



THE ROAD HOME NEW JERSEY

A GUIDE FOR
THE NEW JERSEY
HOMEBUYER

1-800-NJ-HOUSE › WWW.NJHOUSING.GOV



HMFA

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CONSIDER THIS QUESTION: IS OWNING A HOME RIGHT FOR YOU?

Buying a house is a big step – and deciding where to live is one of the biggest decisions you will ever make. Now is the time to prepare yourself with the necessary information that will enable you to make the right home purchase decision.

The New Jersey Housing and Mortgage Finance Agency (HMFA) presents *The Road Home New Jersey: A Guide for the New Jersey Homebuyer*, to help you navigate your way to affordable homeownership. Be assured that HMFA has quoted only the most reputable sources throughout this booklet to provide you with the most reliable and accessible tools.

Since this new home search will be both an emotional and financial decision, it's best to take some time to review your finances. Be sure to consider the expenses involved in owning a home when outlining a budget. Can you afford to buy a home? *Let's find out!*

AM I READY?

To help you get a better grasp of your financial situation, try these easy-to-use online tools:

MAKING A BUDGET – WHAT IT IS, WHAT TO KNOW, WHAT TO DO

<http://1.usa.gov/1VELX1C>

CALCULATORS

www.njrealtor.com/consumers/calculators

- **AFFORDABILITY CALCULATOR**
- **BI-WEEKLY MORTGAGE CALCULATOR**
- **MORTGAGE CALCULATOR**
- **RATE COMPARISON CALCULATOR AND**
- **REALTY TRANSFER FEE CALCULATOR**

THE COSTS OF HOMEOWNERSHIP

STEP 1

Budgeting is important when considering homeownership! You, as the owner, will need to be able to cover any sudden house-related expenses that come up in addition to your regular monthly expenses. When creating your new monthly budget, remember to add the following new costs:

- Property taxes and special assessments
- Home/hazard insurance
- Property maintenance
- Association and membership fees (if applicable, for condominiums, townhomes and some developments)

Some of the above listed fees will be included as part of your monthly mortgage payment, while others are not. Be sure to ask about how these fees are to be paid.

CREDIT AND CREDIT HISTORIES

It's no secret. Your credit history will affect your ability to obtain a mortgage for your home purchase. Lenders want to see a record of how you borrowed, and when and how you repaid, money in the past. These money management habits are reflected in your FICO score. FICO scores range from 300 to 850 and lenders believe that borrowers with higher scores are more likely to repay their loan.

Homebuyers should obtain a copy of their credit report by contacting:

www.annualcreditreport.com

Learn what a credit report is, how you can build or repair your credit history:

www.consumer.gov/articles/1009-your-credit-history

DOWNPAYMENTS

You will need to make an investment in your new home, called a downpayment, in order to obtain a mortgage. A downpayment is the amount of money you spend upfront on a home purchase and is collected at the time of closing. This amount will determine the type and amount of mortgage you could qualify for and repay. When the bank combines the required downpayment amount and the amount you are borrowing (the mortgage), it should equal the total sales price of the home you plan to purchase.

MORTGAGE INSURANCE

If you're making a downpayment that is less than 20% of the home price, your lender may require mortgage insurance. Mortgage insurance is an insurance policy protecting the mortgage lender in the event that the borrower fails to make their mortgage payments resulting in default. This type of insurance does not protect the borrower. However, this may assist you in becoming a homeowner as opposed to saving the full 20% downpayment.

QUESTIONS ABOUT WHAT YOU CAN AFFORD?

Generally, when a financial institution reviews a mortgage application, two basic guidelines are used to determine how large a mortgage to grant:

- 1) Principal, Interest, Taxes and Insurance (PITI) should not exceed 25-28% of gross income and
- 2) PITI plus other long-term debt should not exceed 33-36% of gross income

Refer to the Mortgage Calculator linked below to determine principal and interest. Long term debt includes car loans, installment loans, alimony, child support, and balances on charge cards that will take more than 10 months to pay off. The size of the downpayment you make will determine the mortgage amount that will be granted.

MORTGAGE CALCULATOR

www.njrealtor.com/consumers/calculators

Questions about the financial aspects of homeownership may be directed to the HMFA's hotline at 1-800-NJ-HOUSE (1-800-654-6873) and can also be answered by reviewing the HMFA's FAQ's on page 17.

There are a number of counseling agencies statewide that can help you get your finances in order.

Check out the list of U.S. Department of Housing and Urban Development (HUD) approved counseling agencies online at:

www.hudexchange.info/programs/housing-counseling





STEP 2

STOP AND THINK: DO I NEED HOMEBUYER COUNSELING?

You don't have to be a first-time homebuyer to take advantage of courses provided by HUD-sponsored housing counseling agencies throughout the country that can provide advice on buying a home, renting, defaults, foreclosures, and credit issues.

WHAT ARE THE BENEFITS OF HOMEBUYER COUNSELING?

The counseling course is a basic, easy-to-understand class exploring the various aspects of homebuying, including how to budget, choosing a neighborhood, how to find the right home and definitions of a variety of mortgage types and real estate terms.

Housing Counseling agencies are staffed by counselors who are trained and approved to provide tools to current and prospective homeowners and renters that will help them make responsible choices that best match their housing needs with their financial situations.

PROGRAMS INCLUDE DISCUSSIONS OF:

- Applying for a mortgage
- Downpayment and closing cost requirements
- Credit
- Making an offer
- The home inspection
- Preparing for closing
- Special considerations for buying condos and multifamily properties
- Post-purchase issues
- Budgeting

WHERE CAN I LOCATE A HOMEBUYING COUNSELING COURSE?

The Department of Housing and Urban Development sponsors Approved Housing Counseling Agencies throughout the country to provide free or low cost advice on buying a home, renting, default, foreclosure avoidance, credit issues or reverse mortgages:

To find one in New Jersey, visit

www.hud.gov/offices/hsg/sfh/hcc/hcs.cfm?webListAction=search&searchstate=NJ



STEP 3

GETTING PRE-QUALIFIED AND PRE-APPROVED FOR A MORTGAGE

Before officially launching your search for just the right home, you will need to know how much you can actually spend. The best way to ensure you are looking at homes in the right price range for your budget is to get pre-qualified for a mortgage.

The HMFA works with a number of qualified lenders that participate in our Homebuyer programs. See the list linked below to start the conversation and ultimately choose the lender that's right for you!

VIEW THE HMFA PARTICIPATING LENDER LIST:

www.njhousing.gov/includes/lender.html

GETTING PRE-QUALIFIED

This is a simple process which can be done over the phone or online, usually without cost. You supply a bank or lender with your overall financial picture, including your debt, income and assets. After evaluating this information, a lender can discuss with you the mortgage types and amount for which you would qualify. Remember: Loan pre-qualification does not include an analysis of your credit report and does not involve an in-depth look at your financial ability to purchase a home. A pre-qualification is a general review of your eligibility while a pre-approval is the next step to finding out exactly how much you are able to spend for a new home.

GETTING PRE-APPROVAL

Completing this stage will help you stay realistic with your expectations while shopping for a home. You'll know exactly how much you are able to spend since a lender or bank will now perform an extensive check on your financial background and current credit rating once you provide the necessary documentation and fill out an official mortgage application for which you will pay a fee. The lender can then tell you the specific mortgage amount for which you are approved and the interest rate you will be charged on the loan. In some cases, you might be able to lock in a specific rate.

Armed with this information, you are able to show a potential seller that you are serious and when you make an offer it's with the understanding that you are sure it's what you can afford. Being pre-approved could also prevent you from losing the home to another potential buyer who already has financing arranged. *It's important to note that obtaining a pre-qualification or pre-approval from a lender does not obligate you to secure a loan through that same lender.*



STEP 4

LAUNCHING YOUR HOME SEARCH

This is the fun part! Now that you know what you can afford, it's time to start looking at houses. Keeping in mind that no single property will offer everything you want, the home you finally purchase should meet as many of your family's needs and wants as possible. You might want to start your search by creating a "wish list" of features and appointments that you consider absolute priorities for your day-to-day living.

WHERE TO BEGIN: LOCATION, LOCATION, LOCATION

You've heard it before. Your home's location is one of the most important features to consider. Here are some questions to ask yourself as you weigh the pros and cons of choosing a location:

- How far are you willing to commute to work?
- How accessible is the home to highways or public transportation?
- How close are shopping, houses of worship, day care facilities and recreation areas?
- What is the quality of the public schools and where are they located?

Realize there are always tradeoffs when making such an important decision.

LOCATION AND ITS IMPACT ON YOUR FINANCES

There is more to determining affordability than simply being able to make the mortgage amount. Aside from a mortgage, transportation and commuting costs to work or school can be significant. Seriously consider the location of your new home and how day-to-day transportation costs may affect your budget.

Visit the Location Affordability Portal (LAP), at www.locationaffordability.info and enter your location information. Developed by the U.S. Department of Housing and Urban Development (HUD) and the Department of Transportation (DOT), the LAP can help you get a clearer picture of the combined costs of housing and transportation associated with living in a particular region, street, or neighborhood.

SHOPPING YOUR OPTIONS

When looking at prospective homes, consider the neighborhood, the home's exterior, interior floor plan, number of bedrooms and bathrooms, commuting distance to work and school, and the reputation of the schools and overall community.

For example, is the dining room large enough to entertain family and friends during holidays? Is there enough closet space? The closer your chosen home matches your lifestyle needs and wants, the happier you'll be when you're living in it.

First, you need to decide what type of home you want. There are a number of housing types to suit your specific needs, including:

- **SINGLE-FAMILY**

Single-family homes are the most common property type chosen by prospective homeowners. There are two options: a newly constructed house or an older home in an already established neighborhood. Older homes may be roomier, more affordable, and centrally located to in-town amenities, but may require renovations and updating. Externally, keep in mind that any full-grown, mature trees typical of older neighborhoods will require maintenance which, over time, could prove costly. Newer single-family homes, on the other hand, are likely to have more efficient heating systems, better insulation, and lower maintenance costs.

- **HOME OWNER ASSOCIATIONS (HOA)-MANAGED COMMUNITIES**

Many singles, couples, empty nesters and retirees who don't want to deal with the upkeep and maintenance of their home exterior, including the grounds and amenities, are drawn to communities managed by Home Owner Associations (HOA). HOAs can include condominium, townhome or single family home communities.

Residents of an HOA-managed community pay an annual, quarterly or monthly fee for services and oversight, with the understanding that they will abide by a set of rules and regulations meant to preserve the community's aesthetics as well as ensure a decent quality of life for all.

Find out if HOA living is for you. Visit: www.realtor.com/advice/buy/pros-and-cons-of-living-within-a-homeowners-association/

- **MULTIFAMILY**

This is a 2- to 4-unit property offering a personal residence in addition to other units that serve as investment property. Along with the potential tax and income advantages of multifamily homes come the added responsibilities of acting as a landlord, such as conducting tenant search and selection, initiating leases, collecting rents and security deposits, making repairs and possibly being forced to initiate and manage evictions.

- **FIXER-UPPER**

Fixer-uppers are generally older homes in need of updates and repair, that are often found in older, more established neighborhoods, and show signs of neglect. If you decide that a fixer-upper is for you, be prepared for the numerous costs involved in rehabilitation work. Once work begins, you may uncover additional issues. Rehabilitation costs can rise quickly and significantly, increasing the amount of time needed to get the house in good working order. Before deciding on a fixer-upper, first have a contractor or home inspector detail the extent of rehabilitation work needed, and estimate the costs. The cost to repair the property will impact the price you pay for the house.

GETTING PROFESSIONAL ASSISTANCE IN YOUR SEARCH

After identifying towns that fit your needs and knowing your budget, you may want to get professional help by contacting a Realtor® who can inform you on market trends, property conditions, and many other aspects of home buying. To find a licensed Realtor® in New Jersey, visit www.njrealtor.com/find-a-realtor and search based on your current location, or by a number of criteria. To explore homes with "for sale by owner" signs, you will deal directly with the current owner/seller to tour the home and get questions answered.

Here are a number of resources that will help you find the right house:

- Websites such as www.realtor.com, www.njrealtor.com, and www.njhrc.gov
- Newspapers
- Searching for "For Sale" signs in target areas
- Bulletin boards at work, or in and around target communities
- Talking to friends, acquaintances, co-workers

REPEAT HOMEBUYERS

For those who already own a home and are shopping around for another – whether it's to trade-up to a larger residence or trade-down to a smaller one – check out this link to avoid the pitfalls that can come with trying to sell an existing home while shopping around for another.

www.realtor.com/advice/buy/buying-a-house-while-selling-a-house



OPEN HOUSE ADVICE

Don't be shy about taking the opportunity to tour homes for sale during Open Houses that are normally held on weekends by real estate agents. Open House signs are posted on boulevards or near street corners inviting potential homebuyers to stop in and look over a particular property. These properties are usually listed online at www.njrealtor.com and in real estate sections of newspapers to bring increased exposure to the property. Remember that an Open House is a sales tool. Here are some tips to keep you organized:

- Bring a notepad and map so you can mark each home's location and note its special features.
- Pick up a property listing sheet whenever one is available. After spending a day attending Open Houses, you may find that one or another home has more or less appeal than you initially thought.
- Pace yourself. Visit too many homes without a break and you'll start missing details.

- Bring a camera and snap pictures of the houses that appeal to you. Grab any available brochures with photos.
- Remember, there are no foolish questions. Ask away!

Be prepared to find out everything you can about each property. One question about pipes, heating/cooling systems, taxes, or recent repairs may lead to other questions. You may uncover areas of concern about a specific property that, on the surface, looks trouble-free. It's far better to know about a home's problems before you buy than to discover them once you own the property.

When you are confident that your search has ended and you've found the home that's right for you, it's time to make an offer.

An offer is a legally binding commitment stating that you will buy the home for a specific price provided that certain terms and conditions are met. Once the seller accepts your offer, it must be signed both by you and the seller.

BEFORE MAKING THE OFFER

STEP 5

THINK ABOUT THE FOLLOWING AS YOU PREPARE YOUR OFFER:

- What is the age and condition of the home?
- Are any repairs needed? What will they cost?
- Are the sellers willing to share any of the expense?
- How long has the property been on the market?
- How active is the market (i.e., is it a buyer's or seller's market)?
- Are the sellers anxious to sell?
- Is the property in a particularly desirable location or school system?
- Does the home meet many, most, or all of the items on your wish list?

PREPARING THE OFFER

Pay close attention to all the details. Be sure that the offer clearly outlines all the terms and conditions of the sale, including:

- Your name and the seller's name
- The property's address
- Any special provisions regarding fixtures, appliances, etc.
- The purchase price being offered (including the deposit put down to bind the offer and the deposit to be paid upon the execution of the Purchase and Sale Agreement)
- Any additional riders and deadline dates
- Any contingencies to which the offer is subject (e.g., pest inspection, securing financing)

PROVISIONS AND CONTINGENCIES

Your first line of defense before you go to contract on your home is to include provisions and contingencies in your offer. This ensures that you and your money are protected in the event that the loan is not approved and the deal is called off. It is very important that the Purchase and Sale Agreement include a mortgage contingency clause, which states that your decision to buy the home is dependent on your ability to get a mortgage. Such a clause allows you to keep your deposit if your mortgage isn't approved.



Other contingencies should be based on the home's condition, pest, radon, and lead paint inspections. For more information, visit www.realtor.com/advice/protect-yourself-with-creative-contingency-clauses

TIMING AND DEADLINES

Grab your calendar to figure out how long it will take you to negotiate the offer with the seller, schedule an inspection and receive the report and get approved for a mortgage. These are deadlines that need to be met before setting a closing date. Your deal could fall through if deadlines aren't met.

NEGOTIATING THE OFFER

After you make your offer, the seller may accept, reject or counter it with a different price. If the seller counter-offers, you can then accept, reject, or counter that. As the negotiation goes on, the house will stay on the market. Check out this website for more tips about the homebuying process: www.njrealtor.com/consumers/buyers

DO I NEED AN ATTORNEY?

It's always best to retain an attorney to protect your interests in the homebuying process. The attorney will also:

- Help you prepare the offer
- Help negotiate the sale price and conditions of the sale
- Draft and/or revise the Purchase and Sale Agreement to protect you and your money

- Assist you with the mortgage process
- Prepare you for the final walk-through of the property
- Attend the closing and represent your interests
- Provide you with a three-day right of review of the Purchase and Sale Agreement

KNOW BEFORE YOU OWE

That's the warning from the Consumer Financial Protection Bureau since the fall of 2015 when the TILA RESPA Integrated Disclosure (TRID) rule was enacted which requires new mortgage disclosure forms and essentially changed the way real estate transactions are processed and closed.

Find out ways to protect yourself before your transaction closes: www.mba.org/Documents/KBYO/15223_MBA_KBYO_Flyer-ConsumerAlert.pdf

PURCHASE AND SALE AGREEMENT

It's not over yet! After negotiations are settled and your offer is accepted, a Purchase and Sale Agreement is written up by the broker. This document spells out the agreement in specific detail. Because it's a legally binding contract, have your attorney review it before you sign it.

The closing date and occupancy date should also be indicated.



STEP 6

OBTAINING A MORTGAGE

Once your offer has been accepted and the Purchase and Sale Agreement is signed, you will need to apply and be approved for a mortgage. There are numerous finance options, so gathering the right information is key to making a good decision.

To obtain an HMFA loan, contact a participating lender. Visit our list of participating lenders www.njhousing.gov/includes/lender.html to find one nearest you.

WHERE TO APPLY

Be a smart shopper and do your research. After you get pre-qualified or pre-approved, shopping around for better rates and terms could save you a significant amount of money in the long run. Choose a lender that you trust and a loan that will be compatible with your budget for many years. Consider exploring options from:

- Mortgage companies
- Savings and loan institutions
- Federal credit unions
- Other financial institutions

THE LOAN TERMS

Because each lender will have different terms to its mortgage, compare some of the following key points to understand which deal is the best for you.

- Interest rate
- Whether the rate is fixed or adjustable
- Whether the rate can be locked in when you apply for the mortgage; for how long and at what cost?
- Other fees charged by the lender.
Do all lenders charge these fees?
- Closing costs

ARE THERE ANY ADDITIONAL FEES?

Generally, when you apply for a mortgage, you will be charged a non-refundable application fee to cover the costs of the home appraisal, credit report and the lender's underwriting costs. The application process may take anywhere from one to six weeks depending on the availability of your underwriting documents.

Within three business days of submitting your loan application, your lender is required by law to provide you with a good faith estimate of the closing costs you will pay. Once the lender has issued a loan commitment, a closing date can be set.

WHAT DO I NEED TO BRING WITH ME DURING THE APPLICATION PROCESS?

To expedite the processing of a mortgage application, borrowers should provide the following:

- 1) **Accepted Offer to Purchase Real Estate and a Purchase and Sale Agreement**, both signed by all parties. Copies of canceled checks (front and back) used for the downpayment listed on the Purchase and Sale Agreement.
- 2) **Names and addresses of all employers** for the previous two years.
- 3) **Last two Federal tax returns**.
- 4) Annual Gross Salary (overtime and bonuses listed separately), **copies of W-2** forms from previous two years, and **most recent pay stubs** (at least one month).
- 5) **If self-employed**, copies of your federal income tax returns with all schedules for the previous two years. If employed by your own corporation or partnership, copies of its returns for the previous two years, and a year to-date profit and loss statement prepared by your accountant (sole proprietorships included).
- 6) **If relying on Social Security**, disability or pension income, bring a copy of the three most recent stubs or three bank statements if directly deposited, as well as the Award Certificate from the issuing agent.
- 7) Copy of front and back of **Resident Alien Registration Card**, if applicable.
- 8) **Names and addresses** of banks, credit unions, and depositors in which you have deposit accounts. List account numbers and balances in each account. Include copies of the last three monthly statements for each account.
- 9) **List of all** stocks, bonds, certificates of deposit and other securities, showing current market value. Include copies of last three monthly and/or quarterly statements, account numbers, etc.
- 10) **A complete list of your debts**, such as credit cards, student loans, car loans, and child support payments as well as account numbers, minimum monthly payments and balances.
- 11) **Verification of monthly rental payment**. Copies of canceled checks (front and back) from previous 12 months.
- 12) **If receiving or obligated to pay** alimony, child support and/or separate maintenance, provide a copy of your divorce decree and/or court order. Include canceled checks from previous 12 months to verify the receipt or payment of these funds.

THESE TOOLS WILL HELP. PRINT THEM OUT TO USE AS HANDY REFERENCE GUIDES:

- HMFA's Mortgage Application Checklist to gather and prepare all the documentation required to obtain a loan: www.njhousing.gov/media/download/buyer/hb_rh_mortgage_checklist.pdf
- Mortgage Application Process Flowchart to follow the path your application will take: www.njhousing.gov/media/download/buyer/hb_rh_mortgage_flowchart.pdf

Visit www.njhousing.gov to review the most up-to-date information on HMFA's available mortgage programs, or call the hotline at 1-800-NJ-HOUSE (654-6873) for more information.





STEP 7

THE HOME INSPECTION

Getting your future home thoroughly inspected is a vital step in the buying process. You'll be responsible for finding and paying a licensed inspector, to learn the condition of every aspect of the house.

Having a professional assess and inspect the home will let you know if you are getting what you're paying for. Home inspector fees typically range from \$300-\$500, depending on the location and size of your property. Once scheduled, a home inspector will look carefully at the condition of the home, list any potential problems or if there are repairs needed. The inspector will examine the structure and systems of the home – such as the heating, plumbing, and electrical – identify existing or potential problems and may recommend ways to address them. The report will help you make an informed decision about whether you want to continue with the purchase. If there are flaws discovered during the home inspection, you may be able to use it to your advantage during negotiations to get a price reduction.

If you're planning on selling your home, consider a home inspection as well. It will give you an opportunity to make repairs and ensure that a buyer's inspector finds your property in good condition for a sale.

WHAT IS INVOLVED IN A HOME INSPECTION?

An inspector will do a visual check of the home's:

- Heating system
- Central air conditioning system (temperature permitting)
- Plumbing
- Electrical systems
- Roof, attic, and visible insulation
- Walls, ceilings, floors, windows and doors
- Foundation, basement, and the visible structures of the home
- Environmental concerns (removal of oil tank, etc.)

The inspector should provide a written report immediately after the inspection. If the inspector finds many problems and gives the home failing grades, you may withdraw from the agreement provided that option was in the contingency clause in your offer.

The home should also be inspected for termites, radon, lead paint, and asbestos, which is not covered in a basic inspection.

WHERE CAN I FIND A HOME INSPECTOR?

New Jersey has laws to qualify home inspectors and regulate the inspection process. To locate an inspector near you, visit:

- **The New Jersey Association of Licensed Professional Home Inspectors:** www.njalphi.com
- **The American Society of Home Inspectors:** www.ashi.org

Prior to closing, you and your lender need to complete a few final tasks.

Before the lender can give you a mortgage, a title search must be done to verify that the seller truly owns the property and that there are no liens (claims) on the property. If there are any claims, the seller is required to pay them prior to the closing.

The lender will require you to purchase title insurance to protect its investment in case a question about the validity of the title arises after closing. Additional title insurance to protect your investment is also available.

You will need to obtain homeowner's insurance prior to closing. A paid receipt and declaration of issuance must be presented at closing.

Most transactions will require providing the lender with a certified property survey. The survey is a technical drawing of the property and its structures. A survey can take a few weeks and should be ordered well in advance of the closing date. The buyer is usually responsible for ordering and paying for the survey.

The lender will order a flood search on the property, which determines whether the property is located in a designated flood zone. Federal flood insurance is available to those residing in flood zones and may be a condition of the mortgage commitment.

If the property contains a septic tank, a system certification by an engineer or septic expert may be required.

The state requires that drinking water wells be tested for contaminants. If the property is served by a well, contact the county health offices and one of their employees will usually handle the water quality test.

In certain areas, a termite inspection must be completed prior to closing. The seller generally pays a termite inspection firm to inspect for termite damage and infestation. A certificate of inspection should be delivered to your lender before closing.

You have qualified for a loan. You've found the house you want. The contract is signed and the closing is in 30 days. Even though it might feel like the right time to buy furniture or appliances, hold off on these big purchases until after the closing. Don't celebrate by financing another big purchase. Lenders pull credit reports before the closing to make sure the borrower's financial situation has not changed since the loan was approved. Any new loans on your credit report can jeopardize the closing.

Buyers, especially first-timers, often learn this lesson the hard way.

NOTES:

[illegible]



STEP 8

HOW DO I PREPARE FOR CLOSING?

Within 24 hours of the closing you should walk through the home to make sure it looks as you expected and is in move-in condition. This final inspection gives you the opportunity to see that the seller has moved out and completed all repairs agreed to in the sales contract. Make sure all appliances and systems are working and that any items the seller agreed to leave behind are in the house. If you discover something after the closing, you have no way out, so be sure to walk slowly and look carefully.

WHAT DO I BRING TO THE CLOSING?

The lender or designee, closing or escrow agent will collect all the necessary paperwork from you, the seller and the lender, will be ordering all the documents for your closing and send you a Closing Disclosure (CD) form. The CD should be issued to you three business

days before consummation of the loan defined as the time a consumer becomes contractually obligated to a credit transaction. See *New Timing Requirements* at www.mba.org/Documents/Consumertools/MBA_Consumer_Tools-4Settlement.pdf. The CD will show a table that itemizes all fees and costs and makes it clear what and how much you must bring to the closing. Typically, you are responsible to bring the following to your closing:

- Your homeowner's insurance policy along with proof of payment.
- A certified check or electronic transfer for all closing costs and the remaining portion of your downpayment.

WHAT HAPPENS DURING CLOSING?

STEP 9

The closing is usually held at the attorney or mortgage lender's office. A closing agent, escrow agent and sometimes an attorney will be present. Your real estate agent may or may not attend.

Be aware there will be many documents to review and sign. Make sure you understand what each one outlines before signing. The lender or designee who sent you the CD will oversee all signings and recording of documents, collect all funds for various fees and ensure that expenses are properly disbursed.

At closing you should expect to receive one or both of the following:

- **Mortgage Note:** the mortgage note is legal evidence of your mortgage and includes your formal promise to repay the debt. It also spells out the terms of the loan, along with penalties the lender can impose if you do not make your payments on time.
- **Deed of Trust:** this document gives your lender a claim against the house if you do not comply with the terms of the mortgage. It lists the legal rights and obligations of you and the lender, including the lender's right to foreclose on the home if you default on the loan.

Just before you receive the keys to your new home:

- The terms of the agreement between you and your mortgage lender will be confirmed.
- The terms you and the seller agreed to in the sales contract will be confirmed.
- Your loan will go into effect and you will receive your mortgage.
- Ownership of the home will be transferred.

Be very clear about when your first mortgage payment is due and where you should send it.

For an at-a-glance look at what you can expect at closing, visit www.mba.org/Documents/Consumertools/MBA_Consumer_Tools-4Settlement.pdf

AFTER THE CLOSING

A few weeks after closing you'll receive a coupon book or statement in the mail clearly listing due dates and the correct mailing address for sending your payments. Don't be surprised when sometime after the closing you are notified that your loan is being transferred to another lender or investor for "servicing," which means this entity will now be the collector of the loan payments. You should know, though, when you apply for the loan if the lender intends to service your loan or transfer the servicing.



IMPORTANT TOOLS & RESOURCES

HOMEBUYER CALCULATOR

Affordability Calculator, Bi-Weekly Mortgage Calculator, Mortgage Calculator, Rate Comparison Calculator, and Realty Transfer Fee Calculator – Located in New Jersey Realtors® consumer section.

www.njrealtor.com/consumers/calculators

LOCATION AFFORDABILITY PORTAL

By entering your new home's location, this tool can help you estimate your total housing-related costs, including transportation.

www.locationaffordability.info

HMFA PARTICIPATING LENDER LIST

www.njhousing.gov/includes/lender.html

SITE EVALUATOR

This new tool can be used to determine if a project is located in a Smart Growth Area and its eligibility for various HMFA financing programs.

www.njhousing.gov/homeownership/buyers/site/

ANNUALCREDITREPORT.COM

www.annualcreditreport.com

UNDERSTANDING, BUILDING OR REPAIRING YOUR CREDIT REPORT

www.consumer.gov/articles/1009-your-credit-history

MORTGAGE APPLICATION CHECKLIST

Prepare to apply for a mortgage having the following documents and information ready with this handy printable PDF.

www.njhousing.gov/media/download/buyer/hb_rh_mortgage_checklist.pdf

MORTGAGE APPLICATION PROCESS FLOWCHART

www.njhousing.gov/media/download/buyer/hb_rh_mortgage_flowchart.pdf

HUD.GOV

U.S. Department of Housing and Urban Development
portal.hud.gov/hudportal/HUD

REALTOR.COM

Search for available homes via this website that is part of the National Association of Realtors®.

www.realtor.com

NJAR.COM

New Jersey Association of Realtors®

www.njar.com

NJHRC.GOV

The New Jersey Housing Resource Center

www.njhrc.gov

ASHI.ORG

American Society of Home Inspectors

www.ashi.org

NAHI.ORG

National Association of Home Inspectors - New Jersey

www.nahi.org

NJALPHI.COM

New Jersey Association of Licensed Professional Home Inspectors

www.njalphi.com

VA.GOV

U.S. Department of Veterans Affairs

www.va.gov

RURDEV.USDA.GOV

U.S. Department of Agriculture Rural Development
Single Family Housing Loans and Grants

www.rurdev.usda.gov/hsf_sfh.html

FREQUENTLY ASKED QUESTIONS

These questions and answers are intended to provide general information and are not the final word on program requirements. For more information, be sure to review the description of the program you are interested in, call a participating lender, or call our toll free hotline: 1-800-NJ-HOUSE (1-800-654-6873).

WHAT IS THE NEW JERSEY HOUSING AND MORTGAGE FINANCE AGENCY?

The New Jersey Housing and Mortgage Finance Agency (HMFA) is a statutorily authorized entity of the State of New Jersey. The Agency is empowered to raise money by issuing tax-exempt bonds. Since the Agency's borrowing costs are low, it can pass the savings along in the form of low-interest rate mortgage loans to qualified homebuyers. The Agency also is empowered to finance multifamily rental housing and is the allocating agency for the federal Low Income Housing Tax Credit program. For more information, be sure to visit the HMFA's website at: www.njhousing.gov

DO I HAVE TO BE A CITIZEN OF THE U.S. TO APPLY FOR A LOAN?

No, but you must be a permanent legal resident with a green card and a Social Security number.

WHAT IF I HAVE BAD CREDIT OR NO CREDIT?

Every borrower's credit history has to be individually considered. Visit www.consumer.gov/articles/1009-your-credit-history. It is not a good idea to make assumptions about whether one's credit is good or bad. You can have a lender evaluate your credit history and pre-qualify you for a loan or advise you how to become "mortgage ready." Credit counseling agencies are an excellent resource if your credit needs to be repaired.

HOW MUCH CAN I BORROW BASED ON MY SALARY?

The amount varies based on the interest rate, length of the mortgage term, taxes and insurance costs, condo fees, and other factors. Refer to the mortgage calculator for an estimated amount.

Access the calculator here: www.njrealtor.com/consumers/calculators

HOW LONG WILL IT TAKE AFTER I HAVE APPLIED FOR A MORTGAGE?

Your mortgage lender will begin the work of verifying the information you have provided them. This process can take from one to several weeks, depending on a variety of factors. Within three days of your application, your lender will provide you an estimate of your closing costs. You will also get a statement about your estimated monthly payment, the cost of your finance charges and other facts about your mortgage.

Please contact an HMFA representative directly at 1-800-NJ-HOUSE for more information.



GLOSSARY

The homebuying process can introduce a wealth of new vocabulary and unfamiliar terms. Here's a handy glossary to familiarize you with the language being used throughout the process. Remember: an educated homebuyer is a successful homebuyer!

A

ACCEPTANCE

An offeree's consent to enter into a contract and be bound by the terms of the offer.

ADJUSTABLE RATE MORTGAGE (ARM)

A mortgage loan that stipulates the interest rate will be adjusted at a future date, usually one, three, or five years. The initial rate is usually lower than the prevailing market rate for fixed loans, but the borrower assumes the risk of a higher rate when the adjustment is made. See: Index

AFFORDABILITY ANALYSIS

A detailed analysis of your ability to afford the purchase of a home. An affordability analysis takes into consideration your income, liabilities, and available funds, along with the type of mortgage you plan to use and the closing costs that you might expect to pay.

AMENITY

A feature of real property that enhances its attractiveness and increases the occupant's or user's satisfaction, although the feature is not essential to the property's use. Natural amenities include a pleasant or desirable location near water, scenic views of the surrounding area, etc. Human-made amenities include swimming pools, tennis courts, community buildings, and other recreational facilities.

AMORTIZATION

The gradual repayment of a mortgage loan by installments.

AMORTIZATION SCHEDULE

A timetable for payment of a mortgage loan. An amortization schedule shows the amount of each payment applied to interest and principal and shows the remaining balance after each payment is made.

AMORTIZATION TERM

The amount of time required to amortize the mortgage loan. The amortization term is expressed as a number of months. For example, for a 30-year fixed-rate mortgage, the amortization term is 360 months.

ANNUAL MORTGAGOR STATEMENT

A report sent to the mortgagor each year. The report shows how much was paid in taxes and interest during the year, as well as the remaining mortgage loan balance at the end of the year.

ANNUAL PERCENTAGE RATE (APR)

The cost of a mortgage stated as a yearly rate; includes such items as interest, mortgage insurance, and loan origination fee (points).

APPLICATION

A form used to apply for a mortgage loan and to record pertinent information concerning a prospective mortgagor and the proposed security.

APPRAISAL

A written analysis of the estimated value of a property prepared by a qualified appraiser.

APPRAISED VALUE

An opinion of a property's fair market value, based on an appraiser's knowledge, experience, and analysis of comparable sales and other factors.

APPRAISER

A state-licensed person qualified by education, training, and experience to estimate the value of real property and personal property.

GLOSSARY

C

CERTIFICATE OF ELIGIBILITY

A document issued by the federal government certifying a veteran's eligibility for a U.S. Department of Veterans Affairs (VA) mortgage.

CERTIFICATE OF REASONABLE VALUE (CRV)

A document issued by the U.S. Department of Veterans Affairs (VA) that establishes the maximum value and loan amount for a VA mortgage.

CERTIFICATE OF TITLE

A statement provided by an abstract company, title company, or attorney stating that the title to real estate is legally held by the current owner.

CHAIN OF TITLE

The history of all of the documents that transfer title to a parcel of real property, starting with the earliest existing document and ending with the most recent.

CLEAR TITLE

A title that is free of liens or legal questions as to ownership of the property.

CLOSING

A meeting at which a sale of a property is finalized by the buyer signing the mortgage documents and paying closing costs. *See:* Settlement.

CLOSING COSTS

Expenses (over and above the price of the property) incurred by buyers and sellers in transferring ownership of a property. Closing costs normally include an origination fee, an attorney's fee, taxes, an amount placed in escrow, and charges for obtaining title insurance and a survey. Closing costs will vary according to the area of the country; lenders or realtors often provide estimates of closing costs to prospective homebuyers.

CLOSING STATEMENT

Also known as Settlement Sheet.
See: HUD-1 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 a quitclaim deed, release, or court action.

COINSURANCE

A sharing of insurance risk between the insurer and the insured. Coinsurance depends on the relationship between the amount of the policy and a specified percentage of the actual value of the property insured at the time of the loss.

COINSURANCE CLAUSE

A provision in a hazard insurance policy that states the amount of coverage that must be maintained - as a percentage of the total value of the property - for the insured to collect the full amount of a loss.

COLLATERAL

An asset (such as a car or a home) that guarantees the repayment of a loan. The borrower risks losing the asset if the loan is not repaid according to the terms of the loan contract.

COLLECTION

The efforts used to bring a delinquent mortgage current and to file the necessary notices to proceed with foreclosure when necessary.

COMMISSION

The fee charged by a broker or agent for negotiating a real estate or loan transaction. A commission is generally a percentage of the price of the property or loan.

COMMITMENT LETTER

A formal offer by a lender stating the terms under which it agrees to lend money to a homebuyer. *See:* Loan Commitment



GLOSSARY

COMMON AREA ASSESSMENTS

Levies against individual unit owners in a condominium or planned unit development (PUD) project for additional capital to defray homeowners' association costs and expenses and to repair, replace, maintain, improve, or operate the common areas of the project.

COMMON AREAS

Those portions of a building, land, and amenities owned (or managed) 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 western and southwestern states, a form of ownership under which property acquired during a marriage is presumed to be owned jointly unless acquired as separate property of either spouse.

COMPARABLES

An abbreviation for comparable properties; used for comparative purposes in the appraisal process. Comparables are properties like the property under consideration; they have reasonably the same size, location, and amenities and have recently been sold. Comparables help the appraiser determine the approximate fair market value of the subject property.

CONDEMNATION

The determination that a building is not fit for use or is dangerous and must be destroyed; the taking of private property for a public purpose through an exercise of the right of eminent domain.

CONDOMINIUM

A real estate project in which each unit owner has title to a unit in a building, an undivided interest in the common areas of the project, and sometimes the exclusive use of certain limited common areas.

CONSTRUCTION LOAN

A short-term, interim loan for financing the cost of construction. The lender makes payments to the builder at periodic intervals as the work progresses.

CONSUMER REPORTING AGENCY (OR BUREAU)

An organization that prepares reports that are used by lenders to determine a potential borrower's credit history. The agency obtains data for these reports from a credit repository, as well as from other sources.

CONTINGENCY

A condition that must be met before a contract is legally binding. For example, home purchasers often include a contingency that specifies that the contract is not binding until the purchaser obtains a satisfactory home inspection report from a qualified home inspector.

CONTRACT

An oral or written agreement to do or not to do a certain thing.

CONVENTIONAL MORTGAGE

A mortgage that is not insured or guaranteed by the federal government.

COOPERATIVE (CO-OP)

A type of multiple ownership in which the residents of a multi-unit housing complex own shares in the cooperative corporation that owns the property, giving each resident the right to occupy a specific apartment or unit.

COOPERATIVE CORPORATION

A business trust entity that holds title to a cooperative project and grants occupancy rights to particular apartments or units to shareholders through proprietary leases or similar arrangements.

COSIGNER

A person who signs a promissory note along with the borrower. A cosigner's signature guarantees that the loan will be repaid, because the borrower and the cosigner are equally responsible for the repayment.

GLOSSARY

COVENANT

A clause in a mortgage that obligates or restricts the borrower and that, if violated, can result in foreclosure.

CREDIT

An agreement in which a borrower receives something of value in exchange for a promise to repay the lender at a later date.

CREDIT HISTORY

A record of an individual's open and fully repaid debts. 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 often bought by mortgagors because it will pay off the mortgage debt if the mortgagor dies while the policy is in force.

CREDITOR

A person to whom money is owed.

CREDIT REPORT

A report of an individual's credit history prepared by a credit bureau and used by a lender in determining a loan applicant's creditworthiness.

CREDIT REPOSITORY (BUREAU)

An organization that gathers, records, updates, and stores financial and public records information about the payment records of individuals who are being considered for credit.

CREDIT SCORE

A computer-determined number (score) that reflects an evaluation of positive and negative credit information about an individual. Many lenders use this number when determining whether to extend credit. The score is available from the credit bureaus, usually for a fee. Credit Scores are sometimes referred to as FICO scores after the Fair Isaacs Company that developed the credit scoring model.

D

DEBT

An amount owed to another.

DEED

The legal document conveying title to a property.

DEED-IN-LIEU

A deed given by a mortgagor to the mortgagee to satisfy a debt and avoid foreclosure. Also called a voluntary conveyance.

DEED OF TRUST

The document used in some states instead of a mortgage; title is conveyed to a trustee.

DEFAULT

Failure to make mortgage payments on a timely basis or to comply with other requirements of a mortgage.

DELINQUENCY

Failure to make mortgage payments when mortgage payments are due.

DEPOSIT

A sum of money given to bind the sale of real estate, or a sum of money given to ensure payment or an advance of funds in the processing of a loan.

DEPRECIATION

A decline in the value of property; the opposite of appreciation.

DOWNPAYMENT

The part of the purchase price of a property that the buyer pays in cash and does not finance with a mortgage.

DUE-ON-SALE PROVISION

A provision in a mortgage that allows the lender to demand repayment in full if the borrower sells the property that serves as security for the mortgage.

GLOSSARY

E

EARNEST MONEY DEPOSIT

A deposit made by the potential homebuyer to show that he or she is serious about buying the house.

EASEMENT

A right of way giving persons other than the owner access to or over a property.

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.

EFFECTIVE GROSS INCOME

Normal annual income including overtime that is regular or guaranteed. The income may be from more than one source. Salary is generally the principal source, but other income may qualify if it is significant and stable.

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

A housing initiative that offers several different ways for employers to work with local lenders to develop plans to assist their employees in purchasing homes.

ENCROACHMENT

An improvement that intrudes illegally on another's property.

ENCUMBRANCE

Anything that affects or limits the fee simple title to a property, such as mortgages, leases, easements, or restrictions.

EQUAL CREDIT OPPORTUNITY ACT (ECOA)

A federal law that requires lenders and other creditors to make credit equally available without discrimination based on race, color, religion, national origin, age, sex, marital status, or receipt of income from public assistance programs.

EQUITY

A homeowner's financial interest in a property. Equity is the difference between the fair market value of the property and the amount still owed on its mortgage.

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.

ESCROW ACCOUNT

The account in which a mortgage servicer holds the borrower's escrow payments prior to paying property expenses.

ESCROW COLLECTIONS

Funds collected by the servicer and set aside in an escrow account to pay the borrower's property taxes, mortgage insurance, and hazard insurance.

ESCROW DISBURSEMENTS

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

ESCROW PAYMENT

The portion of a mortgagor's monthly payment that is held by the servicer to pay for taxes, hazard insurance, mortgage insurance, lease payments, and other items as they become due. Known as impounds or reserves in some states.

GLOSSARY

ESTATE

The ownership interest of an individual in real property. The sum total of all the real property and personal property owned by an individual at time of death.

EVICTION / EJECTMENT

The lawful expulsion of an occupant 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 time, but reserving the owner's right to sell the property alone without the payment of a commission.

EXECUTOR

A person named in a will to administer an estate. The court will appoint an administrator if no executor is named. Executrix is the feminine form.

F

FAIR CREDIT REPORTING ACT

A consumer protection law that regulates the disclosure of consumer credit reports by consumer/credit reporting agencies and establishes procedures for correcting mistakes on one's credit record.

FAIR MARKET VALUE

The highest price that a buyer, willing but not compelled to buy, would pay, and the lowest a seller, willing but not compelled to sell, would accept.

FEDERAL HOUSING ADMINISTRATION (FHA)

An agency of the U.S. 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.

FHA MORTGAGE

A mortgage that is insured by the Federal Housing Administration (FHA). *See:* Government Mortgage.

FIRM COMMITMENT

A lender's agreement to make a loan to a specific borrower on a specific property.

FIRST MORTGAGE

A mortgage that is the primary lien against a property.

FIXED INSTALLMENT

The monthly payment due on a mortgage loan. The fixed installment includes payment of both principal and interest.

FIXED-RATE MORTGAGE (FRM)

A mortgage in which the interest rate does not change during the entire term of the loan.

FIXTURE

Personal property that becomes real property when attached in a permanent manner to real estate.

FLOOD INSURANCE

Insurance that compensates for physical property damage resulting from flooding. It is required for properties located in federally designated flood areas.

FORECLOSURE

The legal process by which a borrower in default under a mortgage is deprived of his or her interest in the mortgaged property. This usually involves a forced sale of the property at public auction with the proceeds of the sale being applied to the mortgage debt.

FORFEITURE

The loss of money, property, rights, or privileges due to a breach of legal obligation.



GLOSSARY

G

GOVERNMENT MORTGAGE

A mortgage that is insured by the Federal Housing Administration (FHA) or guaranteed by the U.S. Department of Veterans Affairs (VA) or the USDA Rural Development Service. Also known as an FHA Mortgage, VA Mortgage or Guaranteed Loan.

GUARANTEE MORTGAGE

A mortgage that is guaranteed by a third party.

GUARANTEED LOAN

See: Government Mortgage

H

HAZARD INSURANCE

Insurance coverage that compensates for physical damage to a property from fire, wind, vandalism, or other hazards.

HOME EQUITY LINE OF CREDIT

A mortgage loan, usually in a subordinate position, that allows the borrower 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 a property.

HOME INSPECTION

A thorough inspection that evaluates the structural and mechanical condition of a property. A satisfactory home inspection is often included as a contingency by the purchaser.

HOMEOWNERS' ASSOCIATION

A nonprofit association that manages the common areas of a planned unit development (PUD) or condominium project. In a condominium project, it has no ownership interest in the common elements. In a PUD project, it holds title to the common elements.

HOMEOWNER'S INSURANCE

An insurance policy that combines personal liability insurance and hazard insurance coverage for a dwelling and its contents.

HOMEOWNER'S WARRANTY (HOW)

A type of insurance that covers repairs to specified parts of a house for a specific period of time. It is provided by the builder or property seller as a condition of the sale.

HOUSING EXPENSE RATIO

The percentage of gross monthly income that goes toward paying housing expenses.

HUD MEDIAN INCOME

Median family income for a particular county or metropolitan statistical area (MSA), as estimated by the U. S. Department of Housing and Urban Development (HUD).

HUD-1 STATEMENT

A document that provides an itemized listing of the funds that are payable at closing. Items that appear on the statement include real estate commissions, loan fees, points, and initial escrow amounts. Each item on the statement is represented by a separate number within a standardized numbering system. The totals at the bottom of the HUD-1 Statement define the seller's net proceeds and the buyer's net payment at closing. The blank form for the statement is published by the U. S. Department of Housing and Urban Development (HUD). The HUD-1 Statement is also known as the closing statement or settlement sheet. *See also:* Real Estate Settlement Procedures Act (RESPA).

I

INCOME PROPERTY

Real estate developed or improved to produce income.

GLOSSARY

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 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 that are associated with the mortgage.

IN-FILE CREDIT REPORT

An objective account, normally computer-generated, of credit and legal information obtained from a credit repository.

INFLATION

An increase in the amount of money or credit available in relation to the amount of goods or services available, which causes an increase in the general price level of goods and services. Over time, inflation reduces the purchasing power of a dollar, making it worth less.

INITIAL INTEREST RATE

The original interest rate of the mortgage at the time of closing. This rate changes for an adjustable-rate mortgage (ARM). Sometimes known as start rate or teaser.

INSTALLMENT

The regular periodic payment that a borrower agrees to make to a lender.

INSTALLMENT LOAN

Borrowed money that is repaid in equal payments, known as installments. A car loan is often paid for as an installment loan.

INSURABLE TITLE

A property title that a title insurance company agrees to insure against defects and disputes.

INSURANCE

A contract that provides compensation for specific losses in exchange for a periodic payment. An individual contract is known as an insurance policy, and the periodic payment is known as an insurance premium.

INSURANCE BINDER

A document that states that insurance is temporarily in effect. Because the coverage will expire by a specified date, a permanent policy must be obtained before the expiration date.

INSURED MORTGAGE

A mortgage that is protected by the Federal Housing Administration (FHA) or by private mortgage insurance (PMI). If the borrower defaults on the loan, the insurer must pay the lender the lesser of the loss incurred or the insured amount.

INTEREST

The fee charged for borrowing money.

INTEREST ONLY MORTGAGE

A mortgage loan that stipulates that only the monthly interest portion of the loan will be paid until a future date, usually in one, three, or five years. Borrowers must be aware that when the full payment of principal and interest starts the monthly payment will be substantially higher.

INTEREST RATE

The rate of interest in effect for the monthly payment due.

INTEREST RATE BUY-DOWN PLAN

An arrangement wherein the property seller (or any other party) deposits money to an account so that it can be released each month to reduce the mortgagor's monthly payments during the early years of a mortgage. During the specified period, the mortgagor's effective interest rate is "bought down" below the actual interest rate.

GLOSSARY

J

JOINT TENANCY

A form of co-ownership that gives each tenant equal interest and equal rights in the property, including the right of survivorship. *See also:* Right of Survivorship

JUDGMENT

A decision made by a court of law. For judgments that require the repayment of a debt, the court may place a lien against the debtor's real property as collateral for the judgment's creditor.

JUDGMENT LIEN

A lien on the property of a debtor resulting from the decree of a court.

JUDICIAL FORECLOSURE

A type of foreclosure proceeding used in some states (including New Jersey) that is handled as a civil lawsuit and conducted entirely under the auspices of a court.

L

LATE CHARGE

The penalty a borrower must pay when a payment is made a stated number of days (usually 15) after the due date.

LEASE-PURCHASE MORTGAGE

A contractual agreement between a tenant and an owner where the owner agrees to credit a portion of the monthly rent toward a downpayment and convey title to the property to the tenant after a specified period of time for an agreed-upon sale 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 financial obligations. Liabilities include long-term and short-term debt, as well as any other amounts that are owed to others.

LIABILITY INSURANCE

Insurance coverage that offers protection against claims alleging that a property owner's negligence or inappropriate action resulted in bodily injury or property damage to another party.

LIEN

A legal claim against a property that must be paid off when the property is sold.

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.

LOAN

A sum of borrowed money (principal) that is generally repaid with interest.

LOAN COMMITMENT

See: Commitment Letter

LOAN ORIGATION

The process by which a mortgage lender brings into existence a mortgage secured by real property.

LOAN-TO-VALUE (LTV) PERCENTAGE

The relationship between the principal balance of the mortgage and the appraised value (or sales price if it is lower) of the property. For example, a \$100,000 home with an \$80,000 mortgage has a LTV percentage of 80 percent.

GLOSSARY

LOCK-IN

A written agreement in which the lender guarantees a specified interest rate if a mortgage goes to closing within a set period of time. The lock-in also usually specifies the number of points to be paid at closing. *See also:* Rate Lock

LOCK-IN PERIOD

The time period during which the lender has guaranteed an interest rate to a borrower.

M

MARGIN

For an adjustable-rate mortgage (ARM), the amount that is added to the index to establish the interest rate on each adjustment date, subject to any limitations on the interest rate change.

MASTER ASSOCIATION

A homeowners' association in a large condominium or planned unit development (PUD) project that is made up of representatives from associations covering specific areas within the project. In effect, it is a "second-level" association that handles matters affecting the entire development, while the "first-level" associations handle matters affecting their particular portions of the project.

MATURITY

The date on which the principal balance of a loan, bond, or other financial instrument becomes due and payable.

MERGED CREDIT REPORT

A credit report that contains information from three credit repositories. When the report is created, the information is compared for duplicate entries. Any duplicates are combined to provide a summary of your credit.

MODIFICATION

The act of changing any terms of the mortgage.

MONTHLY FIXED INSTALLMENT

That portion of the total monthly payment that is applied toward principal and interest. When a mortgage negatively amortizes, the monthly fixed installment does not include any amount for principal reduction.

MONTHLY PAYMENT MORTGAGE

A mortgage that requires payments to reduce the debt once a month.

MORTGAGE

A legal document that pledges a property to the lender as security for payment of a debt.

MORTGAGEE

The lender in a mortgage agreement.

MORTGAGOR

The borrower in a mortgage agreement.

MORTGAGE BANKER

A company that originates mortgages usually for resale in the secondary mortgage market.

MORTGAGE BROKER

An individual or company that brings borrowers and lenders together for the purpose of loan origination. Mortgage brokers typically require a fee or a commission for their services.

MORTGAGE INSURANCE

A contract that insures the lender against loss caused by a mortgagor's default on a government mortgage or conventional mortgage. Mortgage insurance can be issued by a private company or by a government agency such as the Federal Housing Administration (FHA). Depending on the type of mortgage insurance, the insurance may cover a percentage of or virtually all of the mortgage loan. *See:* Private Mortgage Insurance (PMI).



GLOSSARY

MORTGAGE INSURANCE PREMIUM (MIP)

The amount paid by a mortgagor 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 term life insurance often bought by mortgagors. The amount of coverage decreases as the principal balance declines. In the event that the borrower dies while the policy is in force, the debt is automatically satisfied by insurance proceeds.

MULTIFAMILY MORTGAGE

A residential mortgage on a dwelling that is designed to house more than four families, such as a high-rise apartment complex.

N

NEGATIVE AMORTIZATION

A gradual increase in mortgage debt that occurs when the monthly payment is not large enough to cover the entire principal and interest due. The amount of the shortfall is added to the remaining balance to create “negative” amortization.

NET WORTH

The value of all of a person’s assets, including cash, minus all liabilities.

NO CASH-OUT REFINANCE

A refinance transaction in which the new mortgage amount is limited to the sum of the remaining balance of the existing first mortgage, closing costs (including prepaid items), points, the amount required to satisfy any mortgage liens that are more than one year old (if the borrower chooses to satisfy them), and other funds for the borrower’s use (as long as the amount does not exceed 1 percent of the principal amount of the new mortgage).

NON-LIQUID ASSET

An asset that cannot easily be converted into cash.

NOTE

A legal document that obligates a borrower to repay a mortgage loan at a stated interest rate during a specified period of time.

NOTE RATE

The interest rate stated on a mortgage note.

NOTICE OF DEFAULT

A formal written notice to a borrower that a default has occurred and that legal action may be taken.

O

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 for processing a loan application. The origination fee is stated in the form of points. One point is 1 percent of the mortgage amount.

OWNER FINANCING

A property purchase transaction in which the property seller provides all or part of the financing.

P

PARTIAL PAYMENT

A payment that is not sufficient to cover the scheduled monthly payment on a mortgage loan.

PAYMENT CHANGE DATE

The date when a new monthly payment amount takes effect on an adjustable-rate mortgage (ARM) or a graduated-payment adjustable-rate mortgage (GPARM). Generally, the payment change date occurs in the month immediately after the adjustment date.

GLOSSARY

PERSONAL PROPERTY

Any property that is not real property.

PITI RESERVES

A cash amount that a borrower must have on hand after making a downpayment and paying all 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 project or subdivision that includes common property that is owned and maintained by a homeowners' association for the benefit and use of the individual PUD unit owners.

POINT

A one-time charge by the lender for originating a loan or to reduce the interest rate. A point is 1 percent of the amount of the mortgage.

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.

PREARRANGED REFINANCING AGREEMENT

A formal or informal arrangement between a lender and a borrower wherein the lender agrees to offer special terms (such as a reduction in the costs) for a future refinancing of a mortgage being originated as an inducement for the borrower to enter into the original mortgage transaction.

PRE-FORECLOSURE SALE

A procedure in which the investor allows a mortgagor to avoid foreclosure by selling the property for less than the amount that is owed to the investor.

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.

PRE-QUALIFICATION

The process of determining how much money a prospective homebuyer will be eligible to borrow before he or she applies for a loan.

PRIME RATE

The interest rate that banks charge to their preferred customers. Changes in the prime rate influence changes in other rates, including mortgage interest rates.

PRINCIPAL

The amount borrowed or remaining unpaid. The part of the monthly payment that reduces the remaining balance of a mortgage.

PRINCIPAL BALANCE

The outstanding balance of principal on a mortgage. The principal balance does not include interest or any other charges.

PRINCIPAL, INTEREST, TAXES, & INSURANCE (PITI)

The four components of a monthly mortgage payment. Principal refers to the part of the monthly payment that reduces the remaining balance of the mortgage. Interest is the fee charged for borrowing money. Taxes and insurance refer to the amounts that are paid into an escrow account each month for property taxes and mortgage and hazard insurance.

PRIVATE MORTGAGE INSURANCE (PMI)

Mortgage insurance (MI) that is provided by a private mortgage insurance company to protect lenders against loss if a borrower defaults. Most lenders generally require MI for a loan with a loan-to-value (LTV) percentage in excess of 80%.



GLOSSARY

PROMISSORY NOTE

A written promise to repay a specified amount over a specified period of time.

PUBLIC AUCTION

A meeting in an announced public location to sell property to repay a mortgage that is in default.

PURCHASE AND SALE AGREEMENT

A written contract signed by the buyer and seller stating the terms and conditions under which a property will be sold.

PURCHASE MONEY TRANSACTION

The acquisition of property through the payment of money or its equivalent.

Q

QUALIFYING RATIOS

Calculations that are used in determining whether a borrower can qualify for a mortgage. They usually consist of two separate calculations: a housing expense as a percent of income ratio and total debt obligations as a percent of income ratio.

QUITCLAIM DEED

A deed that transfers without warranty whatever interest or title a grantor may have at the time the conveyance is made.

R

RATE LOCK

A commitment issued by a lender to a borrower or other mortgage originator guaranteeing a specified interest rate for a specified period of time. *See:* Lock-In.

REAL ESTATE AGENT

A person licensed to negotiate and transact the sale of real estate on behalf of the property owner or homebuyer.

REAL ESTATE SETTLEMENT PROCEDURES ACT (RESPA)

A consumer protection law that requires lenders to give borrowers advance notice of closing costs. *See also:* HUD-1 Statement.

REAL PROPERTY

Land and appurtenances, including anything of a permanent nature such as structures, trees, minerals, and the interest, benefits, and inherent rights thereof.

REALTOR®

A real estate 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 County Clerk who keeps records of transactions that affect real property in the county of purchase, including deeds and mortgages.

RECORDING

The noting in the registrar's office of the details of a properly executed legal document, such as a deed, a mortgage note, a satisfaction of mortgage, or an extension of mortgage, thereby making it a part of the public record.

REHABILITATION MORTGAGE

A mortgage created to cover the costs of repairing, improving, and sometimes acquiring an existing property.

REMAINING BALANCE

The amount of principal that has not yet been repaid.

REMAINING TERM

The original amortization term minus the number of payments that have been applied.

REPAYMENT PLAN

An arrangement made to repay delinquent installments or advances. Lenders' formal repayment plans are called relief provisions.

GLOSSARY

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 SURVIVORSHIP

In joint tenancy, the right of survivors to acquire the interest of a deceased joint tenant. *See also:* Joint Tenancy

S

SECOND MORTGAGE

A mortgage that has a lien position subordinate to the first mortgage.

SECONDARY MORTGAGE MARKET

The buying and selling of existing mortgages.

SECURED LOAN

A loan that is backed by collateral.

SECURITY

The property that will be pledged as collateral for a loan.

SERVICER

An organization that collects principal and interest payments from borrowers and manages borrowers' escrow accounts. The servicer often services mortgages that have been purchased by an investor in the secondary mortgage market.

SERVICING

The collection of mortgage payments from borrowers and related responsibilities of a loan servicer.

SETTLEMENT

See: Closing.

SETTLEMENT SHEET

See: HUD-1 Statement.

SPECIAL DEPOSIT ACCOUNT

An account that is established for rehabilitation mortgages to hold the funds needed for the rehabilitation work so they can be disbursed from time to time as particular portions of the work are completed.

STANDARD PAYMENT CALCULATION

The method used to determine the monthly payment required to repay the remaining balance of a mortgage in substantially equal installments over the remaining term of the mortgage at the current interest rate.

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 drawing or map showing the precise legal boundaries of a property, the location of improvements, easements, rights of way, encroachments, and other physical features.

SWEAT EQUITY

Contribution to the construction or rehabilitation of a property in the form of labor or services rather than cash.

T

TENANCY BY THE ENTIRETY

A type of joint tenancy of property that provides right of survivorship and is available only to a husband and wife.



GLOSSARY

TENANCY IN COMMON

A type of joint tenancy in a property without right of survivorship. Contrasts with tenancy by the entirety and joint tenancy.

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 loss arising from disputes over ownership of a property.

TITLE SEARCH

A check of the title records to ensure that the seller is the legal owner of the property and that there are no liens or other claims outstanding.

TOTAL EXPENSE RATIO

Total obligations as a percentage of gross monthly income. The total expense ratio includes monthly housing expenses plus other monthly debts.

TRANSFER TAX

State tax payable when title passes from one owner to another.

TRUTH-IN-LENDING

A federal law that requires lenders to fully disclose, in writing, the terms and conditions of a mortgage, including the annual percentage rate (APR) and other charges.

TRUSTEE

A fiduciary who holds or controls property for the benefit of another.

U

UNDERWRITING

The process of evaluating a loan application to determine the risk involved for the lender. Underwriting involves an analysis of the borrower's creditworthiness and the quality of the property itself.

UNSECURED LOAN

A loan that is not backed by collateral.

U. S. DEPARTMENT OF VETERANS AFFAIRS (VA)

An agency of the federal government that guarantees residential mortgages made to eligible veterans of the military services. The guarantee protects the lender against loss and thus encourages lenders to make mortgages to veterans.

V

VA MORTGAGE

A mortgage that is guaranteed by the U.S. Department of Veterans Affairs (VA). *See:* Government Mortgage.

VESTED

Having the right to use a portion of a fund, such as an individual retirement fund. For example, individuals who are 100 percent vested can withdraw all of the funds that are set aside for them in a retirement fund. However, taxes may be due on any funds that are actually withdrawn.

HOUSING EXPENSE CALCULATOR

Estimate your monthly mortgage	+\$
Add in the monthly costs for:	
Mortgage insurance (approx. 75¢ per \$ 1,000)	+\$
*Property taxes	+\$
Homeowner's insurance	+\$
Condominium fees (Homeowner Association fees if applicable)	+\$
SUBTOTAL: This represents your monthly housing expense and, unless higher expenses are permitted, should not exceed 28% of your gross monthly household income before taxes. (Total monthly housing expenses ÷ by gross monthly income)	\$
Other monthly expenses:	
Add your other monthly payments, such as car loans, child support, student loans, installment and credit card debts, etc.	+\$
GRAND TOTAL: This total should not exceed 36% of your gross monthly income unless higher expenses are permitted. (Total monthly housing expenses + total other expenses ÷ by gross monthly income)	\$
* Call the town's tax assessor to determine the amount of taxes per \$100 of assessed value.	

QUESTIONS & NOTES

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CONTACT HMFA



QUESTIONS? CALL OUR HOTLINE MONDAY THROUGH FRIDAY, 9 A.M. TO 5 P.M.:

1-800-NJ-HOUSE (654-6873)

US POSTAL MAILING ADDRESS:

P.O. Box 18550
Trenton, NJ 08650-2085

FEDEX, UPS AND VISITORS:

637 South Clinton Avenue
Trenton, NJ 08611

(Enter on Dye Street between South Clinton and South Broad Streets)

MAIN SWITCHBOARD: 609-278-7400

WEBSITE: www.njhousing.gov