co-operative (no longer a British practice)**

A residential development owned by a co-operative corporation. Residents' own shares in the co-operative, which in turn gives them the right to live in the development.

**Counterpart Contracts – see 'Agreement of Sale'.**

**Council Tax: see 'Assessed Value'.**

**Deposit: see 'Down Payment'.**

**Down Payment (known in Britain as Deposit)**

The agreed percentage of the purchase price a buyer pays, in cash, at the time the property transaction closes ('completes')

**Dwelling Coverage (varies in Britain: 'All Inclusive' coverage)**

Insurance coverage protects your property and any structures attached to it, like the garage or screened porch. Any materials on your property that are being used to extend or repair the fabric of the building, such as timber or bricks being used for an improvement, would also be covered.

**Earthquake Insurance (not recognized in Britain)**

Insurance that compensates for damage to a property resulting from earthquakes. The extent of coverage is limited by the terms of the policy.

**Escrow Disbursements (not recognized in Britain)**

Use of escrow funds to pay real estate taxes, hazard insurance, mortgage insurance, and other property expenses as they become due.

**Escrow Fee (not recognized in Britain)**

Fee charged by the escrow company for handling escrow activities including paying off mortgages and clearing title and other debts.

**Estate Agent: see 'Realtor'.**

**Fair Market Value (known in Britain as Open Market Value)**

A figure that is the highest amount a purchaser would agree to pay for a property and the lowest amount the vendor would be prepared to sell at.

**Finance Charge (known in Britain as Total as Charge for Credit)**

Charges levied that include all of the interest due over the life of a loan, in addition to certain other charges related to a loan.

**Flood Insurance (same)**

A form of insurance designed to reimburse property owners from loss due to the defined peril of flood. It is required for properties located in federally designated flood areas.

**Foreclosure (known in Britain as Repossession)**

Legal process by which a borrower in default under the terms of a mortgage ceases to have an interest in the mortgaged property. This usually involves a forced sale of the property at public auction with the proceeds of the sale being used to reduce or clear the mortgage debt.

**Good Faith Estimate (not recognized in Britain)**

A disclosure that must be given to all mortgage loan applicants within three business days of an application. It is an estimate of all costs likely to be incurred at closing.

**Guarantor: see 'Signer'.**

**HUD (not recognized in Britain)**

The U.S. Department of Housing and Urban Development.

**Hazard Insurance (known in Britain as Building Insurance)**

Insurance protecting against loss to property caused by fire, some natural causes, vandalism, etc., depending upon the terms of the policy.

**Homeowner's Insurance Declaration (known in Britain as Insurance Schedule)**

A document accompanying a homeowner's insurance policy whose purpose is to verify that the property quoted is insured.

**Income Property (known in Britain as Rental Property)**

Properties owned with intention of producing an income. Also referred to as 'non-owner occupied property' or 'rental property.'

**Installment (known in Britain as Mortgage payment)**

The regular monthly payment that a borrower agrees to pay.

**Loan Processing (known in Britain as Underwriting)**

Steps taken from the time a loan application is received to the time the application is approved or declined. This process includes receiving the application, credit searches (investigation) and the overall underwriting assessment of the application.

**Loan Terms (known in Britain as Mortgage Conditions)**

Necessary conditions of a loan that specify the amount borrowed, interest rate, maturity, method of repayment, etc.

**Loan to Value (LTV)**

The percentage size of the loan in relation to the value of the property.

**Low-Documentation (known in Britain as Self Declaration)**

Below a stated LTV, only requires the applicant to state the source and the affordability of the mortgage applied for without providing supporting documentation, pay slips or trading accounts.

**Market Value (known in Britain as Open Market Value)**

Also known as 'Fair Market Value.' The professionally considered estimated value of the property that a seller could expect to receive under normal conditions.

**Maisonette: see 'Multi-Family'**

**Maturity (known in Britain as Loan Term)**

The term of a loan, or the number of years for which the loan funds are advanced.

**Mortgage Payment: see 'Installment'****Multi-Family (known in Britain as Flat/Maisonette)**

A building with more than four residential units.

**Origination Date (known in Britain as Completion date)**

The date on which the loan is applied for.

**Origination Fee (may be known in Britain as an Application Fee)**

A fee imposed to cover the administrative costs of setting up a mortgage. This may include the preparation of documents and certain processing expenses in connection with completing a mortgage account.

**Owner Occupant (known in Britain as Owner-Occupier)**

A borrower who intends to permanently reside in the property used as security for the loan.

**Payoff (known in Britain as Redemption)**

Complete repayment/settlement of the principal balance along with interest and any other amounts due. The payoff of an account occurs either over the full term of the mortgage through monthly repayments or through early redemption.

**Planned Unit Developments (PUD) (not recognized in Britain)**

A subdivision of five or more individually owned lots with one or more other parcels owned in common or with reciprocal rights in one or more other parcels.

**Pre-Approval (known in Britain as Decision in Principle)**

A process, in which you will be offered an opinion as to what products, if any, are available to the applicant. The pre-approval is not binding and not necessarily accurate because we will not have yet verified the application details.

**Preliminary Title Report (not recognized in Britain)**

A report made by a title company stating whether there are any other claims to ownership of a property. A necessary step before a mortgage loan can be approved.

**Prepays (known in Britain as Pre-payments)**

Those expensed of purchase which are paid in advance of their due date and will usually be pro-rated upon sale, such as taxes, insurance, rent, etc.

**Pre-payment Clause (known in Britain as a Redemption Penalty Clause)**

A clause that confirms the amount of the principal balance of an account the borrower may pay earlier than expected with or without penalty. The terms vary according to the product selected.

**Pre-payment Penalty (known in Britain as Redemption Penalty)**

A charge a borrower pays to redeem or part redeem a loan before it is due.

**Promissory Note**

Your Loan Agreement with the Lender detailing all the rights, obligations and conditions of the Loan.

**Realtor (known in Britain as Estate Agent/Property Developer)**

A real estate broker or an associate holding active membership in a real estate board affiliated with the National Association of Realtors.

**Refinancing (known in Britain as Remortgaging)**

Taking out a new loan to pay off an existing mortgage. This is usually done to obtain a lower interest rate or to borrow further funds against the equity in a property that may have built up since the original purchase.

**RESPA**

Real Estate Settlement Procedures Act

**Sales Contract (known in Britain as Purchase Contract)**

A written agreement between the vendor and purchaser stating the conditions that need satisfying for the sale to complete. Also known as an 'Agreement of Sale.'

**Signer (known in Britain as Guarantor)**

A person who signs a promissory note along with the borrower. A co-maker's signature guarantees that the loan will be repaid, because the borrower and the co-maker are jointly and severally liable for the total debt owed.

**Title Insurance (same)**

The insurance that protects your mortgage company, along with the homeowner if an owner's policy is purchased, against losses resulting from problems with the title of a property, or unknown liens (charges) or other inconsistencies relating to the title of the property.

**Title Report (not recognized in Britain)**

A report that discloses whether there are any competing claims, liens (charges) or other ownership issues relating to the security address. This is done before title insurance is issued. Also known as a 'Preliminary Title Report'.

**(Truth-in-Lending Act) (TILA)**

A law applicable in the United States requiring disclosure of credit terms of the finance transaction using a recognized format. This is intended to help borrowers compare the lending costs, terms and conditions of different lenders. Also known as 'Regulation Z.'

***The information provided here is not intended to replace the advice of a professional attorney.***



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