Your Vacation Home Buyer's Guide

Making a sound financial investment in your own private retreat

Table Of Contents

A Vacation Home Dream Come True

A cottage by the sea. A cabin in the woods. A condo in the city. Whatever your idea of the perfect getaway, a vacation property offers many rewards. It can be an alternative to the stock market for investors looking to diversify, a quick haven for R & R, and a place to gather with friends and family. Now that the Baby Boomer generation is entering middle age (the time of life when most people buy a second property), purchases of vacation homes are expected to soar. Another influence: attractively low interest rates are helping make a vacation home quite enticing. And finally, telecommunication is making it possible for people to conduct business from virtually anywhere. So grab your laptop, trade your desk for a hammock, and get ready to enjoy the many benefits of owning a vacation property.

The Numbers Keep Rising

The second home market has shown steady growth for the last decade, with an increase of 25% over the last five years to $50 billion in sales. The market is expected to hit $150 billion by 2005. A study conducted by the National Association of Realtors® (NAR) indicates that during the first quarter of 2003, 15% of homebuyers were purchasing a second home, already owned a second home, or were buying a new primary home and keeping their existing one as a second home. In fact, forecasters expect Americans to purchase 3.6 million second homes over the next ten years. That's about 1,000 a day!

It's Not Too Late

With such a strong demand, is it possible for you to find – and afford – a second property? Definitely, with knowledge, patience, a little luck, and our support! This guide will help you begin your quest by defining your needs, targeting your search areas, and describing the financing options available to you.

Let's Get Started

What Is A Vacation Home?

Strictly speaking, a vacation home is a property where you spend any appreciable amount of time away from your primary residence. Vacation homes are generally not rented out, but instead are used by the owner, family and friends. About 78% of all second homes are purely for recreational use, according to NAR, although there has been a sharp increase in the number of homeowners who are renting property as an alternative to a fickle stock market.

First-Rate Benefits In Second Home Ownership

Your home is probably your single largest asset. Buying a vacation home can be a great way to enjoy another major asset, building net worth as your property appreciates in value. You'll also enjoy a range of other benefits:

- **Tax Advantage.** You may enjoy the same tax benefits on your vacation home as on your primary residence. In addition, tax law changes made in 1997 eliminated the capital gains tax on the first $500,000 of profit for married couples selling their primary home. This has prompted many empty nesters to downsize to a smaller primary home and use some of their profit to buy a second home. Consult your tax advisor for details.

- **A Better Lifestyle.** It's an opportunity to relax and relate to your family, away from your hectic schedule.
- **Leveraged Investment.** Having a mortgage enables you to build equity with very little money down, instead of using cash for investments, such as in the stock market.
- **Retirement Option.** Many people purchase their second home with the intent to move in full time after retirement. At the very least, it can be a special place to enjoy when you have more time.
- **Wealth Building.** This can be one of the most secure investments you make, with a return on investment that typically exceeds the stock market. NAR notes that in 2002, in two years, the median price of second homes rose 26.8%, far outperforming Wall Street. In addition, the growing demand for real estate will help your property appreciate in value.
- **Resale Opportunity.** If you're handy you might be able to turn a fixer-upper into an attractive property that sells for a premium.
- **Asset Management.** Using the equity in your home to expand your real estate holdings can be a financially wise move. Plus the growing equity in your second home can fund your other wealth-building strategies.
- **Satisfaction.** It is a major accomplishment to be able to afford the luxury of owning two properties, not to mention the hours of fun and happy memories that will accompany your vacation home.

Where Should You Look?

Anywhere in the US, actually! There are vacation homes in every state, though the most popular locations are near bodies of water and mountains. What are the hottest destinations? EscapeHomes.com, an online listing service for second homes, tracked the traffic on vacation home destination pages plus buyer requests for agent services for a six-month period. Here is their list of 2003's top ten towns:

Ashland, OR	Naples, FL	Sedona, AZ
Cape May County, NJ	Outer Banks, NC	Vail, CO
Lake Tahoe, CA/NV	Palm Springs, CA	
Myrtle Beach, SC	Park City, UT	

Today's Hot Spot Vs.Tomorrow's

Buying in a sought-after area may mean more people, more traffic, and longer lines. But it also means you're in a place where others want to be. That protects your investment and justifies the premium price you may be paying. Another alternative: buy today in the sleepy little town that's going to become tomorrow's Aspen, Hilton Head, or Hamptons. In addition to a lovely setting, here are some other factors that make a town desirable:

- **Proximity.** Try to pick a vacation town that's within three hours of a major city and reasonably convenient to a large airport.
- **Lots To Do.** It's no coincidence that most major resort towns are near beaches, mountains or ski lifts. The more recreational activities, the better. Cultural events, such as museums, galleries and festivals, add to the appeal.
- **Commercial Investment.** Long-time residents may complain that new hotels and malls are popping up, but you'll know entrepreneurs in the area think the community is on an upswing.
- **Reasonable Weather.** You'll want to be able to reach your vacation home without heroic measures. And you'll want to be able to go outside to enjoy all those recreational opportunities.

Finding The Right Vacation Property

Nobody really needs a second home. The decision to buy is based primarily on emotion. A vacation property conjures up images of family activities, escape from job pressures, and the chance to build happy memories in a place that's familiar. Listening only to your heart, however — or to the high-pressure sales pitch of a resort property salesperson — can turn your second home into a first-class nightmare. This is, after all, a very large investment, and you want to be sure that it provides the best financial and recreational benefits to you. Take a moment to assess your needs by answering these questions:

1. **What is it for?** Are you looking for a getaway for two? A family gathering spot? A small home with future expansion potential? A weekend home you'll later retire to? Defining your goals helps you understand what scale home you'll need.

2. **What do you like to do?** Most people purchase a second home in an area that supports their recreational interests. Are you a skier or beach baby? Do you love cultural events or teeing off? You're buying a second home for fun, so be sure you choose a location that offers the things you enjoy doing.

3. **How far are you willing to travel?** Most buyers prefer their second home to be within driving distance. Research indicates that the median distance between primary and vacation homes is 185 miles. However, there is quite a range in distances, with one-third of the vacation homes located more than 500 miles away, and one-third less than 100 miles. If you're considering a location that's a plane ride away, be certain to factor in ticket costs, year-round flight availability and advance ticket requirements when making your decision. Most important, know your tolerance level. If it will be too difficult or expensive to reach your vacation home with in a few hours, you probably will end up not using it enough to justify the purchase.

4. **What's the right setting?** Once you've decided your general destination, it's time to refine your search. For example, if you've decide to buy in a seaside area, would you like to be on a golf course or near the water, in a low-maintenance townhouse or a more private single-family home? Other factors to consider: climate (find out now about hurricanes, flooding, tornadoes and the like) population, local attractions and off-season amenities.

5. **What do the residents think?** Talk with the people who live in the area, and hear what it's like to live in the community you're considering. Are there more renters than owners? Is there a high turnover? What's it like during the hurricane season, dry season or the high season? Visitors centers, Chambers of Commerce and the Internet can also provide valuable information about daily life.

6. **Have you been there enough?** Most buyers return to a destination two or three times before deciding to purchase. This gives you a chance to discover how that drive (or plane ride) really feels, and how easy it is to get tickets (or buck traffic). It also gives you a familiarity with the locale. This can be very important in an area with a major attraction. For example, will you enjoy your home when you are not visiting Disneyworld/attending the Sundance Festival/competing in a golf tournament? Ideally, even if your interests change, you should not lose interest in your vacation home. Also, look around for playgrounds, houses of worship, community centers and other facilities that matter to you.

7. **Do you know your financing options?** There are many ways to fund your vacation home purchase. For instance, you may be able to use the equity you've built in your primary residence to finance your second home. Your home mortgage consultant will be happy to explain the range of programs available. Later on in this guide we'll give you an overview of the most popular second home financing options.

8. **Are you having fun?** Take time to enjoy exploring different towns. Remember, this isn't your primary residence. Though you want to make a sound investment, you don't have to demand the best school district or most desirable block. Sometimes, being away from it all is the best way to go.

Put A Home Team Together

Working with a team of experts can smooth your way to a vacation home, especially if you're considering a long-distance purchase. Start by talking to your tax advisor and attorney about the feasibility of making this purchase, and about potential tax advantages. Once you've determined this venture is right for you, it's time to contact these professionals:

Real Estate Agents. A solid relationship makes all the difference, especially if you're considering locales that are farther than a car ride away. An agent becomes your ears, eyes and mouth, previewing properties, locating homes that meet your criteria, and perhaps working online to send you listings. A good real estate agent can:

- Establish what you want in a second home.
- Search Multiple Listing Service (MLS) and other resources for homes that match your needs.
- Tell you about appropriate homes.
- Provide valuable information on communities, comparable values of neighboring homes, tax rates, and building code regulations.
- Arrange for digital photos or virtual tours to be sent via Internet.
- 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.

Choose your agent carefully. If possible, visit the area you're thinking of moving to, and note the names of agents on "For Sale" signs. Ask anyone you can for referrals. Check Internet sites too. Then interview at least two or three agents in person if you can, or by phone. In addition to having experience in the town where you hope to buy your home, the agent you choose should be trustworthy and easy to talk to. And (be sure the agent understands you're a vacation property buyer, whose needs and priorities differ from those of permanent residents.

Appraisers. As an out-of-towner, it can be tricky knowing what homes in your targeted destination are going for. You can check newspapers for current prices on similar properties. But you might also consider hiring an appraiser. By establishing the current market values, an appraiser can help you determine that you are not overpaying for your home. 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 market values. Your purchase price, plus any improvement costs should be equal to (or less than) the selling price of those comparable homes. FYI: Most lenders will also require a full appraisal of the property, to assure that they are making a sound investment in funding your home loan.

Vacation Property Financing Experts. Whether you're all set to buy or just trying to figure out what you can afford, your lender can help. Whatever your financial profile, custom solutions from your vacation property specialist can help you capitalize on purchase opportunities through faster approvals, higher LTV ratios, and streamlined processing.

Here is a quick comparison of some of the most popular financing choices. Your home mortgage consultant can give you complete details on your options, including home equity loans or lines of credit.

Option	Benefits	Drawbacks
5/1 and 7/1 Adjustable Rate Mortgages offera low fixed rate for five or seven years, after which your loan becomes a one-year ARM.	• Down payments as low as 5%. • Money-saving – can amount to thousands of dollars over the term of your mortgage. • Tax deductible.[2]	• Payments fluctuate as time goes on which can make it more of a challenge to budget your monthly costs.
Home equity loan or line of credit[1] uses the equity you've established in your primary residence to pay for your second home.	• Provides purchase funds for your new home with out having to secure a new mortgage on your new property. • Tax deductible.[2]	• Reduces your overall unused equity in your primary residence.
Utilize cash savings to purchase your home outright	• No loan or interest to repay. • Enjoy 100% equity share in your home.	• Your personal resources are tied up so it might not be a sound money management option. • Loss of potential income from other investments. • Potential lack of tax savings. • Difficult to keep track of expenditures.

It All Begins With Preapproval

Before you begin your home search, we can help you prepare. A mortgage preapproval makes you a priority in the eyes of Real Estate agents and sellers. It helps define your price range, establishes you as a serious buyer, strengthens your negotiating power, and shortens the financing process. Once you know what you can spend, you're ready to shop with confidence and find the perfect vacation getaway.

Let The Search Begin!

By now you should have set a price range, selected recreational areas, and prioritized your needs. By all means, begin your home search with the classified section and the Multiple Listing Service (MLS) which real estate agents use. Then check out the many other opportunities available to you:

- Look into distressed properties that are returned to the lender (banks and mortgage companies) after foreclosures.
- Inquire about FHA/VA repossessions.
- Find online foreclosure listings.
- Work by word-of-mouth when you're visiting your potential second home community, tell anyone and everyone you know you are in the market for a vacation property and what your specific needs are.

2 Consult your tax advisor for details.

- Check the town's tax assessor's office for out-of-state owners.
- Drive through the neighborhoods of interest and leave pre-printed cards in the mailboxes of potential properties.
- Ask residents of targeted neighborhoods for any leads they may have.
- Post "wanted" ads in local papers, bulletin boards in community centers, grocery stores and local community Web sites.

Some "House Rules" To Remember

As you view properties, try to use the same criteria for your vacation home purchase as you would for a primary residence.

- Buy in the best neighborhood you can afford.
- Buy the cheapest house on the nicest block.
- Make certain any renovations will pay for themselves in increased value.
- Be sure the purchase price plus cost of improvements do not make your home the most expensive house on the block.

Increase Your Affordability

In the past, second properties were owned primarily by the affluent. With today's maturing Baby Boomers, an uncertain economic environment and favorable mortgage rates, vacation homes are finding their way into millions of Americans' lives and portfolios. This growing demand, coupled with a dwindling supply of properties in the hottest resort areas, may keep the market strong. But you can still stack the deck in your favor. These tips can increase your purchasing power and make a second home more affordable:

- Homes near resorts and popular recreational areas are sure to garner top prices. Try focusing your search on towns just outside the hot area.
- Shop off season. It's only natural that prices will be at their peak when vacationers are enjoying the locale and checking out properties. Once things quiet down and traffic decreases sellers will be more amenable to negotiating price.
- Take advantage of disasters. Sounds heartless, but a hurricane or blizzard can often encourage a homeowner to put a bargain price on a property. Just be sure you're comfortable knowing that once you buy, there will probably be more hurricanes and blizzards to come.
- Keep it strictly for fun. If you plan on renting your second home it may raise your mortgage interest rate up to one percentage point above prevailing rates. Insurance rates will rise, too.
- Save with a mortgage. The right home financing package can make all the difference. For instance, you can tap into the equity of your primary residence to fund your purchase. A larger down payment can eliminate the need for costly mortgage insurance.

About Your Home Financing

As you go through the process of financing your second home, you'll notice some pleasant differences. There are less demanding documentation requirements and faster approval decisions than in the past. Your good credit habits, and your history of making timely mortgage payments, will earn you greater flexibility with your second property financing package. You may even be eligible for a no-income-verification loan.

Preparing For Closing

You've submitted your home financing application and received a decision. What happens next? Here are the steps that take you to closing.

1. **Appraisal** A professional appraiser will be called in by your mortgage company to determine the value of the property you are purchasing. This appraisal benefits you both: it assures your lender that the property backing the loan will cover the loan amount in case of default; and it helps you know the fair market value of your home by comparing it to recent sales prices of similar homes in the area.

2. **Home Inspection** A professional home inspection is recommended for every buyer seeking a second property. In some cases, a home inspection may be required as part of your home financing approval process. The inspection should cover all the home's major systems and structural elements. You may also want to get a pest inspection to look for any issues related to termite or mold infestations. You should make every effort to be present during the inspection, so you can see any problems first hand.
3. **Homeowner's Insurance** As you may know, most mortgage lenders require proof of purchased homeowners insurance at closing. In the event of a loss such as a fire, tornado, or burglary, homeowners insurance can pay for damages to the home, as well as for costs to repair or replace contents. If the home is damaged and becomes uninhabitable, homeowners insurance can cover additional living expenses for a period of time while your home is being repaired. Homeowners insurance can also protect you from loss if someone is injured or their personal belongings are damaged while on your property.
4. **Title Insurance** There are two types of title insurance: one protects the lender and one protects the borrower.Title insurance is purchased as protection from claims against your ownership of the property. Such claims may be made by undisclosed spouses, heirs of previous owners, creditors holding liens against previous owners, or other parties. Your lender will most likely require you to purchase a title policy, which will cover their interests in the property. It's up to purchase a policy to protect your interest in the home. Your home mortgage consultant will be able to recommend a title insurance company who can provide additional information about the policies available in your area.

Maintaining Your Second Home

Keeping your property well-groomed and cared for helps maintain value and avoids large problems later on. What will it take to keep your home in shape? Snow removal, lawn maintenance, gutter clearing, and debris removal are some of the factors you may need to consider. If you've purchased a condo or co-op, regular maintenance is taken care of through your association fees. If you own a home — and if you're farther than a short drive from it — you may want to make an arrangement with a good handyman or maintenance service. Your real estate agent should be able to recommend one. Another option: home warranty services. An annual fee covers the repair of your major appliances for a year. So you won't have to spend your precious vacation time fixing fridges or replacing burners.

To Rent Or Not To Rent?

The kids have grown, it's no longer fun being hip-deep in snow, you've given up golf. Changing circumstances — or the simple desire to generate income — have fueled a growth in the number of properties being rented. If you're considering renting your property, here are some points to remember:

- Make sure there's a positive cash flow. Will the rent cover your costs of mortgage, taxes, insurance, utilities, repairs plus a contingency fund?
- Every state has landlord-tenant laws. Read up and know your responsibilities. You may be able to access this information online.
- Is it legal? If you're in a condo there may be restrictions.
- Expect increases in your insurance premiums. Better check with your lender, too. Some require higher interest rates on investment properties.
- Get ready to pay taxes. Rents are considered income. Talk to a tax advisor about what's deductible and what has to be claimed.
- You may rent your home for up to 14 days per calendar year with no tax implications. In fact, you don't even have to report it.

[3]Coverage may not be available in all states or for all properties.

Home Equity Financing Options

Managing your second home and the equity that comes with it can be a powerful financial resource to obtain financing for home improvements, college tuition or other large expenses, and even to fund the purchase of other homes. Using your home equity is a smart way to manage your home as an asset because the rate is typically lower than other forms of financing and the interest you pay may be tax-deductible, unlike most credit cards and other loans.[5] Some home equity options to consider are:

- Cash-out refinancing lets you take out a new mortgage for an amount greater than your current mortgage balance, and take the difference in cash. That difference reduces your equity.
- Home equity loans and lines of credit[6] involve getting secondary financing on top of your original mortgage, taken out against a portion of the unused equity in your home. A home equity loan provides you with a single lump sum for one-time purchases, whereas a home equity line of credit establishes an account on which you can draw from as needed for ongoing expenses up to the specified maximum. Both programs offer lower interest rates than typical consumer credit financing and potential tax advantages.

Vacation Home Checklist

Print out a few copies of this checklist to use as you visit prospective homes. Having a record of what each home offers can make your final decision much easier.

Date Seen____
Address________________________ **Price**________ **Property Taxes**________
Seller________________________ **Age of Home** _____ **Neighborhood**________

Style of Home

❑ Two Story ❑ Ranch ❑ Split Level ❑ Traditional
❑ Contemporary ❑ Cape Cod ❑ Townhouse ❑ Condo

Type of Construction

❑ Wood ❑ Brick ❑ Stone ❑ Stucco
❑ Vinyl Siding ❑ Aluminum Siding

Exterior Features

❑ Roof ❑ Landscape ❑ Fenced ❑ Porch ❑ Paint ❑ Trees
❑ Patio ❑ Deck ❑ Expansion Ability Other________________
❑ Garage ❑ 1 Car ❑ 2 Ca ❑ 3 Car ❑ Detached
Roof Condition ❑ Good ❑ Fair ❑ Poor
Sidewalks ❑ Yes ❑ No
Well-Maintained Neighborhood ❑ Yes ❑ No

Interior Features

Kitchen Eat-In_____ Size _____ Walls_____ Floor _____ Appliances ______
Cabinets_____ Ceiling_____ Windows_____ Other __________

Dining Room Size_____ Walls_____ Carpet____ Ceiling____ Lighting Fixtures____
Other _______________

Living Room Size_____ Walls_____ Carpet____ Ceiling____ Lighting Fixtures____
Fireplace __________ Other ___________

Den Size_____ Walls_____ Carpet____ Ceiling____ Lighting Fixtures____
Fireplace __________ Other ___________

Hallway Walls_____ Carpet____ Linen Closet _____ Other ____________

Total Bedrooms _____

Bedroom 1 Size_____ Walls_____ Carpet ____ Ceiling____ Closet____
Other _______________

Bedroom 2 Size_____ Walls_____ Carpet ____ Ceiling____ Closet____
Other _______________

Bedroom 3 Size_____ Walls_____ Carpet ____ Ceiling____ Closet ____
Other _______________

Total Bathrooms ____

Master Bath Size_____ Walls_____ Floor _____ Tub ______ Fixtures_____
Guest Bath Size_____ Walls_____ Floor _____ Tub ______ Fixtures_____

Laundry Room Location__________ Washer_____ Dryer _____ Other ______

Good Closet Space ❑ Yes ❑ No

Basement ❑ Yes ❑ No ❑ Finished

Flooring ❑ Carpet ❑ Hardwood ❑ Tile

Utilities

Type of Heating

❑ Hot Water ❑ Gas ❑ Electric ❑ Oil

Insulation

❑ Fiberglass ❑ Cellulose ❑ Foam ❑ None

Central Air ❑ Yes ❑ No

Plumbing Condition ❑ Good ❑ Fair ❑ Poor

Sump Pump/Drainage System ❑ Yes ❑ No

Connected to Sewer System ❑ Yes ❑ No

Age of Heating System_____ Age/Capacity of Water Heater_____ Age of Electrical Wiring______

Easy Proximity to:

❑ Work ❑ Schools ❑ Shopping ❑ Airport Area ❑ Industry

❑ Highways ❑ Houses of Worship ❑ Train Station ❑ Public Transportation

❑ Doctors/Dentists

Nearby Recreational amenities:

❑ Swimming Pool ❑ Beach ❑ Lake ❑ Boating ❑ Fishing

❑ Scuba/Skin Diving ❑ Golf ❑ Tennis ❑ Downhill Skiing

❑ Cross Country Skiing ❑ Jogging Path ❑ Hiking ❑ Hunting

❑ Bicycle Trails ❑ Casino Gambling ❑ Track Gambling ❑ Nightlife

❑ Good Restaurants ❑ Live theater ❑ Concerts ❑ Historic Sites

❑ Museums ❑ Historic Sites ❑ Natural or Special Attraction

❑ Amusements for Children

Other Attraction ____

Recent sales in neighborhood:

Address __________________________ Size ________ Price ________ Terms _______

Address __________________________ Size ________ Price ________ Terms _______

Address __________________________ Size ________ Price ________ Terms _______

Address __________________________ Size ________ Price ________ Terms _______

Listings Decoder

Exterior House/Yard

AC	Acre
ALUM	Aluminum Siding
ANQ	Antique House
ATT	Attached Garage
CLPD	Clapboard
COL	Colonial
CONT	Contemporary
CRPT	Carport
DET	Detached Garage
DK	Deck(s)
FEN	Fenced Yard
GZBO	Gazebo
IGPL	Inground Pool
MED	Mediterranean
RNCH	Ranch
RR	Raised Ranch
SCPD	Landscaped
SHNGL	Shingle
SPLT	Split Level
STY	Style of House
TWNHS	Townhouse

Interior Rooms

BA	Bath (with #BA)
1/2B	Half Bath
BR	Bedrooms (with #BR)
BSMT	Basement
DR	Dining Room
FIN	Finished (attic, basement)
FOY	Foyer
FR	Family Room
GTRM	Great Room
KIT	Kitchen
LAW	In-Law Apartment
LDY/UT	Laundry/Utility Room
LIB	Library
LR	Living Room
MBR	Master Bedroom
MBRB	Master Bedroom Bath
OFF	In-Home Office
PT/FIN	Partially Finished
REC/PL	Recreation/Play Room
RM	Room
UNFIN	Unfinished (attic, basement)

Appliances/Utilities

APPL	Appliances
CAC	Central Air Conditioning
CK/TP	Cooktop
CMPT	Compactor
C/VAC	Central Vacuum
DRY	Dryer
DSP	Disposal
D/W	Dishwasher
ELEC	Electric (with #amps)
FRZ	Freezer
HT/PMP	Heat Pump
HT/WTR	Hot Water Heater
ICE	Ice Maker
MICRO	Microwave
RAD/HT	Radiant Heat
REF	Refrigerator
RNG	Range
SEC/SYS	Security System
SWR	Sewer or Septic
WAR	Warranty
WASH	Washer
WHLPL	Whirlpool Tub
W/OVN	Wall Oven(s)
WTR	Water (city or well)

Interior Features

BAL	Balcony
BLT	Built-Ins
BRK	Brick
CER	Ceramic Tile Floors, Walls
CLST	Closet (often with #)
FLR	Floors
FML	Formal (often DR)
FPL	Fireplace
HDWD	Hardwood Floors
HMOD	Handicap Modifications
PNLD	Paneled
SKYLT	Skylight(s)
SP/ENT	Separate Entrance
VLT/CL	Vaulted Ceiling(s)
WI/CLST	Walk-In Closet
WU/ATT	Walk-Up Attic
WBF	Wood-Burning Fireplace

Mortgage Terms

ASMT	Tax Assessment
ASSUM	Assumable Mortgage
FHA/VA	Financing Available

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

Glossary[9]

Adjustable-Rate Mortgage (ARM) – A mortgage in which the interest rate is adjusted periodically according to a pre-selected index.
Alternative Lending – A home financing program that accommodates borrowers with special qualifying factors, including poor credit histories and difficult-to-document income.
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. When a property decreases in value it is called depreciation.
Assessed Value – The value that a taxing authority places on real or personal property for the purpose of taxation.
Automated Underwriting – A computerized method of reviewing home mortgage applications for loan approval.
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 – A level above – and supervisor of - the real estate salesperson. Brokers in most states are required to have years of full-time experience, special educational training, and must pass a state licensing exam.
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 profit 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.
Closing Costs – The costs paid by the mortgage borrower (and sometimes the seller) in addition to the purchase price of the property. These include the origination fee, discount points, appraisal, credit report, title insurance, attorney's fees, survey, and pre-paid items such as tax and insurance escrow payments.
Commission – The percentage of the selling price paid to the real estate agents or broker
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 comparable houses currently being offered for sales as well as comparable houses sold in the past six months. This enables you to determine if you are paying for 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 insured program (such as FHA or VA).
Credit Report – A report detailing an individual's credit history.
Debt-To-Income Ratio – A formula lenders use to 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.
Default – A The failure to perform an obligation as agreed in a contract.
Down Payment – Money paid to make up the difference between the purchase price and the mortgage amount.
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.
Fixed-Rate Mortgage – A mortgage in which the interest rate and payments remain the same for the life of the loan.
FICO Score – A numerical rating developed and maintained by Fair Isaac and Company that indicates a borrower's creditworthiness based on a number of criteria.
Float The Rate – This term is used when a mortgage applicant chooses not to secure a rate lock, but instead allows the interest rate to fluctuate until the applicant decides to lock in, usually no later than five days prior to closing.
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.
VA Funding Fee – The amount charged on VA mortgages to cover administrative costs.
Good Faith Estimate – 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 insured by a government agency, such as FHA, VA, Farmers Home Administration or a state bond program. The loans are generally made by private lenders.
Home Mortgage Consultant – The representative a homebuyer initially consults about a mortgage loan. Sometimes called a loan officer, account executive or sales representative.
Home Warranty – a kind of insurance that covers the cost of repairs to specific items in the home for a specified period of time.
Homeowner's Insurance (**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-1 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 Home Real estate owned with the intent of supplementing income and not intended for owner occupancy.
Leverage – Enables you to net great returns on minimal investment. For example, by purchasing a $100,000 property 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.
Mortgagee – The lender on a mortgage transaction.

Mortgage Insurance (MI) – See Private Mortgage Insurance or PMI.
Mortgagor – The borrower in a mortgage transaction who pledges property as security for a debt.
Mortgage Specialist – The individual responsible for collecting the completed application and all supporting documents before the entire loan packet is submitted to underwriting. Also known as a processor.
Multiple Listing Service – A computer-based service for real estate agents that provides descriptions of most of the houses for sale in an area.
Nonconforming Loan – Conventional home mortgages not eligible for sale and delivery to either FNMA or FHLMC because of various reasons, including loan amount, loan characteristics or underwriting guidelines.
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; a point is 1% of the amount of the mortgage.
Preapproval – A written commitment from a lender, subject to a property appraisal and other stated conditions, that lets you know exactly how much home you can afford.
Prepaids – Closing costs related to the mortgage loan which are collected at loan closing - including per diem pre-paid 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.
Purchase Contract (Agreement/Offer) – An agreement between a buyer and seller of real property, setting forth the price and terms of the sale. Also known as a sales contract.
Rate Cap – The limit of how much the interest rate may change on an ARM at each 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® - A real estate agent or broker who is a member of the National Association of Realtors. The NAR offers training and seminars and members agree to uphold its code of ethics and business practices.
Return On Investment – The percentage of profit that you make on an investment. For example, say you invest $1,000 into a venue, and a year later it is worth $1,500. Your return on investment equals the profit ($500) divided by the initial investment ($1,000) or 50%.
Survey – The measurement and description of land by a registered surveyor.
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 Federal law requiring full disclosure of credit terms using a standard format. This is intended to facilitate comparisons between the lending terms and 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.
Vacation Home – A home where you spend any appreciable amount of time away from your primary residence for the purpose of leisure activities. A vacation home is not rented out for longer than 14 days in any given calendar year.