

ESTRAFINANCE

Empowering Dreams, Enriching Lives.

EVERY TERM HOME OWNERS SHOULD KNOW

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INTRODUCTION

Embarking on the journey of homeownership involves navigating a sea of financial terms and concepts, especially when it comes to securing a home loan. This guide is designed to demystify the key terms you'll encounter, helping you to better understand the process and make informed decisions. From the basics of loan amounts and down payments to more complex topics like home equity and foreclosure, we'll break down each concept in simple, easy-to-understand language. Whether you're a first-time buyer or looking to deepen your knowledge, this guide will equip you with the essential information you need to confidently manage your home loan journey.

MUST KNOW TERMS

LOAN AMOUNT

This one is easy, this is what you borrow from the bank in order to purchase a home. It can also be referred to as principle. Now the loan amount is determined by how much a bank values the property you are looking to buy.

LOAN TERM

This is how long you have to pay back the loan amount. You can choose your loan term, but most banks in the Philippines offer a minimum of 1 year and a maximum of 20 years. A few banks are now starting to extend that to 25 years, and PAG-IBIG offers a 30 year loan term.

DOWN PAYMENT

This refers to the lump sum deposit you use to secure your home. It's usually about 20% of the house's selling price, but it's usually a bit more than that for a few reasons. But that is a whole other topic, so I will be posting another video about down payments in the near future and linking it here when it's out.

COLLATERAL

Collateral refers to an asset that you offer to a bank as security for a loan. Think of it as insurance for the bank in case a borrower fails to repay their loan as agreed - if this happens, the bank has the right to take possession of the collateral to pay back the outstanding amount of the loan. Traditionally, the collateral is actually the house you're trying to buy, but you can use other appropriately-valued things as well, like another home you own.

SECURED LOANS

This phrase refers to loans that require collateral. Unsecured loans don't require collateral, but they are typically for smaller loan amounts and come with significantly higher interest rates, and they're a bit harder to be approved for than a secured loan. It's unlikely that you'd ever find a home loan that is not a secured loan.



CLOSING COSTS

This is a phrase that refers to several different one-off fees that are not included in the sale price of the house you're buying. It can refer to things like processing fees, mortgage insurance, the notarisation of your documents, the processing fees of the bank, and more. These closing costs usually equal around 2-5% of the total loan amount.

MONTHLY AMORTIZATIONS

The minimum you have to pay every month to pay back your loan on time. It's kind of like rent. The bank will tell you exactly what this will be when you sign the loan documents with them, and it varies depending on the loan amount you're borrowing, the interest rate you get, and how long your loan term is.

INTEREST RATE

Interest is how much extra you'll be charged in order to borrow from the bank. Now, there's two important types you have to remember when purchasing a home.

VARIABLE INTEREST RATE

A variable interest rate, sometimes called a floating interest rate, or even an annual interest rate, will change depending on market conditions and can go up or down. This can be both good and bad for the borrower, as if it increases you're paying back more money, but if it decreases, you're saving. Once you finish your fixed interest rate term, you will be automatically moved to the variable interest rate - but you should always ask your bank before you sign your loan documents just to make sure.

FIXED INTEREST

Since the interest rate can change at any time, banks offer a "fixed" interest rate for a small number of years that helps you budget long-term. Most fixed interest rates will only last for five years, but some banks do offer longer periods. Once your fixed interest rate term is over, you can ask a bank to extend your fixed rate, but it's judged on a case-by-case basis and they charge a fee.

LOAN TO VALUE RATIO

Often shortened to LTV, or otherwise referred to as Margin of Finance, this is an equation that shows how much you will need to borrow from the bank to buy your house, shown as a percentage. If you got a 5 million peso loan for a house selling 6 million pesos, then your LTV would be 5 million divided by 6 million and then times that number by 100 to convert it into a percentage, which is 83%.

But keep in mind that the bank will do their own appraisal of the property, meaning that even though it's selling at 6 million pesos doesn't mean the bank thinks it's worth 6 million pesos - and they will adjust your LTV accordingly. Your loan to value ratio should ideally not exceed 80%.

CREDIT REPORT

Also known as a credit file, this is something that outlines all the debt you've ever had and your payment history of that debt, known as your credit history. Your report also has a score, known as a credit score, which can be a number for the rest of the world but is more commonly a word here in the Philippines, that ranks you on how good you are at paying off your debts. These scores go from Very Poor, Poor, Fair, Good, Very Good, and Excellent. If you pay all your bills on time, you have nothing to worry about. Your credit report has a bunch of information that your bank will use to determine the risk of lending to you, and your ability to pay off a loan.

NEGATIVE FINDINGS

These are part of your credit report, and as the name suggests, are bad to have. Negative findings encompass things like overdrawn accounts, cancelled cards, and unpaid debts. Too many negative findings mean you won't get approved for a loan.

HOME EQUITY

This is the difference between the current value of your home and the amount you still owe on your mortgage. In simpler terms, it's the portion of your home's value that you truly "own" after accounting for any debt held against it. As you pay off your mortgage or your home's value increases, your equity grows. Fun fact, if you have enough equity in your home you can use that as down payment for a second home!

REFINANCING

Is often shortened to a Refinance or even a Loan Take Out, and it involves trading in your current loan for a new one. People usually refinance to get a lower interest rate, change the duration of their loan, or to tap into their home's equity. Now, it's important to talk to a professional about this as it does cost to refinance which depends on the amount you still have owing on your loan, so even though you might think you're saving on a lower interest rate, you can still end up losing money in the short term.

TAXES

What you have to pay to the government for having that money in your name. Taxes usually aren't included in your monthly amortizations so this is something you'll need to allocate extra cash for.

MORTGAGE REDEMPTION INSURANCE

This is a type of home insurance that is used to pay for some or all of the outstanding home loan in case of the borrower's death. For many home loans, having this insurance is compulsory, and some banks even include cover for the first year of your loan in their closing costs. Whilst you should always consider having insurance to protect your home, this MRI is specifically to help pay off your outstanding home loan.

PROPERTY TITLE

A property title is a legal document that establishes ownership and confirms the rights of a person or entity to a specific piece of real estate. It indicates who has the legal right to possess the property, and any transfers or claims against it (like liens) are typically recorded on the title.



Title Transfer = this refers to the process that happens when someone transfers a property title to another person. For example, when you purchase a home the seller will then transfer the title in your name. Now, if you're getting bank financing the bank will keep possession of this document and also put what is called a mortgage "lien".
This lien ensures the bank has a claim on the property's value until the loan is fully paid off. If the borrower fails to meet the repayment terms, the bank may have the right to take ownership of the property through foreclosure.

Early Termination Penalty = Also known as "prepayment", these fees refer to the costs you incur when you pay off your loan too early - for instance, if you had a 20 year loan and you paid it off in 15 years, you will be charged an early termination penalty. Every bank charges differently for doing this, but it can be more costly than you'd expect to pay your loan off early.

FORECLOSURE

This refers to properties taken by the bank due to lack of payments on a loan.

Understanding the key terms and concepts of home loans is essential to making confident and informed decisions on your homeownership journey. From loan amounts and down payments to the nuances of interest rates and home equity, each element plays a critical role in your financial landscape.

Being well-versed in these terms empowers you to select the right loan, manage your budget effectively, and avoid common mistakes. Remember, a home loan is more than a financial commitment; it's an opportunity to build wealth and secure your future.



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To further simplify this complex process and tailor the best solutions to your needs, consider partnering with Estra Finance. Our expert loan specialists are here to guide you every step of the way, ensuring you have the support and advice necessary to make the best financial decisions. Whether you're buying your first home or expanding your investment portfolio, Estra Finance is committed to helping you achieve your goals with confidence and clarity. Contact us today to start your journey with the expert guidance you deserve.