

Property Quest: A Guide for First Time Home Buyers

The Home Buyer's Workbook



Department of Real Estate
December 2003

This workbook and the accompanying video were produced through a research contract with the California Department of Real Estate. The views or opinions expressed herein are those of the authors and do not necessarily represent the views or opinions of the Administration of the State of California, or the Department of Real Estate.

Table of Contents

HOW TO START “CALIFORNIA DREAMIN’”	2
Why Buy?	2
My Life As A Number: CREDIT	3
What’s the Score?	4
Who’s Lookin’ Out For You? : THE REAL ESTATE AGENT	5
But Seriously, What Can I Afford?	6
My Monthly Budget	7
Nickels and Dimes: CLOSING COSTS	9
Two Things You Can’t Get Away From: TAXES & INSURANCE	9
Do They Really Like Me?: GETTING A LOAN	10
Lender or Broker? Make an Informed Decision.....	11
Help For First Time Home Buyers	12
Choosing the Right Loan	13
ARE WE HOME YET?	14
Are You Home Or Ready To Go Condo?	15
Hurry Up And Wait: FINDING THE RIGHT PLACE	16
THE PAPER CHASE.....	16
Is It An Offer They Can’t Refuse?	16
Know When to Hold ‘Em...Know When to Fold ‘Em.....	17
What If They Accept the Offer?.....	17
Well, Take A Look At This!: HOME INSPECTIONS.....	19
What is Escrow Anyway?.....	19
Hints on Closing	20
It’s Mine! It’s All Mine!/: TAKING POSSESSION	21
KEEPIN’ UP	21
It’s A Jungle Out There!: BUYER BEWARE.....	22
RESOURCES	24
GLOSSARY	26

For Appendix and forms go to

http://www.dre.ca.gov/pdf_docs/PropQuestwkbk_homeowners.pdf (20mb)

for the full PDF document.

HOW TO START "CALIFORNIA DREAMIN'"

Let's say you're thinking about buying your first house or condominium. The process of buying real estate can be an extremely rewarding experience, both from a personal and financial standpoint. The following guide will help take the surprises out of your planned purchase. The information in this workbook along with the accompanying video will help guide you through the process. Some advice: There are probably a number of words associated with the home buying process that are new to you. As you read on, if there is a word or term you don't understand, check out the Glossary beginning on page 26 of this book. Good Luck!

Why Buy?

There are many reasons you may wish to buy a home, whether you need or want:

- A place to live
- Feeling of permanence
- Stable housing costs
- Good use of your money
- Tax benefits.

On the other hand, you may not be ready to buy a home. Buying a home:

- Is a complex, time-consuming and costly process
- May bring unwelcome responsibilities such as maintenance and repairs
- Makes it harder for you to move
- Can create financial hardship.

The purchase of a home is, in part, a financial transaction. Much like a trip to the grocery store to buy coffee, you have many choices and a significant price range. But unlike a bag of Costa Rican coffee, a house has certain bonuses: Equity, Tax Savings and Ownership. What's all that mean? Read on.

A house is an investment in land and the existing structure. History tells us that there is a good chance that a house will increase in value over time. Also, by making timely mortgage payments, you are paying down the debt you owe and building equity. Equity is the difference between the value of your home and how much you still owe. You may not own your home outright, but your investment has a cash value.

In addition to increasing in value over time, owning a home can have a significant impact on your monthly paycheck – in a very positive way! When you borrow money

to purchase a home, the interest that you pay on that money is usually tax deductible. For example, if you have an annual income of \$45,000 and owe \$200,000 on a 30-year mortgage at a fixed 7% interest rate, you'll likely save about \$200 per month in taxes the first year you own the home!

Home Buyer Hint

Because of sales commissions and one time up-front fees that are part of most real estate sales, home buyers should plan on staying in a home for several years to try to recoup these costs. If your lifestyle is mobile or you expect that you may need to move because of a job change, renting may be a better choice for you.

My Life As A Number ... CREDIT

Credit is an important part of buying a home. Lenders will scrutinize your credit history to determine if you are qualified to buy a home and what interest rates and fees to charge. The difference between having just okay credit and good credit can cost you tens of thousands of dollars over the life of a loan.

You can establish good credit by:

- Having a steady source of income, which for most people is working on a regular basis for 2-3 years
- Having a good record of paying your bills on time
- Keeping outstanding long term debts, like a car loan, low
- Putting money in a savings account.

If you have a lot of credit cards, they are maxed out, and you are barely able to make the minimum payments, you are headed for financial disaster. That cool tee shirt or water bottle the credit card company tempted you with may end up costing you hundreds or thousands of dollars in the future!

A lot of people learn this the hard way and spend years paying off thousands of dollars in credit card debt while suffering the consequences of bad credit. And bad credit can prevent you from getting a loan for a home or even a car!

So how do lenders check your credit history? The answer is by running a credit report. A credit report gives others a "snap shot" of your credit worthiness. It will show what types of credit you currently have and/or what you have had in the past. It also shows if you have paid your bills on time, filed for bankruptcy, or if you have ever been evicted from a rental property.

Having a good handle on what your credit situation is before heading to a lender to ask for a loan can save you countless hours and costs. For about \$10, you can order your credit report by mail, phone or over the web from one of the three major national credit bureaus. For more information, check:

- TransUnion, www.transunion.com
- Equifax, www.equifax.com
- Experian, www.experian.com

In addition to providing you with a copy of your credit report, these bureaus can help “clean up” any incorrect information in your report, and explain in more detail how to build up good credit and how to avoid bad credit.

If your credit is in bad shape, you may want to wait to buy a home and spend the time needed to repair your credit instead. Check out the resources section of this guide or surf the net to find a certified credit counselor who can help you get back on track.

Home Buyer Hint

BEWARE! As your credit score goes down, mortgage fees and costs, interest rates and other costs go up, up, up! A typical 7% mortgage with a few thousand dollars in fees can go up to an 18% monster with many thousands in fees if you have a low credit score.

What’s the Score?

Your credit score or FICO score (for Fair, Isaac and Company, which created the system) is a number that indicates the health of your credit. The higher the score, the healthier your credit and the more likely a lender is to approve a loan with good terms. Scores can range from 300 to over 900, with the typical credit score falling in the 600s to 700s.

Credit scores take five different financial areas into account. The “five C’s” of credit that lenders will look at include:

- **Capacity.** Are you able to repay the debt? The lender verifies your employment information: occupation, length of employment, income. He or she reviews your expenses: how many dependents you have, if you pay alimony and/or child support, your other obligations.
- **Credit history.** Based upon your past payment habits, how likely is it that you will make your monthly payment? The lender looks at how much you owe, how often you borrow, whether you live within your means, and whether you pay your bills on time.

- **Capital.** Do you have enough cash on hand for the down payment and closing costs? Are you receiving a gift from a relative? Will you have reserve money left over after the purchase?
- **Collateral.** Is the value of the property worth the investment? Is it in sufficiently good condition and is the price appropriate for the home? If you do not repay the debt, will the lender be able to recover his investment?
- **Character.** Have you disclosed all your debts? If you had previous credit problems, did you disclose them?

Who's Lookin' Out For You? ...

THE REAL ESTATE AGENT

A key person in searching and negotiating for your new home is the real estate agent. Choosing the right agent can help you to select the right home, lender, property inspector and so on. A good real estate agent will have a strong team of professionals to assist in the purchasing process. Here are some tips for choosing an agent:

- Interview several agents for the job. You're the boss, know who you're hiring to help you with what could be the biggest purchase of your life!
- Look for an agent in your area: Does he or she know the neighborhood where you would like to buy?
- Talk to friends and co-workers: Is there an agent mentioned by several people who comes highly recommended?
- Look at area real estate ads: Are there agents with significant numbers of listings? This may be a good indication of client satisfaction.
- Stay in your price range: Does an agent specialize in \$1 million + luxury homes, when you're looking for a \$150,000 starter home?
- Call references. Ask a prospective agent for a list of former clients – preferably buyers, since that's what you are! – and call them.
- Ask for an activity list. This will list prior deals made by your prospective agent. Is it current? Are the houses in your area and price range?
- Check the California Department of Real Estate's web site at www.dre.ca.gov to determine the status of an agent's real estate license.

But Seriously, What Can I Afford?

One of the most important questions you need to ask yourself in the home buying process is: “How much can I pay for a house and still have a life?” Ultimately, only you can decide what you can afford to spend monthly on a house payment and still be able to live the lifestyle you wish. However, a calculation provided by your mortgage lender may help you to make your determination.

When applying for a home loan, your mortgage lender will do a calculation that reveals the maximum amount the lender will lend to you. The calculation is based on a simple formula: The proposed house payment plus any fixed monthly debt payments (like credit cards and car payments) divided by your gross monthly income (your total wages before taxes are taken out) equals a percentage. Typically, mortgage lenders want that percentage to be less than 42%. This equation is illustrated in the example below:

$$\begin{array}{r} \$1,230 \text{ (House Payment + Fixed Monthly Debt)} \\ \div 3,000 \text{ (Gross Monthly Income)} \\ \hline 41\% \end{array}$$

Based upon this equation, after adding up your debts and reviewing your income, you may discover you can afford a pretty big mortgage payment. On the other hand, you may want to look at that number a little closer. If you borrow the maximum amount allowed, you may find that your house payment is more than you can afford based on other monthly expenditures not accounted for in the equation. For instance, the equation doesn't take into consideration money you might spend on recreation activities. If these are important to you and you don't want to give them up, you may need to keep your house payment lower than the maximum allowed in order to pay for these other expenditures.

Your best bet is to develop a budget and consider all of the typical expenses you have. Use the form below to add up all of your monthly expenses. If there are some expenses – like auto insurance – you only pay every six months or yearly, divide by the number of months to determine your monthly expense. It's best to get everything down on paper. Take a few minutes now and create your budget by listing the major categories where you think you have or will spend money during a typical month.

My Monthly Budget

Housing

Estimated house payment & association fees	\$ _____
Estimated property taxes, insurance, PMI	\$ _____
Electricity, gas	\$ _____
Phone	\$ _____
Water, sewage, garbage	\$ _____

Food

Groceries	\$ _____
Fast Food	\$ _____
Dining out	\$ _____
Beverages	\$ _____

Other living expenses

Personal care (hair, toiletries)	\$ _____
Laundry and dry cleaning	
Clothing/shoes/hats	\$ _____
Gifts	\$ _____
Monthly membership dues/subscriptions	\$ _____

Transportation

Car payments	\$ _____
Gas & oil	\$ _____
Normal car maintenance	\$ _____
License and registration fees	\$ _____
Auto insurance	\$ _____
Parking fees	\$ _____
Bus, taxi, subway, carpool	\$ _____

Educational expenses (if applicable)

Tuition	\$ _____
Books	\$ _____
Lab fees	\$ _____
School supplies	\$ _____

Childcare and pet care (if applicable)

Day care	\$ _____
Baby/pet sitters	\$ _____

Medical/Veterinary	\$ _____
Toys	\$ _____
Special foods	\$ _____
Clothes	\$ _____
Expecting the unexpected	
Traffic Tickets	\$ _____
Car Repairs	\$ _____
Medical/Dental care	\$ _____
(Insert other categories unique to you here)	
_____	\$ _____
_____	\$ _____
Total Monthly Expenditures	\$ _____

* Taxes, insurance and PMI (private mortgage insurance) costs vary.
Your real estate agent can help you estimate these.

Next, determine your monthly income below:

Wages and tips (less taxes and other deductions)	\$ _____
Investment Income.....	\$ _____
Other	\$ _____
Total net monthly income	\$ _____

Finally, subtract your total monthly expenditures from your total monthly income. Note:
Your net income, used in determining what you can afford, is different than your gross
income, used to determine what you qualify to borrow.

Total Monthly Income:	\$ _____ (transfer \$ amount from above)
– Total Expenditures:	\$ _____ (total of your expenses above)
= Ending Balance	\$ _____

Now that you have everything down on paper, borrowing the maximum allowed may not look too good anymore! You may want to consider buying a little less house to keep a little more of your life! You may have heard the term “House rich, cash poor.” That phrase was coined by people who didn’t budget beforehand!

Finally, once you have a general idea of what type of house payment you can afford each month, you’ll want to determine what that monthly payment will buy you in terms of the selling price of a home. Based on your estimated monthly payment, should you be looking at homes selling in the \$100,000, 200,000, or \$300,000 price range? Your real estate agent can estimate this for you, or you can check out a “mortgage calculator” on-line, which will ask a few simple questions and then do the calculation for you. See the “Resources” section on page 24 of this book for web sites that provide mortgage calculators.

Nickels and Dimes ...

CLOSING COSTS

Buying a house is expensive. And we’re not just talking about a down payment and that big loan you’ve just taken out. There are a number of costs and fees associated with the purchase of a home. They include inspector’s fees, appraisal fees, processing fees, notary fees, recording fees, title insurance, interest fees and more. These costs are called nonrecurring closing costs and can run from \$20 or \$30 for a notary to several hundred dollars for inspections and appraisals. In total, plan on paying several thousand dollars in nonrecurring closing costs.

See a sample Estimated Closing Costs worksheet in the Appendix on page 32.

Two Things You Can’t Get Away From...

TAXES & INSURANCE

Taxes

When you buy your house, you will be assessed a yearly property tax. Typically, this is calculated at about 1.5% of the purchase price of your home. It is important to figure this cost into your monthly expenses. On a \$200,000 home, plan on paying about \$3000 a year in property taxes.

There are several ways of paying your property taxes. You can pay them in one lump sum, make semi-annual payments or set up an impound account with your lender. An impound account allows you to pay your taxes in monthly installments. Many first-time home buyers find this the most convenient thing to do – and may be required to do so by their lender.

Home Buyer Hint

Check to see if the home you're considering purchasing is in a special bond assessment district. Some homes in California can be assessed yearly bond fees – for up to 30 years or more – for things like school improvements, levee protection, new roads, street lights and so on.

Insurance

Just like your car, you'll need to carry insurance – typically referred to as homeowner's insurance – on your home. This protects your home and its contents from fire, theft and other types of damage. Depending on the area of California in which you live, you may also be required to carry flood insurance and earthquake insurance. And, many first time home buyers will need to budget for and purchase Private Mortgage Insurance (PMI). PMI provides lenders with a financial guaranty against loss in the event that a borrower defaults. While this guaranty is good for lenders, it is also good for borrowers because it means that lenders are more willing to make loans to borrowers who may not otherwise be able to qualify for a home loan.

Insurance rates vary widely depending on the location and value of the property. When purchasing your insurance, review your insurance policy carefully and know what is covered and what is not. Typically, insurance on your home can be paid in a similar fashion as your property taxes. That is, yearly, quarterly or monthly through an impound account. Again, many first-time home buyers choose – or are required by their lender – to use an impound account for these costs.

Do They Really Like Me? ... GETTING A LOAN

Once you've figured out what amount of loan you're able to comfortably afford, it's time to talk to a mortgage lender.

Loan Pre-Qualification

Getting pre-qualified for a loan is a pretty casual once-over of your financial situation. You provide a mortgage broker or lender with financial information, and they give you a non-binding letter indicating how much you could possibly borrow. The lender does not verify any of the information you give them. This gives you a good “jumping off” point in deciding the price range you can afford.

Loan Pre-Approval

Getting pre-approved for a loan is a much more rigorous process. A lender will verify all of the information you’ve provided including income, debts, employment and cash on hand. The pre-approval process signifies to a seller that you are a very serious buyer. The lender provides you with certain guarantees that they are ready, willing and able to fund a loan.

Check with your real estate agent to determine if you should get pre-qualified or pre-approved for your loan prior to house shopping.

Home Buyer Hint

Some lenders will charge for the pre-approval process given the extra effort involved. However, do not choose a lender solely because they don’t charge for this process. Look at all of the costs involved!

Lender or Broker? Make an Informed Decision

When it comes time to look for financing for your upcoming purchase, there are a couple of options. You can go directly to a lender or use a mortgage broker. Your real estate agent may have a list of good lenders and mortgage brokers in your area. In addition, most major daily newspapers have home buying sections in their weekend editions. This is another good place to find information about lenders and mortgage brokers in your area. And finally, a simple search on the internet will turn up many suggestions for home loans.

A lender typically is a bank, mortgage company, credit union or savings and loan. A mortgage broker is a middleman who is usually independent of a lender. Mortgage brokers arrange loans from various sources and earn a commission for their services.

To choose a good lender, do research on those in your area. Check interest rates, fees and loan terms against other lenders. Just be sure to take the time to research and compare different lenders so you get the best deal. Often, lenders will look for borrowers without any special circumstances. That is, they'll want a "good" or better credit score, documented income, and a standard piece of property to lend on.

Comparing mortgage brokers is a good idea too. If one happens to offer rates and terms that are drastically better than anyone else out there, this could be a warning sign! Remember, if it sounds too good to be true, it usually is. A good mortgage broker will be able to do your mortgage shopping for you. They'll compare rates and fees, while looking for a lender that suits your individual needs. They should also be able to explain the details of the loan to your satisfaction. In addition, if any of the special circumstances discussed above – low credit scores, undocumented income or a unique piece of property – apply to you, a good mortgage broker can help make a difference.

Help For First Time Home Buyers

There are many first time home buyer programs available to assist you in your purchase. These programs range from informational courses – like this one – to federal, state and local government agencies and non-profit groups that can assist you with down payments, lower-than-market rate financing and troubled credit. Depending on your income and other personal factors, some of these programs can assist you in getting into a home for less than \$1,000.

For information about first time home buyer programs and a variety of other home loan assistance programs in California, check out the California Housing Finance Agency's web site at www.calhfa.ca.gov and the California Department of Housing and Community Development at www.hcd.ca.gov. Other sources of help can be found in the "Resources" section on page 24.

Home Buyer Hint

Police, teachers, firefighters and other public employees often have access to home loan programs that have favorable down payment options and special income qualifications. If applicable, check with your employee association or retirement system.

Choosing The Right Loan

When choosing a loan, you'll be confronted with a variety of choices of how interest rates are applied. There are fixed rate mortgages and adjustable rate mortgages (ARMs). Look at each type of loan carefully and decide, based on your financial situation and ability to stomach roller coaster interest rates, which is best for you!

Fixed rate mortgages are set at a constant interest rate over the period of the loan – usually 15 or 30 years. This provides maximum stability as far as your monthly loan payment is concerned.

ARMs often provide a much lower initial interest rate at the inception of the loan. ARMs are set by an index plus a margin that equals an interest rate for a loan. An index is a gauge of interest rates which fluctuates with current market conditions. The margin is a fixed amount which gets added to the index. There are two different types of ARMs, the standard version that starts to adjust almost immediately after funding and the intermediate ARM, that doesn't start to adjust for several months to several years.

Home Buyer Hint

If you're getting an ARM, look for ones with lower margins. Interest rates tend to be similar for most lending institutions, so the real gauge of saving money over time is a lower margin!

Home Buyer Hint

Look out for prepayment penalties on your loan! Having one can save you some money every month, but if you refinance or sell your home, you could get hit with thousands of dollars in penalties!

There is a lot more to know about loans. You can learn more by visiting www.freddiemac.com/homebuyers, www.hud.gov or www.fanniemae.com (click on Homepath) or by simply asking questions of your real estate agent, lender and/or mortgage broker.

ARE WE HOME YET?

There are many factors to take into account when trying to choose the right home. After you've settled on a price range that you can afford, start asking yourself some questions:

- What part of town do I want to live in? In an urban area? Near good schools? (Are you single, partnered, partnered with kids?)
- Is a big house more important than location?
- How many bedrooms do you need/want? Bathrooms? Other amenities?
- Do you want a new home? A used home? A condominium? A fixer-upper?

Other things to consider: Are you very tolerant to loud neighbors or un-kept houses? If you answer "yes," you should have no problem finding a great deal on a home. A problem may arise, however, when you attempt to sell the home. While making yourself happy with your new home, keep in mind that one of these days you may want to try and make someone else happy with it!

Choosing what part of town to live in is mainly based on your lifestyle. If you're single and enjoy a very active lifestyle, living in a quiet, tree-lined neighborhood close to good schools may not be too important to you. On the other hand, if you have three small children, living in a singles' condo complex might be a poor choice – or at least make you unpopular with your neighbors!

Pay attention to the quality of the neighborhood in which you are looking. "Pride of ownership" shows through in how well yards and homes are maintained. If dead lawns and over-grown shrubs are the norm, you may want to think twice before buying there. True, you might get more house for the money, but in the long run, you may have trouble re-selling it.

Think about what is going to make your home livable: bedrooms with bathrooms? a removed master bedroom? a two car garage? a gourmet kitchen? a large yard? a small yard? You should write up a wish list, then start looking at what is available in your price range. From there, you can whittle the list down to what you really want and what you can live without.

Are You Home or Ready to Go Condo?

There are several types of homes that you can choose from when you start shopping. Among the choices are: new detached homes; used detached homes; new or used condominiums; and fixer-uppers.

- A detached home, new or used, will typically provide you with a yard, garage and the like. This is a fairly standard set-up in California. Choosing from new or used depends on several factors. New homes generally cost a little more to purchase, are less negotiable on purchase price, but are less expensive to maintain and are more energy efficient. Used homes generally cost a little less to purchase and you have more room to negotiate on purchase price. In addition, typically you won't have to landscape a yard. On the other hand, upkeep is generally more expensive. You may have to tackle dying appliances, cracks in the plaster, a new roof and other issues that face a house of a certain age.
- A condominium, new or used, generally faces the same issues as a new or used detached home. The difference with a condominium is that you own only the interior air space and fixtures in your living space, plus a certain percentage of common areas and property. As a condominium owner, you generally pay association dues to take care of maintenance, replacement of common area amenities, and occasional repairs like a new roof or paint. Association dues cover many of the individual expenses a detached homeowner pays, including insurance and general upkeep. If you are thinking about buying a condominium, closely examine the "Covenants, Conditions, and Restrictions" (CC&R's) for the rules that govern the complex. Also, closely examine the condominium association's finances for large assessments or dues that increase more than standard inflation on a year to year basis.
- A fixer-upper can be a great way to get into a larger house in a better neighborhood for a lower price. There is one catch: you have to fix the house up, which is not for everyone. If you are considering buying a fixer-upper, get a qualified contractor to help you review properties. Does a house need minor cosmetic remodeling like painting, yard maintenance and new carpet? Or does the fixer need a new electrical system and plumbing and have dry rot in the flooring? These are important questions to ask and even more importantly, you need to figure out what they'll

cost – and don't forget what your time is worth! Does the fixer you're considering cost \$180,000 in a neighborhood of \$220,000 homes? That's good if the house only needs \$20,000 or \$30,000 in repairs, but if the house needs \$50,000 or \$60,000 (or more) in repairs, then you may want to reconsider the purchase or offer a lower price.

Hurry Up and Wait ... FINDING THE RIGHT PLACE

The key to getting the home you want for the price you want to pay is patience and persistence. Do you want to live in a certain neighborhood but homes only come up for sale once every six months? Get ready to wait and pounce when the time is right. In addition, there may be other people waiting to live in the same neighborhood, so persistence in bidding for homes that come on the market is important. Remember that this very well could be the largest purchase you ever make, so rushing into it is foolish. Your real estate agent will be able to provide guidance, advice, and help.

THE PAPER CHASE

So you've gotten pre-approved on your loan and you've decided on what type of home you want to buy. And, you've found your dream home. Now it's time to make an offer on it. This is when the real fun begins.

Is It an Offer They Can't Refuse?

To make a good offer on a house, look at its fair market value. To get its fair market value, there are two things you can do: get a comparable market analysis (CMA) or have a professional appraisal done.

The CMA is typically done by your real estate agent. Again, this is a good time to have a great, knowledgeable agent. A CMA is a process of looking at comparable sales in your prospective neighborhood. By examining things like size, location and purchase price, a good agent should be able to give a fairly accurate determination of a home's fair market value.

On the other hand, you can choose to have a professional appraisal done on your prospective home. An appraiser estimates the value of the home and will give you an estimated fair market value. However, you will have to pay to have an appraisal done – whether you get the property or not.

Know When To Hold ‘Em...Know When to Fold ‘Em

So you’ve arrived at what you and your agent think is a fair price. Next, your agent will help you submit an offer. In a typical real estate transaction, negotiation is the name of the game. Know this: price, closing dates, financing, appliances, repairs, cost and more are all negotiable items in the sale of a home.

Once an offer has been submitted – typically with a clause that dictates a response time, say 24 or 48 hours – the owner of a home can choose to do one of three things. They can accept the offer outright, ignore the offer until it expires or make a counteroffer or multiple counteroffers (to more than one person).

If your offer is accepted, that’s great! Get ready to go into escrow. If your offer is left to expire, you may want to have your real estate agent contact the owner’s agent and get a feel for the seriousness of the sellers. If you get a counteroffer, know that the seller is looking to deal. If you like the terms of the counteroffer, accept them. If things are still not to your liking, make your own counteroffer.

It is common to go back and forth several times in the purchase of a home, so don’t let it get you down! However, if the counteroffers are not falling within your parameters, then you may want to pack up and walk away. In the time you’re spending on needless dithering, you could be finding the home of your dreams! A good real estate agent will help you understand when it’s the right time to walk away from a deal! A sample offer to purchase form (also known as a Purchase Agreement) is contained in the Appendix on page 32.

What if They Accept the Offer?

Congratulations, your offer has been accepted! Over the next 30 to 60 days, your purchase will be pending and you will begin the escrow process. Typically, an offer will have several contingencies. Contingencies are terms and conditions written into a contract by the buyer or the seller, which must be met within specified timelines in order for the sale to be completed. Know this, contingencies are a homebuyer’s best friend. When contingencies are not met, the sale is cancelled and your deposit money may be refunded.

Some common contingencies include proper financing being in place and conducting a home inspection. Without proper financing in place, you'll have a tough time paying for your new house! In addition, conducting a home inspection can re-open negotiations to pay for hidden problems the house may have – or terminate the sale entirely if truly serious problems are found.

There are many other contingencies that can be attached to the sale of a particular piece of property depending on the different needs of buyers and sellers. Again, a good real estate agent will suggest the contingencies that you should make as part of the offer.

Home Buyer Hint

Attaching excessive contingencies to an offer or sale in a hot real estate market can easily kill a deal. There may be several other buyers waiting in line with a shorter list of needs.

During the sale pending period, you will also be provided with a number of disclosures relative to the sale of your new home. These disclosures run the gamut from information about the business relationships between your real estate agent and your lender, to natural hazards that may exist in and around your new home. Two of the most important disclosures you will receive include:

- **Real Property Transfer Disclosure Statement** – This disclosure is completed by the seller. It tells you the physical condition of the property and potential hazards or defects that may be associated with it. While the seller is principally responsible for the disclosures presented in this document, the agent is also responsible for conducting a visual inspection of the property and disclosing any readily observable defects detected in the process. This document also discloses any special taxes, assessments and other factors that may have a material effect on the value or desirability of the property.
- **Agency Relationship Disclosure** – Your real estate agent is required to provide you with a written disclosure stating whom he or she represents in the transaction. The agent may represent you as the buyer exclusively, or the seller exclusively, or be a dual agent representing both you and the seller. You should carefully review and understand this disclosure as it has a material effect on the level of responsibilities that your agent owes to you.

Depending on the location, age and other factors involved with the residential property that you are purchasing, additional disclosures may be required. If you have questions about disclosures, ask your real estate agent.

Well, Take a Look at This! ... HOME INSPECTIONS

Getting a home inspection during your sale pending period is a vital – and many times required – part of the process. Your real estate agent should have a list of home inspectors in the area with good reputations. You may also want to check with the Better Business Bureau or similar organizations to insure you’re getting a qualified inspector.

A good home inspector will check out the “operating ability” of your prospective purchase. Some things they’ll check include: functional electrical system; plumbing; heating and air conditioning operation; window and door seals; appliance operation; garage door closer/opener; sprinkler systems; roof quality; water damage (dry rot); structural and foundation stability; and more. Be sure to carefully review the inspection report. Red flags raised may require further inspection by a specific expert.

In addition to a home inspection, most purchases require a pest inspection to insure you aren’t confronted with termite infestation or other pest problems.

So, to take a huge amount of risk out of your purchase, getting a good home inspection is vital. Lots of expensive and damaging problems can be found in the inspection process. The good news is, the seller may be required to pay for the fixes before you close the sale!

A sample home inspection checklist is contained in the Appendix on page 32.

What is Escrow Anyway?

Once an offer has been accepted by a seller and both parties have signed all of the pertinent dotted lines on the offer this document becomes the sales contract (or agreement). Next, the contract and all necessary paperwork and/or funds are collected and delivered to a neutral third party called an escrow holder. During the escrow process, this neutral third party will carry out the provisions of the agreement between buyer and seller. An escrow holder is typically an escrow firm or title company. As with the other parts of your transaction, a good real estate agent can

help you find an escrow holder in your area. Check the fees charged by the various escrow holders in the area. These fees may be negotiable.

The escrow officer carries out instructions from the buyer and seller, and ensures that ownership of the property is transferred from the seller to the buyer.

Home Buyer Hint

Ask your escrow officer for an estimate of closing costs. You won't know exactly how much you'll pay until escrow closes, but it is good to know these figures ahead of time.

The escrow officer will also collect all of the odds and ends in the purchase process. This includes proof of insurance, the preliminary title report, inspection reports, loan information and the like. The escrow officer will also prepare the final closing statement. The final closing statement is much like a bank statement, in that it lists all of the credits and debits associated with the purchase of the home. Compare the closing costs to those listed on the Good Faith Estimate received from your broker/lender.

A sample of the information contained in a title report and final closing statement are contained in the Appendix on page 32.

You will typically meet with the escrow officer to sign a lot of documents. **READ EVERYTHING!** Take your time and ask questions about things you don't understand.

Hints on Closing

- Keep in close communication with your lender. Are there any problems with documentation on the loan? Has everything been verified?
- Keep in close communication with your real estate agent. Are there any problems with the home inspection? Pest report?
- Always be available for any questions from your real estate agent, escrow officer, loan officer, or anyone else involved in the buying process. Make sure you're "in the loop" with any issues that may arise.
- When it comes time to close escrow -- that is, take possession of the house -- clear some time. Figure out **WHEN** you'd like to close, and then look at when you **HAVE TO** close. Are you moving at the end of the month from a rental to your new place? Don't let delays leave you out in the street!

It's Mine! It's All mine! ...

TAKING POSSESSION

Typically, the day escrow closes on your new home, you will be able to take possession of the property. Congratulations! Here are a few hints on closing day to keep in mind:

- Check to see when you will actually take possession of the house. Often, a transaction has to be recorded at the City or County Recorder's office for it to be official.
- Resist the urge to do any work to the house before escrow closes. If the deal falls through, you are out time and money.
- Be sure to do a walk-through of the house before you sign final papers and move in. Is the house in the same condition as it was when you agreed to buy?

KEEPIN' UP

So, you are in your home-sweet-home. Ownership has many rewards, so it is important to maintain that ownership! Here are some tips and advice on how to keep your head above water:

- Review the budget you set up for yourself on page 7. Are you staying within those limits?
- Check with a tax advisor to make sure you're getting the maximum write-off on your loan interest. This can mean hundreds of dollars a month!
- Watch how much you spend when you first move into your new home! This is a dangerous time to run up big credit card bills buying all of that furniture you want!
- Be sure to put a little extra away every month to cover unexpected expenses like a new hot water heater or dishwasher!
- If interest rates fall more than a half point in the months after you buy, consider refinancing your mortgage. This could save you a great deal of money over the life of the loan.

Home Buyer Hint

If you run into some financial trouble after you buy, remember to communicate! Talk to your mortgage lender and work something out. They don't want you to default on your loan, just as you don't want to default on your loan!

It's a Jungle Out There! ... BUYER BEWARE

Because there is so much money and so many different professionals are involved in the real estate purchasing process, there is always room for professional incompetence or outright fraud. Here are some things to look out for in the team that assists you in your purchase.

Home Buyer Hint

Learn enough about the real estate process to protect yourself and question any professional that assists you. A little knowledge goes a long way.

Real Estate Agents: This is the key person on your team! Make sure he or she is competent! We cannot stress this point more! Do your homework. All real estate agents must be licensed by the California Department of Real Estate. Visit the Department's web site (www.dre.ca.gov) to determine the license status of an agent. Also, talk to others who have used the agent. This is the one person you really need to trust in this process.

Lenders: There are some unscrupulous lenders out there who only want their commission or points from a loan and couldn't care less if you are getting the best loan product. There are some lending tactics that are outright fraud. Beware of the following illegal lending practices and predatory lending tactics:

- Flipping – the frequent making of new loans to refinance existing loans
- Packing – selling of additional products without the borrower's informed consent
- Charging of excessive fees
- Bait and Switch – offering of very attractive terms which are not available and then pressuring the borrower into more expensive terms and hidden fees

- Door-to-Door High Pressure Sales – typically trying to sell home improvement contracts funded by home equity loans usually with less-than-desirable terms
- Trust Selling – salespersons who try to gain your trust based on some common background and then sell you something that might not be in your best interest
- No Job! No Problem! – encouraging home equity loans to those with no job or bad credit with the knowledge that the borrower will probably lose their home because they can't make the payments
- Pressuring for Immediate Sale – insisting that a loan contract be signed immediately before the good deal is gone.

Prior to using the services of a mortgage broker or lender, make sure they are properly licensed by checking the California Department of Corporations' web site (www.corp.ca.gov) and/or the California Department of Real Estate's web site (www.dre.ca.gov).

Home Inspectors: The competency of this person is key in making sure you're purchasing a structurally sound, safe home. A home inspector who misses details can end up costing you tens of thousands of dollars in the long run. Or worse, missed details could cause you or a family member harm because of bad wiring, cracked glass and other hazards.

Escrow Officer: The escrow officer is the referee in the home buying game. Just as with your favorite sport, an incompetent – or cheating – referee is a huge headache. If bad calls are made on the part of the escrow officer, it can cost you large amounts of money or kill the whole deal.

Tax Advisor: A tax advisor can be a great asset to you financially. Finding out that certain expenses are not tax deductible after-the-fact can put you in a real bind with the IRS. Ask your real estate agent, family members, friends or others you trust if they can recommend the services of a reputable tax advisor in your area.

Resources

Books and Guides:

Tyson, E. and Brown, R. (2001) Home Buying for Dummies. New York: Hungry Minds. The authors provide straight forward and sensible advice on all aspects of the home buying process. Includes comprehensive tips on what to look out for.

Irwin, R. (2000) Buy Your First Home! Chicago: Dearborn. Irwin writes a narrative of the home buying process, start to finish. He uses several true-life stories to highlight important points.

Fidelity National Title (2001) Buyers' Home Guide. Fidelity National Title. Provides exhaustive checklists on the information required through the home buying process. Use as a companion to other material for a pre-written "to-do" list.

California Department of Real Estate (1999) Disclosures in Real Property Transactions. This booklet presents a brief overview of current real estate disclosures required by law. It also has a list of government agencies to contact for further information.

California Department of Real Estate (2000) Using the Services of a Mortgage Broker. This booklet gives a brief overview of the basic steps and factors involved in a mortgage transaction when using the services of a mortgage broker.

California Housing Finance Agency (2002) Homeownership Program Bulletins. These bulletins, which are issued frequently, provide the latest information about various home loan assistance programs in California.

Web Sites:

To check your credit report and find detailed information about how to build good credit and avoid bad credit, see the following web sites: www.equifax.com, www.transunion.com and www.experian.com.

To find a certified credit counselor, go to www.debtadvice.org or www.hud.gov .

To check the license status of a real estate agent and access other helpful consumer protection information, go to the California Department of Real Estate's web site: www.dre.ca.gov .

To learn more about the home purchase and loan process, check out www.freddiemac.com/homebuyers and/or www.fanniemae.com (click on Homepath) and/or www.hud.org (click on Online Homebuyer Education) and/or www.hud.gov.

For information on home loans, including current interest rates, home loan calculators, and special programs for first time buyers, see these web sites: www.eloan.com, www.bankrate.com, and www.hsh.com.

For information about first time home buyer programs and a variety of other home loan assistance programs in California, check out the California Housing Finance Agency at www.calhfa.ca.gov and the California Department of Housing and Community Development at www.hcd.ca.gov.

For information on home loan assistance available to eligible veterans, check out the California Department of Veterans Affairs at www.calvet.ca.gov.

Other helpful web sites include:

U.S. Department of Housing and Urban Development: www.hud.gov

U.S. Internal Revenue Service: www.irs.gov

California Department of Consumer Affairs: www.dca.ca.gov

California Department of Corporations: www.corp.ca.gov

California Department of Financial Institutions: www.dfi.ca.gov

California Franchise Tax Board: www.ftb.ca.gov

California Department of Housing and Community Development:
www.hcd.ca.gov

California Housing Finance Agency: www.calhfa.ca.gov

California Department of Insurance: www.insurance.ca.gov

California Department of Real Estate: www.dre.ca.gov

California Office of Real Estate Appraisers: www.orea.ca.gov

California Structural Pest Control Board: www.pestboard.ca.gov

California Department of Veterans Affairs: www.calvet.ca.gov

Federal Citizen Information Center: www.pueblo.gsa.gov

Glossary

- Adjustable Rate Mortgage (ARM)** — A mortgage loan which bears interest at a rate subject to change during the term of the loan, predetermined or otherwise.
- Agent** — One who acts for and with authority from another called the principal.
- Amortization** — The liquidation of a financial obligation on an installment basis; also, recovery over a period of cost or value.
- Amortized Loan** — A loan to be repaid, interest and principal, by a series of regular payments that are equal or nearly equal, without any special balloon payment prior to maturity. Also called a Level Payments Loan.
- Annual Percentage Rate** — The relative cost of credit as determined in accordance with Regulation Z of the Board of Governors of the Federal Reserve System for implementing the Federal Truth in Lending Act.
- Appraisal** — An estimate of the value of property resulting from an analysis of facts about the property. An opinion of value.
- Appraiser** — One qualified by education, training and experience who is hired to estimate the value of real and personal property based on experience, judgment, facts, and use of formal appraisal processes.
- APR** — See ANNUAL PERCENTAGE RATE.
- Balloon Payment** — An installment payment on a promissory note - usually the final one for discharging the debt - which is significantly larger than the other installment payments provided under the terms of the promissory note.
- Blighted Area** — A district affected by detrimental influences of such extent or quantity that real property values have seriously declined as a result of adverse land use and/or destructive economic forces; characterized by rapidly depreciating buildings, retrogression and no recognizable prospects for improvement. However, renewal programs and changes in use may lead to resurgence of such areas.
- Bond** — Written evidence of an obligation given by a corporation or government entity. A surety instrument.
- Broker** — A person employed for a fee by another to carry on any of the activities listed in the license law definition of a broker.
- Broker-Salesperson Relationship Agreement** — A written agreement required by the regulations of the Real Estate Commissioner setting forth the material aspects of the relationship between a real estate broker and each salesperson and broker performing licensed activities in the name of the supervising broker.
- CC&Rs** — Covenants, conditions and restrictions. The basic rules establishing the rights and obligations of owners (and their successors in interest) of real property within a subdivision or other tract of land in relation to other owners within the same subdivision or tract and in relation to an association of owners organized for the purpose of operating and maintaining property commonly owned by the individual owners.
- Closing** — Process by which all the parties to a real estate transaction conclude the details of a sale or mortgage. The process includes the signing and transfer of documents and distribution of funds.

- Closing Costs** — The miscellaneous expenses buyers and sellers normally incur in the transfer of ownership of real property over and above the cost of the property.
- Closing Statement** — An accounting of funds made to the buyer and seller separately. Required by law to be made at the completion of every real estate transaction.
- Commission** — An agent's compensation for performing the duties of the agency; in real estate practice, a percentage of the selling price of property, percentage of rentals, etc. A fee for services.
- Common Area** — An entire common interest subdivision except the separate interests therein.
- Comparable Sales** — Sales which have similar characteristics as the subject property and are used for analysis in the appraisal process. Commonly called "comparables," they are recent selling prices of properties similarly situated in a similar market.
- Compound Interest** — Interest paid on original principal and also on the accrued and unpaid interest which has accumulated as the debt matures.
- Condition** — In contracts, a future and uncertain event which must happen to create an obligation or which extinguishes an existent obligation. In conveyances of real property conditions in the conveyance may cause an interest to be vested or defeated.
- Conditional Sales Contract** — A contract for the sale of property stating that delivery is to be made to the buyer, title to remain vested in the seller until the conditions of the contract have been fulfilled.
- Condominium** — An estate in real property wherein there is an undivided interest in common in a portion of real property coupled with a separate interest in space called a unit, the boundaries of which are described on a recorded final map, parcel map or condominium plan. The areas within the boundaries may be filled with air, earth, or water or any combination and need not be attached to land except by easements for access and support.
- Conventional Mortgage** — A mortgage securing a loan made by investors without governmental underwriting, i.e., which is not FHA insured or VA guaranteed. The type customarily made by a bank or savings and loan association.
- Cooperative (apartment)** — An apartment building, owned by a corporation and in which tenancy in an apartment unit is obtained by purchase of shares of the stock of the corporation and where the owner of such shares is entitled to occupy a specific apartment in the building. In California, this type of ownership is called a "stock cooperative."
- Co-signer** — A second party who signs a promissory note together with the primary borrower.
- Discount Points** — The amount of money the borrower or seller must pay the lender to get a mortgage at a stated interest rate. This amount is equal to the difference between the principal balance on the note and the lesser amount which a purchaser of the note would pay the original lender for it under market conditions. A point equals one percent of the loan.
- Effective Interest Rate** — The percentage of interest that is actually being paid by the borrower for the use of the money, distinct from nominal interest.
- Equity** — The interest or value which an owner has in real estate over and above the liens against it.
- Equity Build-up** — The increase of owner's equity in property due to mortgage principal reduction and value appreciation.
- Escrow** — The deposit of instruments and/or funds with instructions with a third neutral party to carry out the provisions of an agreement or contract.

- Escrow Agent** — The neutral third party holding funds or something of value in trust for another or others.
- Fair Market Value** — This is the amount of money that would be paid for a property offered on the open market for a reasonable period of time with both buyer and seller knowing all the uses to which the property could be put and with neither party being under pressure to buy or sell.
- First Mortgage** — A legal document pledging collateral for a loan (see “mortgage”) that has first priority over all other claims against the property except taxes and bonded indebtedness. That mortgage superior to any other.
- Initial Note Rate** — With regard to an adjustable rate mortgage, the note rate upon origination. This rate may differ from the fully indexed note rate.
- Initial Rate Discount** — As applies to an adjustable rate mortgage, the index value at the time of loan application plus the margin less the initial note rate.
- Interest** — A portion, share or right in something. Partial, not complete ownership. The charge in dollars for the use of money for a period of time. In a sense, the “rent” paid for the use of money.
- Interest Only Loan** — A straight, non-amortizing loan in which the lender receives only interest during the term of the loan and principal is repaid in a lump sum at maturity.
- Interest Rate** — The percentage of a sum of money charged for its use. Rent or charge paid for use of money, expressed as a percentage per month or year of the sum borrowed.
- Lien** — A form of encumbrance which usually makes specific property security for the payment of a debt or discharge of an obligation. Example — judgments, taxes, mortgages, deeds of trust, etc.
- Life of Loan Cap (Cap Rate)** — With regard to an adjustable rate mortgage, a ceiling the note rate cannot exceed over the life of the loan.
- Listing** — An employment contract between principal and agent authorizing the agent to perform services for the principal involving the latter’s property; listing contracts are entered into for the purpose of securing persons to buy, lease, or rent property. Employment of an agent by a prospective purchaser or lessee to locate property for purchase or lease may be considered a listing.
- Loan Application** — The loan application is a source of information on which the lender bases a decision to make the loan; defines the terms of the loan contract, gives the name of the borrower, place of employment, salary, bank accounts, and credit references, and describes the real estate that is to be mortgaged. It also stipulates the amount of loan being applied for and repayment terms.
- Loan Closing** — When all conditions have been met, the loan officer authorizes the recording of the trust deed or mortgage. The disbursement of funds is similar to the closing of a real estate sales escrow. The borrower can expect to receive less than the amount of the loan, as title, recording, service, and other fees may be withheld, or can expect to deposit the cost of these items into the loan escrow. This process is sometimes called “funding” the loan.
- Loan-to-Value Rate** — The percentage of a property’s value that a lender can or may loan to a borrower. For example, if the ratio is 80% this means that a lender may loan 80% of the property’s appraised value to a borrower.
- Market Data Approach** — One of the three methods in the appraisal process. A means of comparing similar type properties, which have recently sold, to the subject property. Commonly used in comparing residential properties.

- Market Price** — The price paid regardless of pressures, motives or intelligence.
- Market Value** — The highest price in terms of money which a property will bring in a competitive and open market and under all conditions required for a fair sale, i.e., the buyer and seller acting prudently, knowledgeably and neither affected by undue pressures.
- Mile** — 5,280 feet.
- Multiple Listing** — A listing, usually an exclusive right to sell, taken by a member of an organization composed of real estate brokers, with the provisions that all members will have the opportunity to find an interested buyer; a cooperative listing insuring owner property will receive a wider market exposure.
- Multiple Listing Service** — An association of real estate agents providing for a pooling of listings and the sharing of commissions on a specified basis.
- Narrative Appraisal** — A summary of all factual materials, techniques and appraisal methods used by the appraiser in setting forth his or her value conclusion.
- Negative Amortization** — Occurs when monthly installment payments are insufficient to pay the interest accruing on the principal balance, so that the unpaid interest must be added to the principal due.
- Offer To Purchase** — The proposal made to an owner of property by a potential buyer to purchase the property under stated terms.
- Open Listing** — An authorization given by a property owner to a real estate agent wherein said agent is given the nonexclusive right to secure a purchaser; open listings may be given to any number of agents without liability by the seller to compensate any except the one who first secures a buyer ready, willing and able to meet the terms of the listing, or secures the acceptance by the seller of a satisfactory offer.
- Payment Cap**— With regard to an adjustable rate mortgage, this limits the amount of increase in the borrower's monthly principal and interest at the payment adjustment date, if the principal and interest increase called for by the interest rate increase exceeds the payment cap percentage. This limitation is often at the borrower's option and may result in negative amortization.
- Principal** — This term is used to mean the employer of an agent; or the amount of money borrowed, or the amount of the loan. Also, one of the main parties in a real estate transaction, such as a buyer, borrower, seller, lessor.
- Private Mortgage Insurance** — Mortgage guaranty insurance available to conventional lenders on the first, high risk portion of a loan (PMI).
- Promissory Note** — Following a loan commitment from the lender, the borrower signs a note, promising to repay the loan under stipulated terms. The promissory note establishes personal liability for its payment. The evidence of the debt.
- Proration** — Adjustments of interest, taxes, and insurance, etc., on a pro rata basis as of the closing or agreed upon date. Fire insurance is normally paid for three years in advance. If a property is sold during this time, the seller wants a refund on that portion of the advance payment that has not been used at the time the title to the property is transferred.
- Real Property** — Land and anything growing on, attached to or erected on it, excluding anything that may be severed without injury to the land.
- Real Property Sales Contract** — An agreement to convey title to real property upon satisfaction of specified conditions.

- Recording** — The process of placing a document on file with a designated public official for public notice. This public official is usually a county officer known as the County Recorder who designates the fact that a document has been presented for recording by placing a recording stamp upon it indicating the time of day and the date when it was officially placed on file. Documents filed with the Recorder are considered to be placed on open notice to the general public of that county. Claims against property usually are given a priority on the basis of the time and the date they are recorded with the most preferred claim going to the earliest one recorded and the next claim going to the next earliest one recorded, and so on. This type of notice is called “constructive notice” or “legal notice”.
- Refinancing** — The paying-off of an existing obligation and assuming a new obligation in its place. To finance anew, or extend or renew existing financing.
- Risk Rating** — A process used by the lender to decide on the soundness of making a loan and to reduce all the various factors affecting the repayment of the loan to a qualified rating of some kind.
- Sales Contract** — A contract by which buyer and seller agree to terms of a sale.
- Tenancy In Common** — Co-ownership of property by two or more persons who hold undivided interests, without right of survivorship; interests need not be equal.
- Tenant** — The party who has legal possession and use of real property belonging to another.
- Title** — Indicates “fee” position of lawful ownership and right to property. “Bundle of Rights” possessed by an owner. Combination of all elements constituting proof of ownership.
- Title Insurance** — Insurance to protect a real property owner or lender up to a specified amount against certain types of loss, e.g., defective or unmarketable title.
- Title Report** — A report which discloses condition of the title, made by a title company preliminary to issuance of title insurance policy.
- Townhouse** — One of a row of houses usually of the same or similar design with common side walls or with a very narrow space between adjacent side walls.
- Transfer Fee** — A charge made by a lending institution holding or collecting on a real estate mortgage to change its records to reflect a different ownership.
- Trust Deed** — Just as with a mortgage this is a legal document by which a borrower pledges certain real property or collateral as guarantee for the repayment of a loan. However, it differs from the mortgage in a number of important respects. For example, instead of there being two parties to the transaction there are three. There is the borrower who signs the trust deed and who is called the trustor. There is the third, neutral party, to whom trustor deeds the property as security for the payment of the debt, who is called the trustee. And, finally, there is the lender who is called the beneficiary, the one who benefits from the pledge agreement in that in the event of a default the trustee can sell the property and transfer the money obtained at the sale to lender as payment of the debt.
- Underwriting** — Insuring something against loss; guaranteeing financially.
- Value** — See MARKET VALUE
- Variable Interest Rate** — (VIR or VMR, Variable Mortgage Rates.) An interest rate in a real estate loan which by the terms of the note varies upward and downward over the term of the loan depending on money market conditions.