

PRIMELENDING
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**RENOVATION
CONSUMER
GUIDE**



PrimeLending 
A PlainsCapital Company SM

Renovate to Create Your Dream Home!



Thinking of buying a home that needs some work and turning it into the home you've always wanted? That's a smart idea!

If you're one of those homebuyers who can spot a residential diamond in the rough and envision everything that home could become, you may be surprised at the financial advantages:

- You may get a bargain by paying less than market price
- Bargain prices can get you into a more expensive area than you could otherwise purchase
- You may be able to buy a larger home than you imagined
- Improvements you make can increase the fair market value of your home
- The renovated property will be done just the way you want it, reflecting your tastes and serving your needs



The PrimeLending renovation team has created this guide to help you make the most of your renovation project. Inside, you'll find a helpful overview of the purchase-and-renovation process, along with tips on how to recognize both great potential and possible pitfalls in the properties you're considering.

If you are looking to renovate your current property, PrimeLending offers a refinance & renovate program. This loan is a real solution for homeowners who want to increase their home's value or make major repairs but have limited equity. You can spread the renovation costs throughout the term of the loan, with the loan amount based on your home's value after you make the improvements.

For answers to any specific questions regarding renovation financing, just give us a call. You can contact a loan officer through your local PrimeLending office.

Now, on to the good stuff about how to find, fund, and finesse your dream home!

What Is a Renovation Loan?



With a renovation loan, you finance the home purchase price plus the cost of repairs and/or updates. You can also refinance your existing mortgage plus the cost of repairs. With both of these options, you only have one application, one approval process, one loan closing and one mortgage payment.

A Primelending's renovation loan enables you to make repairs and/or improvements right after closing, and the renovation costs are spread throughout the mortgage term. This type of financing is usually a better option than financing repairs and updates with a personal loan or credit card, which could feature higher interest rates.

Our renovation loan programs are specially designed to provide a single loan that covers both the purchase price of a property and the costs of renovating it. The loan amount is based on the estimated increased value of your property after your planned improvements are made. That means you can start enjoying your home in the very near future, because you'll have the funds you need to make the necessary repairs right away.

The benefits of our renovation loan programs include:

ONE LOAN: The loan covers the purchase plus renovation costs.

FASTER FINISH: Renovation work can begin immediately after closing/funding.

SIMPLICITY: Just one application, one closing, and one monthly payment.

What Kinds of Improvements Can be Made?

Most of the work needed in a home will fall into one of two categories:

REQUIRED REPAIRS

Renovations can be required repairs that bring a property up to minimum standards, comply with city or county codes, or satisfy appraisal requirements.

Below are examples of required repairs:

- Replace roof
- Upgrade electrical
- Plumbing repairs
- Repair termite damage
- Mold remediation
- Interior or exterior paint
- Ventilate attic and crawl space areas
- Install smoke detectors
- Foundation Repair

OPTIONAL REPAIRS

Renovations can also be optional repairs that will modernize, improve or upgrade a property.

Below are examples of optional repairs:

- Room addition
- Kitchen update
- Bathroom remodel
- Repainting inside/outside
- Siding
- Energy-efficient improvements
- New flooring
- Landscaping (not available for all loan programs)

Who Can Use a Renovation Loan?

PrimeLending's renovation loans offer the perfect financing options for people who:

- Want to purchase a property that needs repairs or upgrades, such as:
 - Older homes that need energy-efficient updates and/or modernizing
 - REOs, foreclosures and short sales
- Want to purchase a property that they like but don't yet love because of changes or repairs that need to be made
- Want to "improve instead of move" by refinancing their existing home and making repairs and/or updates, such as:

- Update an outdated kitchen or bathrooms
- Add a pool, deck or landscaping
- Install new flooring or carpet

WHAT IS THE PROCESS?

When you plan to purchase a home with a renovation loan, you will go through some steps. Your PrimeLending loan officer will explain these steps in detail and serve as your trusted guide throughout the process. However, here is the process at a glance:

- Get prequalified for a home loan by a PrimeLending loan officer
- Select home you wish to purchase
- Negotiate contract with seller
- Find a contractor and get detailed bids on repairs and/or updates
- For an FHA 203k loan, obtain HUD consultant
- For a HomeStyle® and Jumbo Renovation loan where renovation amount is greater than \$35,000, obtain a feasibility study*
- Appraisal is ordered subject to completion
- Loan is submitted to underwriting
- Underwriting approves loan
- Loan closes
- Funds disbursed and work is completed and inspected

*HomeStyle® is a registered trademark of Fannie Mae.

Who Is Involved?



Renovating your home isn't an experience you have to tackle on your own. There are professionals who can assist you every step of the way in making the most of this very important investment.

- Real estate agent
- HUD consultant (for FHA 203k loans)
- Feasibility study (for HomeStyle® and jumbo renovation loans)*
- Contractor
- Appraiser
- Loan officer
- Draw department

REAL ESTATE AGENTS make it their business to know everything about communities and the homes within them. A good real estate agent can:

- Help you decide what you want in a home — communicating your desire to look at fixer-uppers is essential for your real estate agent to understand
- Search the Multiple Listing Service (MLS) and other resources for homes that match your needs
- Show you appropriate homes
- Provide valuable information on communities, comparable values of neighboring homes, tax rates, and building code regulations
- Help you formulate an offer on the home you wish to purchase
- Act as an intermediary between you and the seller, smoothing the negotiating process

*HomeStyle® is a registered trademark of Fannie Mae.



APPRAISERS determine the current market value of the home for sale. The appraiser will usually review at least three similar homes recently sold in the area, comparing their square footage, the number of bedrooms and baths, age, improvements, location, and condition. This provides a clear picture of the home's current market value and its value after it's renovated. Your purchase price, plus any improvement costs, should be equal to (or less than) the selling price of those comparable homes.

CONTRACTORS who actually will be performing the work are invaluable to the entire renovation project. On the next page, you will find tips about how to find and select a contractor, as well as important questions to ask about their work. You also will find information about city codes and permits.

THE HUD 203K CONSULTANT will conduct a site visit and feasibility analysis to determine whether minimum standards needed to be repaired as well as to understand the homebuyers/owners desired repairs. A good consultant will have knowledge of property values and repairs that can contribute to improving the property's value and your potential equity in the property.

THE FEASIBILITY STUDY INSPECTOR conducts a site visit and feasibility analysis to determine if the bid provided for the required repairs is realistic. Additionally, he will inspect the property for items that may need to be addressed.

Just as contractors can make the renovation process smoother, so can your Primestructure loan officer. As one of the nation's leaders in renovation financing, we're here to guide you through your renovation options and provide straightforward answers to your questions.

Who Is Responsible for What?



LENDER

- Examines bids and work plan; reviews with borrower and contractor
- Ensures work meets program requirements and costs of repairs are reasonable/customary
- Assures all required permits are obtained
- Completes the HUD-92700, MMW (Maximum Mortgage Worksheet) when applicable
- Determines contingency reserve percentage

BORROWER

- Selects contractor and submits to lender
- Obtains necessary permits, if not obtained by the contractor
- Signs homeowner/contractor agreement

CONTRACTOR

- Meets all jurisdictional licensing and bonding requirements
- Provides written cost estimate along with licensing, bonding and reference information to the lender
- Executes homeowner/contractor agreement
- Obtains permits, if homeowner has not
- Maximum of two draws per contractor

APPRAISER

- Receives all cost estimates and list of work items
- Provides an after-improved value
- Performs final inspection to ensure work is completed as submitted

How Does the Contractor Get Paid?



Many buyers simply don't have the expertise or time required to turn their fixer-upper into their ideal home. A good contractor may actually provide cost savings through economical purchase of materials, coordination of subcontracting work, and time saved. But how does the contractor get paid?

HERE ARE THE STEPS:

- 1.** The mortgage closes and renovation may start once all permits have been obtained (if applicable). Permit copies should be forwarded to the draw center. No draws will be released until proof of permits has been received.
- 2.** PrimeLending's renovation department will arrange a call within 48 hours of closing with both the borrower and contractor to review disbursement guidelines.
- 3.** The contractor works with the borrower to ensure that all permits are in place before the work begins.
- 4.** The draw specialist will follow up every 30 calendar days to see how the project is progressing.
- 5.** Disbursement amounts are based on the percentage of work completed. When borrower and contractor feel that enough work is completed to warrant a request for funds, the borrower will ask draw specialist to request an inspection.
- 6.** Inspector will visit the property, determine the percentage of work completed, take photos, verify permits and collect signatures. They will then forward the items to PrimeLending's renovation department.





7. PrimeLending's renovation department will receive the completed documents and photos from the inspector. The department will confirm photos, permits and signatures, and then release the funds to the borrower and contractor.

All disbursements, including the final, are sent by overnight mail to the customer as a two-party check, made payable to both the borrower and the contractor and both must endorse the check. For each disbursement, 10% of the funds for each work item amount requested will be held back (5% in Tennessee) until the renovation is completed. This is called "retainage."

8. For subsequent disbursements, repeat steps 6 and 7 until all work has been completed.
9. The borrower and contractor complete the final draw request packet. In addition to the regular draw documents, the customer will sign a Mortgage's Letter of Completion.
10. The HUD consultant or inspector will complete a final inspection and send to PrimeLending's renovation department.
11. PrimeLending's renovation department will order a title update.
12. If applicable, PrimeLending's renovation department will send the sum of all retainage taken after the title update shows no liens were filed on the property. The title update typically takes 2-5 business days.

Conventional Renovation Comparison

Guideline	FNMA HomePath® Renovation	FNMA HomeStyle® Renovation	EZ "C" Conventional Escrow	Jumbo Renovation
FICO Min	Primary, Second and Investment - 660 all Borrowers	Primary – 680 all borrowers Second Home – 700 all borrowers Investment – 720 all borrowers	Primary – 620 all borrowers Second Home – 620 all borrowers Investment Not Allowed	Primary – 720 all borrowers
LTV/CLTV	Purchase ONLY 95% / 95% Primary 90% / 90% Second Home 85% / 85% Investment	95% / 95% Purch and Refi – Primary 90% / 90% Purch and Refi – Second 85% / 85% Purchase – Investment 75% / 75% Refinance – Investment Cash Out Not Allowed	95%/95% Purch and Refi – Primary 80%/80% Purch and Refi - Second Cash Out Not Allowed	80% / 80% Purch 75% / 75% Refi
Max Loan Amount	Conforming Loan Limits	Conforming Loan Limits	Conforming Loan Limits	\$1,500,000
Property - # of Units	Primary 1-4 Units Second Home 1 Unit Investment 1 Unit	Primary 1-4 Units Second Home 1 Unit Investment 1 Unit	Primary 1 Unit Second Home 1 Unit	Primary 1 Unit
Occupancy	Primary Second Home Investment	Primarys Second Home Investment	Primary Second Home	Primary
NOCB	Yes	Yes	No	No
Gifts	Yes	Yes	Yes	No
Reserves	Primary 1 Unit Follow DU Primary 2-4 Units 6 Months PITI Second Home 2 Months PITI Investment 6 Months PITI	Primary 1 Unit Follow DU Primary 2-4 Units 6 Months PITI Second Home 2 Months PITI Investment 6 Months PITI	Primary 1 Unit Follow DU Second Home 2 Months PITI	Primary 1 Unit 6 Months PITI
Max Repair Escrow	Lesser of 35% of "as-completed" value or \$35,000	50% of the "as-completed" appraise value up to \$150,000 NO EXCEPTION TO 50%	\$25,0000	\$250,0000
Allowable Repairs	Permanent to the property and adds value	Permanent to the property and adds value	Permanent to the property and adds value	Permanent to the property and adds value
Unallowable Repairs	Not permanent to the property and does not add value	Not permanent to the property and does not add value	Not permanent to the property and does not add value	Not permanent to the property and does not add value
Time to Complete	120 Days	120 Days	30 Days	100 Days
# of General Contractors	2	2	1	1
# of Sub Contractors	Unlimited (Managed by General)	Unlimited (Managed by General)	Unlimited (Managed by General)	Unlimited (Managed by General)
Requires Contractor Approval	Yes	Yes	Yes	Yes
Borrower can be own Contractor	No	No	No	No
Number of draws	4	4	1	4

*HomePath® and HomeStyle® are registered trademarks of Fannie Mae.

Government Renovation Comparison

Guideline	FHA 203k Full	FHA 203k Streamline	FHA HUD Reo w/Repair	USDA Repair Escrow
FICO Min	640 Purchase 660 Rate and Term Refinance	640 Purchase 660 Rate and Term Refinance	640 Purchase	640 Purchase 660 Rate and Term Refinance
LTV/CLTV	96.5% / 100% Purchase 97.75% / 97.75% Refinance	96.5% / 100% Purchase 97.75% / 97.75% Refinance	96.5% Purchase 110% CLTV w/Repair Escrow	100%
Max Loan Amount	FHA Loan Limits	FHA Loan Limits	FHA Loan Limits	Per USDA Guidelines
Property - # of Units	1-2 Units	1-2 Units	1-4 Units	1 Unit
Occupancy	Primary Only	Primary Only	Primary Only	Primary Only
NOCB	Not Allowed	Allowed (Must be Family Member)	Not Allowed	Not Allowed
Gifts	Not Allowed	Not Allowed	Not Allowed	Allowed
Reserves	2 Months PITI Primary 2-4 Units 6 Months PITI	2 Months PITI Primary 2-4 Units 6 Months PITI	1-2 Units 2 Months PITI 3-4 Units 3 Months PITI	None
Max Repair Escrow	50% of Improved Value	\$35,000	\$5,000 or Less	\$2,000 Standard \$10,000 (By Exception)
Allowable Repairs	Complex Remodel Install any new system Swimming Pools or Pool Repairs > \$1,500	Non-Structural Decorative Non Complex Repair any System	Required to meet MPS Must be a on HUD REO Appraisal Cosmetic	Required to meet MPS Must be a on HUD REO Appraisal Cosmetic
Unallowable Repairs		Any repair that requires engineer certified or blue prints Fencing Repairs > \$35K Swimming pool repairs	Repairs > \$5,000 Cannot require plans, consultants engineers or architects	Structural work that must be completed prior to closing
Time to Complete	120 Days	120 Days	30 Days	30 Days
# of General Contractors	1	1	1	1
# of Sub Contractors	Unlimited (Managed by General)	Unlimited (Managed by General)	Unlimited (Managed by General)	Managed by General
Requires Contractor Approval	Yes	Yes	Yes	Yes
Borrower can be own Contractor	No	No	No	No
Number of draws	4 per contractor	2 per contractor	2 per contractor	2 per contractor

Potential Home Checklist and/or Contractor Checklist

MORTGAGE TERMS

ASMT
ASSUM
FHA/VA

Tax assessment
Assumable mortgage
Financing available

SP/ENT
VLT/CL
WI/CLST
WU/ATT
WBF

Separate entrance
Vaulted ceiling(s)
Walk-in closet
Walk-up attic
Wood-burning fireplace

INTERIOR ROOMS

BA
/ B
BR
BSMT
DR
FIN
FOY
FR
GTRM
KIT
LAW
LDY/UT
LIB
LR
MBR
MBRB
OFF
PT/FIN
REC/PL
RM
UNFIN
SEC/SYS
SWR
WAR
WASH
WHLPL
W/OVN
WTR

Bath (with BA)
Half bath
Bedrooms (with BR)
Basement
Dining room
Finished (attic, basement)
Foyer
Family room
Great room
Kitchen
In-law apartment
Laundry/utility room
Library
Living room
Master bedroom
Master bedroom bath
In-home office
Partially finished
Recreation/play room
Room
Unfinished (attic, basement)
Security system
Sewer or septic
Warranty
Washer
Whirlpool tub
Wall oven(s)
Water (city or well)

INTERIOR FEATURES

BAL
BLT
BRK
CER
CLST
FLR
FML
FPL
HDWD
HMOD
PNLD
SKYLT

Balcony
Built-ins
Brick
Ceramic tile floors, walls
Closet (often with)
Floors
Formal (often DR)
Fireplace
Hardwood floors
Handicap modifications
Paneled
Skylight(s)

APPLIANCES/UTILITIES

APPL
CAC
CK/TP
CMPT
C/VAC
DRY
DSP
D/W
ELEC
FRZ
HT/PMP
HT/WTR
ICE
MICRO
RAD/HT
REF
RNG

Appliances
Central air conditioning
Cooktop
Compactor
Central vacuum
Dryer
Disposal
Dishwasher
Electric (with amps)
Freezer
Heat pump
Hot water heater
Ice maker
Microwave
Radiant heat
Refrigerator
Range

EXTERIOR HOUSE/YARD

AC
ALUM
ANQ
ATT
CLPD
COL
CONT
CRPT
DET
DK
FEN
GZBO
IGPL
MED
RNCH
RR
SCPD
SHNGL
SPLT
STY
TWNHS

Acre
Aluminum siding
Antique house
Attached garage
Clapboard
Colonial
Contemporary
Carport
Detached garage
Deck(s)
Fenced yard
Gazebo
Inground pool
Mediterranean
Ranch
Raised ranch
Landscaped
Shingle
Split level
Style of house
Townhouse

Glossary

The terms in this glossary refer to your primary mortgage loan and do not necessarily apply to your home equity loans and home equity lines of credit.

ABSENTEE LANDLORD – An investment property owner who does not live in the building or take an active part in the normal running of the property.

ADJUSTABLE-RATE MORTGAGE (ARM) – A mortgage in which the interest rate is adjusted periodically according to a pre-selected index.

ANNUAL PERCENTAGE RATE (APR) – A yearly percentage rate that expresses the total finance charge on a loan over its entire term. The APR includes the interest rate, fees, points, and mortgage insurance, and is therefore a more complete measure of a loan's cost than the interest rate alone. The loan's interest rate, not its APR, is used to calculate the monthly principal and interest payment.

APPRAISAL – A report made by a qualified person setting forth an opinion or estimate of property value. The term also refers to the process by which this estimate is obtained.

APPRECIATION/DEPRECIATION – "Appreciation" refers to the increase in a property's value, except for inflation. A decrease in the value of a property is called "depreciation."

ASSESSED VALUE – The value that a taxing authority places on real or personal property for the purpose of taxation.

BRIDGE LOAN – A form of second deed of trust or mortgage that is collateralized by the borrower's present home (which is usually for sale) in a manner that allows the proceeds to be used for closing on a new house before the present home is sold.

BROKER – An individual employed on a fee or commission basis as a real estate agent to bring buyers and sellers together and assist in negotiating contracts between them for the sale of residential real estate.

BUYER'S BROKER – Most real estate brokers and agents work only for the sellers. A buyer's broker serves the interest of the buyer and has no relationship with the seller.

CAPITAL GAINS – Used for tax purposes, this is the capital gain you make when you sell your home. For example, if you purchase a property for \$100,000 and sell it some years later for \$150,000, your capital gain is \$50,000.

CLOSING – The consummation of a real estate transaction. The closing includes the delivery of a deed, financial adjustments, the signing of notes, and the disbursement of funds necessary to complete the sale and loan transaction.

CLOSING AGENT – Usually an attorney or title agency representative who oversees the closing and witnesses the signing of the closing documents.

COMMISSION – Compensation for negotiating a real estate or loan transaction, often expressed as a percentage of the selling price or loan amount.

COMMITMENT LETTER – A formal offer by a lender stating the terms under which it agrees to loan money to a homebuyer.

COMPARABLE MARKET ANALYSIS (CMA) – A written analysis of houses having similar characteristics currently being offered for sale as well as comparable houses sold in the past six months. This enables you to determine if you are paying market value for a home, and to identify whether market prices are rising or falling.

CONTINGENCY – A condition that must be met.

CONVENTIONAL LOAN – A mortgage not obtained under a government program (such as FHA or VA).

CREDIT REPORT – A report detailing an individual's credit history.

CREDIT SCORE – A numerical rating that indicates a borrower's creditworthiness based on a number of criteria.

DEBT-TO-INCOME (DTI) RATIO – A formula that compares a mortgage applicant's gross income to his/her total debt. The lender uses this to help determine the loan amount for which you may qualify. Also known as the "back-end ratio." Guidelines may vary, depending on the loan program.

DEED – The legal document conveying title to a real property.

DOWN PAYMENT – Money paid to make up the difference between the purchase price and the mortgage amount.

ENERGY EFFICIENT – Using less energy to provide the same service. Some will confuse this with energy conservation, which is reducing or going without a service to save energy.

EQUITY – The ownership interest; i.e. portion of a property's value over and above the liens against it.

ESCROW – An item of value, money or documents, deposited with a third party, to be delivered upon the fulfillment 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. In some parts of the country, escrows of taxes and insurance premiums are called impounds or reserves.

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FEASIBILITY STUDY – A feasibility study is an evaluation and analysis of a proposed project. Feasibility studies aim to objectively and rationally uncover the concerns, repairs and/or threats present in the home or property. There are two criteria included in a feasibility study: cost required and value.

FIXED-RATE MORTGAGE – A mortgage in which the interest rate and principal and interest payments remain the same for the life of the loan.

FLOAT DOWN OPTION – The float down option gives you the ability to reduce your interest rate if the market improves after you lock in your rate. The float down option is applied to the interest rate only and is based on the initial lock period; it may be utilized with all conforming loans – both government and conventional.

FORECLOSURE – A legal procedure in which property mortgaged as security for a loan is sold to pay the defaulting borrower's debt.

FRONT-END RATIO – Also known as the housing expense-to-income ratio, it compares your proposed monthly house payment (PITI) to your total household gross monthly income.

GOOD FAITH ESTIMATE (GFE) – A document which tells borrowers the approximate costs they will pay at or before settlement, based on common practice in the locality. Under requirements of the Real Estate Settlement Procedures Act (RESPA), the mortgage banker or mortgage broker, if any, must deliver or mail the GFE to the applicant.

GOVERNMENT LOAN – A mortgage available through a government agency, such as FHA, VA, Farmers Home Administration, or a state bond program. The loans are generally made by private lenders, such as PrimeLending.

HIGH BALANCE RENOVATION – Conforming mortgages that are mortgages originated using higher maximum loan limits than are permitted in designated high-cost areas. These higher loan limits are intended to provide lenders with much needed liquidity in the highest cost areas of the country while also lowering mortgage financing costs for borrowers located in these areas. Having the option to include renovations with this program allows you to go off the after-improved value. Having this option allows you to purchase or refinance and include renovations/repairs needed with one loan, one mortgage and one payment.

HOME WARRANTY – A kind of insurance that covers the cost of repairs to specific items in the home for a specified period of time.

HOMEOWNERS INSURANCE (HOI, ALSO CALLED HAZARD INSURANCE) – A real estate insurance policy required of the buyer protecting the property against loss caused by fire, some natural causes, vandalism, etc. May also include added coverage such as personal liability and theft away from the home.

HOUSE INSPECTION – A thorough evaluation and written report of a home's condition both inside and out. The inspection is valuable in locating any problems in a property and helps you determine the extent of renovation needed. You can use the report to have the seller make repairs or reduce the purchase price. Always use your own inspector, and do not rely solely on the seller's inspection reports.

HUD CONSULTANT – A 203k consultant is a professional who is responsible for advising clients on the 203k process. They make sure the required paperwork is filled out correctly so that homeowners can obtain a 203k loan. Many 203k consultants are inspectors who wish to widen the scope of their business. Inspectors already have much of the knowledge and training required to become a 203k consultant. In 1994, consultants were first introduced to the field. In order to become an approved 203k consultant, applicants must be approved by the U.S. Department of Housing and Urban Development (HUD). Approved candidates are placed on the Federal Housing Administration's 203k Consultant Roster, which guarantees that the consultant has met the qualifications as prescribed by FHA.

HUD - SETTLEMENT STATEMENT – A standard form used to disclose costs at closing.

INDEX – A published interest rate, such as the prime rate, LIBOR, T-Bill rate, or the 11th District COFI. Lenders use indexes to establish interest rates charged on mortgages or to compare investment returns. On ARMs, a predetermined margin is added to the index to compute the interest rate adjustment.

INTEREST RATE – The percentage of an amount of money which is paid for its use for a specified time.

INTERIM INTEREST – The interest that accrues, on a per-diem basis, from the day of closing until the end of the month.

INVESTMENT PROPERTY – Real estate owned with the intent of supplementing income and not intended for owner occupancy.

JUMBO – Jumbo loans are too large to meet the guidelines of a conforming loan.

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JUMBO RENOVATION – A jumbo renovation loan provides financing for loan amounts higher than the maximum conforming loan limits set by Fannie Mae and Freddie Mac and allows you to finance the purchase or refinance of a home plus the cost of renovations in one loan.

LEVERAGE – Using credit or borrowed money to increase the rate of return from an investment. For example, by purchasing a \$100,000 home with 10% down, you are using just \$10,000 to control the investment.

LIEN – A legal claim or attachment against property as security for payment of an obligation.

LOAN CONDITIONS – These are terms under which the lender agrees to make the loan. They include the interest rate, length of loan agreement, and any requirements the borrower must meet prior to closing.

LOAN PAYMENT RESERVES – A requirement of many loan programs that, in addition to funds for the down payment and other purchase-related costs, you have saved enough money to cover one or two months of mortgage payments after your closing.

LOAN SETTLEMENT – The conclusion of the mortgage transaction. This includes the delivery of a deed, the signing of notes, and the disbursement of funds necessary to the mortgage loan transaction.

LOAN-TO-VALUE (LTV) – The ratio between the amount of a given mortgage loan and the lower of sales price or appraised value.

MARGIN – The set percentage the lender adds to the index rate to determine the interest rate of an ARM.

MORTGAGE – The conveyance of an interest in real property given as security for the payment of a loan.

MORTGAGE INSURANCE (MI) – See private mortgage insurance (PMI).

NON-CONFORMING – A loan that fails to meet bank criteria for funding. Reasons include the loan amount is higher than the conforming loan limit (for mortgage loans). Loans can be non-conforming for several different reasons. The best-known type of non-conforming loan is the jumbo loan.

Note: A general term for any kind of paper or document signed by a borrower that is an acknowledgment of the debt, and is, by inference, a promise to pay. When the note is secured by a mortgage, it is called a mortgage note and the mortgagee (lender) is named as the payee.

ORIGINATION FEE – The amount charged for services performed by the company handling the initial application and processing of the loan.

POINTS – A one-time charge by the lender to increase the yield of the loan; the number of points reflect the percentage of the amount of the mortgage.

PREPAIDS – Closing costs related to the mortgage loan which are collected at or before loan closing — including per diem prepaid interest and initial deposits of monthly escrows of taxes and insurance.

PRIMARY RESIDENCE – A residence which the borrower intends to occupy as the principal residence.

PRINCIPAL – The amount borrowed or remaining unpaid; also, that part of the monthly payment that reduces the outstanding balance of a mortgage.

PRIVATE MORTGAGE INSURANCE (PMI) – Insurance written by a private company protecting the mortgage lender against loss resulting from a mortgage default.

PROCESSING – The preparation of a mortgage loan application and supporting documentation for consideration by a lender or insurer.

PROPERTY MANAGER – Person or company that takes over the repair and maintenance of a property for a percentage of the gross income. Services may also include collecting rents and leasing the property.

RATE CAP – The limit of how much the interest rate may change on an ARM at each interest rate adjustment and over the life of the loan.

RATE LOCK – The borrower and the lender agree to protect the interest rates, points, and term of the loan while it is processed.

REAL ESTATE AGENT – A salesperson, usually licensed by the state, and supervised by a broker. Agents work solely on commissions earned by selling properties.

REALTOR® – Person licensed to sell or lease real property acting as an agent for others and who is a member of a local real estate board affiliated with the National Association of Realtors.

RENTAL AGENT – A real estate agent who specializes in working with renters to locate potential properties for lease.

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RETURN ON INVESTMENT – The percentage of capital gain that you make on an investment.


TERMINATION – Notice from the landlord that the lease has been terminated and the tenant must move out by a certain date.

TITLE INSURANCE – An insurance policy that protects a lender and/or homebuyer (only if homebuyer purchases a separate policy, called owner's coverage) against any loss resulting from a title error or dispute.

TRUTH-IN-LENDING STATEMENT – A full disclosure of credit terms using a standard format required by Federal law. This is intended to facilitate comparisons between the lending terms of different financial institutions.

UNDERWRITING – Analysis of risk, determination of loan eligibility, and setting of an appropriate rate and terms for a mortgage on a given property for given borrowers.

VA FUNDING FEE – The amount charged on VA mortgages to cover administrative costs.

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