GLOSSARY

mortgage loan – money borrowed from a bank or other financial institution to help one buy a home; a home loan
* Roma and Donny qualified for a mortgage loan of up to $230,000.

fixed-rate mortgage – a home loan for which the interest rate does not change over time, so the monthly payments do not change
* James wants to be sure that his monthly payments remain the same, so he chose a fixed-rate mortgage.

adjustable-rate mortgage – a home loan for which the interest rates change over time, depending on market conditions, so the monthly payments are unpredictable
* An adjustable-rate mortgage would be great if the interest rates go down, but we'd have to make huge payments if interest rates go up. It isn't worth the risk.

to lock in – to agree on a specific number or amount so that it can no longer change
* We should have locked in the interest rates last week, before rates started to increase.

annual percentage rate – APR; the cost of borrowing money; the interest rate for the entire year, used to calculate payments on a loan
* Which bank offers the lowest annual percentage rate?

principal – the amount of a loan, excluding any fees and interest
* How much of our monthly payments is applied to the principal?

interest – money paid for the use of a loan, calculated as a percentage of the loan amount
* At the beginning of the loan period, most of your payment is interest.

points – a form of prepaid interest, so that the borrower pays more money upfront
* Paula shopped around to find a mortgage loan with the least number of points in order to save money.

appraisal – an expert or official estimate of the value of something
* The lender will conduct an appraisal to determine if the home is really worth the amount of money you're paying for it.

private mortgage insurance – PMI; an insurance program that protects the bank if the borrower does not make payments, with the borrower paying the monthly fee for the insurance
* If we buy a home now, we'll have to pay private mortgage insurance because the amount of our down payment is so small.

down payment – the amount of money paid by from the homebuyer's own funds, not borrowed from a bank
* Lyle is saving his money for a down payment on a three-bedroom home.

homeowners insurance – an insurance program the provides payments to the homeowner if something in the home is damaged or destroyed
* Their homeowners insurance covers damage from fire and insects, but not from flooding or earthquakes.

title insurance – a type of insurance that protects the buyer of a property if it is discovered later that someone else actually has the title (a paper showing ownership of) to the home
* The bank requires all homebuyers to pay for title insurance, but it's hardly ever used.

balloon payment – a very large payment due at the end of a loan term
* The Weintraubs got a $100,000 loan that requires a balloon payment of $35,000 at the end of five years.

prepayment penalty – an amount of money that must be paid as a punishment for paying off a loan earlier than expected or planned
* They have enough cash to pay off their mortgage, but they've decided not to do it, because they want to avoid the prepayment penalty.

you got me – a phrase meaning that another person has asked a question that one does not have the answer to
* A: Why is the sky blue during the day and red, orange, and yellow at twilight?
B: You got me.

closing costs – the expenses paid by buyers and sellers when they complete a real estate transaction, not including the cost of the home
* Some banks offer low interest rates, but have very high closing costs.

out of (one's) depth – involved in something more than one is capable of doing; not able to understand or handle something
* When Meghan's triplets were babies, she often felt she was out of her depth.

COMPREHENSION QUESTIONS

1. Which of these loans has predictable, even payments?
a) A fixed-rate mortgage
b) An adjustable-rate mortgage
c) Balloon payment

2. What is a down payment?
a) The smallest payment made on a mortgage
b) The average monthly payment
c) The amount of the purchase price paid with the homebuyer's own funds.

WHAT ELSE DOES IT MEAN?

to lock in
The phrase "to lock in," in this podcast, means to agree on a specific number or amount so that it can no longer change: "The landlord will lock in the rent if you sign a three-year rental agreement." When cooking, the phrase "to lock in" means to make the flavor stay or remain: "This technique locks in the flavor and juices when cooking a turkey." The phrase "to lock (someone) out" means to keep someone out of a place: "The protesters were locked out of the building." Finally, the phrase "to be locked out of (one's) car" means to be unable to open one's car, because one has locked the car with the keys still inside it: "Oh no, I'm locked out of my car. Look, the keys are right there on the passenger seat."

point
In this podcast, "points" are a form of prepaid interest, so that the borrower pays more money upfront: "Has the lender explained the meaning of these points?" The phrase "up to a point" means partially, but not entirely: "I agree with you up to a point, but I think we have different solutions to the problem." The phrase "the point of no return" refers to the moment when it is not possible to stop something from happening, or when one cannot change one's actions: "Once the rocket hits a certain altitude, it is past the point of no return and we can't prevent it from continuing on to outer space." Finally, the phrase "to be at the point of doing (something)" mean to be about to do something, or go be going to do something soon: "I was at the point of going to bed when some unexpected visitors arrived."

CULTURE NOTE

The Foreclosure Process

When homeowners are not able to "make" (pay) their monthly mortgage payments, they enter the "foreclosure process," or the process through which the bank "takes possession of" (becomes the owner of) the home for which the mortgage loan was made. Most banks have a "grace period" (a period of time when something is allowed to happen without punishment) for making mortgage payments, so if a homeowner is a few weeks or month late with the payments, nothing will happen. But if the "outstanding balance" (unpaid amount) "accrues" (continues to add up) over time, the bank will start the foreclosure process.

"Initially" (at the beginning; at first), the bank sends "missed payment notices" (letters letting the homeowner know a payment was not received) and calls them to "request" (ask for) or "demand" (insist) on payment. After one month, the bank may send a "notice of default," which is a letter informing the homeowner that he or she has "violated" (not followed) the "terms" (requirements) of the loan. At this point, homeowners might ask the bank to allow them to make "partial" (less than the full amount) payments, or let them have a few months more to pay, but the bank does not have to agree to these requests.

Typically, if three months pass without payment, the bank begins the foreclosure process. First the homeowner receives a "foreclosure notice," which is a letter explaining that the bank has scheduled the sale of the home, typically in an "auction" (event where buyers indicate the price they are willing to pay, with the person willing to pay the highest price buying it). The homeowner is told when to "vacate the premises" (leave the building and property), and the bank becomes the owner until it is able to sell the home.

Comprehension Questions Correct Answers: 1 – a; 2 – c

COMPLETE TRANSCRIPT

Welcome to English as a Second Language Podcast number 1,070 – Getting a Mortgage Loan.

This is English as a Second Language Podcast episode 1,070. I'm your host, Dr. Jeff McQuillan, coming to you from the Center for Educational Development in beautiful Los Angeles, California.

Visit our website at ESLPod.com. Become a member of ESL Podcast. If you do, you can download a Learning Guide for this episode.

This episode is a dialogue between Kiko and Rafael about getting a mortgage loan – getting money to buy a house. Let's get started.

[start of dialogue]

Kiko: Figuring out how to fill out this mortgage loan application is like trying to read a foreign language. I don't know what all these terms mean.

Rafael: Let's see if we can figure it out together. I think we want a fixed-rate mortgage, not an adjustable-rate mortgage. We want to lock in a good annual percentage rate and not worry about the rate going up.

Kiko: All right, I think that's what we want. We want the principal and interest payments to be predictable.

Rafael: That's right.

Kiko: And what are points?

Rafael: I think that has to do with fees for getting the loan.

Kiko: It looks like we have to get an appraisal of the house we want to buy.

Rafael: Yes, that's standard, I think.

Kiko: Do we have to pay for private mortgage insurance?

Rafael: Not if we have a down payment of more than 20 percent of the price of the house.

Kiko: Okay, so we don't need to worry about that expense, but what about all these others?

Rafael: Like what?

Kiko: Like homeowners insurance and title insurance?

Rafael: I'm not sure.

Kiko: And what are balloon payments and prepayment penalties?

Rafael: You got me.

Kiko: And what's included in the closing costs?

Rafael: I'm really out of my depth here.

Kiko: Me, too. What should we do now?

Rafael: Continue to rent?

[end of dialogue]

Our dialogue begins with Kiko saying to Rafael, "Figuring out how to fill out this mortgage loan application is like reading a foreign language." Kiko and Rafael are filling out or completing – putting information into – a mortgage loan application. A "mortgage (mortgage) loan (loan)" is money that you get from a bank, that you borrow from a bank to buy a home, to buy a house or a condominium.

Kiko says that "filling out the application is like trying to read a foreign language," meaning it's very difficult. She can't understand what it is saying. She says, "I don't know what all these terms," or words, "mean." Rafael says, "Let's see if we can figure it out together" – let's see if we can understand it together. He says, "I think we want a fixed-rate mortgage, not an adjustable-rate mortgage." The "rate" (rate) on a loan is the percentage of money that you have to pay on the loan.

So, for example, if you have a loan of $100, and the rate – we would call it the "interest rate" – is 10 percent, that means you have to pay $10 on that loan. Here we're talking about different kinds of rates, two different kinds of rates for a mortgage. One is a fixed-rate. A "fixed-rate" is when the bank tells you, "Okay, we're going to give you $100,000, or $500,000, and you have to pay every year 5 percent interest, and that will not change. It will always be 5 percent. It's "fixed" (fixed).

Another kind of mortgage loan you can get from a bank is called an "adjustable-rate mortgage." The word "adjustable" comes from the verb "to adjust" (adjust). "To adjust" means to change, and an adjustable-rate mortgage is a mortgage that has a changing rate. So, this year it might be 5 percent, but next year, depending on how the economy is doing, it might be 7 percent. An adjustable-rate mortgage is usually easier to get, however, it's unpredictable. You don't know what your interest rate is going to be 10 years from now.

Rafael is saying that he thinks they want to get a fixed-rate mortgage. He says, "We want to lock in a good annual percentage rate and not worry about the rate going up." "To lock in" is a two-word phrasal verb meaning to agree with someone – in this case, the bank – on a specific number or amount so that it can't be changed in the future. If the bank says, "We're going to charge you 5 percent interest on your loan," and you say, "Okay, I want to lock in that rate," you're saying you want that rate to be fixed. You don't want it to move. You don't want it to change.

That's what Rafael is talking about. He wants to "lock in a good annual percentage rate." The "annual percentage rate" is the interest rate for a given year, for each year that you to pay the bank to have the money, to borrow the money. Kiko agrees. She says, "All right, I think that's what we want. We want the principle and interest payments to be predictable."

When you borrow money from a bank, there are two kinds of payments that you are making back to the bank. The first is the "principal" (principal). The principal of a loan is the actual money that the bank is giving you. So, if the bank is giving you $100, your principal on the loan is $100. But of course, the bank isn't giving you the money for free. You have to pay the bank to use its money. The money that you pay the bank – the price of the loan, if you will – is the interest.

The interest is the money you pay to get the loan, or the money you pay that the bank gets for giving you the loan. Usually when you have a mortgage loan in the United States, or a car loan, you are giving the bank part of the principal back each time you send in money, but you are also giving them part of the interest. Kiko says, "We want the principal and interest payments to be predictable." "To be predictable" means you know what they're going to be in the future. "Predictable" comes from the verb "to predict" (predict), which means to guess or estimate what will happen in the future.

Rafael agrees with her. He says, "That's right." Kiko then asks Rafael to explain to her the meaning of the word "points" (points). Well, the word "points" can mean a couple of different things, but here, when we're talking about mortgage loans, it refers to an additional price that you have to pay in order to get the loan. It's an additional price that you pay besides the interest for the loan. Usually it's money that you have to give the bank before you even get the loan. "Points" refers to a percentage of the loan that you have to pay as a fee to the bank.

So, on our $100 loan, we might have to pay 10 percent interest, which would be $10 every year that we have the loan, but in addition, when we get the loan, we have to give the bank perhaps a dollar or two dollars. Those payments would be called "points," and they have to be, usually, paid when you first get the loan. Rafael says, "I think that has to do with fees for getting the loan," and Rafael is correct.

Kiko then says, "It looks like we have to get an appraisal of the house we want to buy." An "appraisal" (appraisal) is an official estimate – when someone comes in and says, "This is how much your house is really worth." You get an expert, someone who knows a lot about houses, to come and look at the house and say, "Well, this house is worth $200,000," or "This condominium is worth $150,000." Most banks will ask an expert to go and look at your house and give it an appraisal.

The bank doesn't want to give you more money for the house than it's worth. So, the loan amount has to be less than the appraisal amount. So if you want to borrow, say, $100,000 on a condominium, and the bank sends a person out, an expert whom we would call an "appraiser," to look at the condominium and the appraiser decides it's only worth $50,000, the bank isn't going to give you a $100,000 loan, because the appraisal wasn't high enough to justify a loan of that size.

Rafael says, "Yes, that's standard, I think." The expression here, "That's standard," means that's normal – that's what you normally have to do when you get a mortgage loan; and again, Rafael is correct. Kiko then asks, "Do we have to pay for private mortgage insurance?" "Private mortgage insurance," sometimes abbreviated "PMI," is basically insurance that you get in case for some reason you can't pay off your loan. The bank wants to be sure it is going to get its money back.

So, private mortgage insurance is money that you, the borrower, the person getting the money, has to pay in order to make sure that in case there are any problems with your payments, the bank gets its money – from an insurance company, in this case. Rafael says, “Not if we have a down payment of more than 20 percent of the price of the house.” A “down payment” is money that you have to give the bank in order to get the loan to begin with.

Usually the down payment is a certain percentage of the price of the house. It may be 10 percent. It may be 20 percent. That means if you’re buying a $200,000 house, and the bank says you have to make a 20 percent down payment, the bank is saying you have to give the bank $40,000 before the bank will give you money to buy the rest of the house, or to pay for the rest of the house. So, the $40,000 is part of the price of the house, but the money goes to the bank.

The bank wants to be sure that you are going to give them the rest of their money that they are loaning you. Sometimes, if you have a big down payment – if you put a large percentage of the cost of the house in as your down payment – you don’t have to buy the private mortgage insurance.

Kiko then says, “Okay, so we don’t need to worry about that expense” – that cost – “but what about all these others?” Rafael says, “Like what?” Kiko says, “Like homeowners insurance and title insurance.” “Homeowners insurance” is insurance you buy in case something bad happens to your house – in case you have a fire or there is an earthquake, perhaps, which is not uncommon here in California. Homeowners insurance is insurance that will help you rebuild your house or fix your house in case it’s damaged.

“Title insurance” refers to special insurance that you buy in case there’s some problem with the legal documents related to the ownership of your house. The “title” of a house or the “title” of a car is not the name of the house or the car. It refers to the legal document, the legal agreement, that says who owns this house or this car.

Kiko asks about “balloon payments and prepayment penalties.” A “balloon (balloon) payment,” in the context of a mortgage loan, refers to a large amount of money that you have to pay at the very end of your loan period. Let’s say you have a loan for 10 years. At the end of that 10 years, usually, when you have a balloon payment, you have to give a large amount of money at the very end to pay off the loan.

Kiko also asks about “prepayment penalties.” For some loans, you actually get a penalty if you pay the loan early. That’s the meaning of “prepayment” – to give the bank more money than you are supposed to according to your agreement. A “penalty” is a punishment – something you have to pay, usually, in the case of a prepayment penalty. It's extra money that you have to give the bank if you are paying your loan off – that is, giving the bank back all of its money – early.

Why does a bank charge prepayment penalties on mortgage loans? Well, because they make more money if you continue to pay the interest on the loan every year. So, some banks have a prepayment penalty, but not all of them. Rafael doesn't understand these terms, the ones about balloon payments and prepayment penalties. That's why he responds to Kiko by saying, "You got me." "You got me" in this context means "I don't understand either." I don't know the answer to that question either.

Then Kiko asks, "And what's included in the closing costs?" The closing costs are the expenses, the money that you have to pay when the loan is approved. In order to get your money from the bank to buy the house, you have to make sure all of the fees and costs of the loan are taken care of, or paid for, and that's what is referred to here as "closing costs." Closing costs are separate from the actual price of the home.

Once again, Rafael does not know the answer to this question. He says, "I'm really out of my depth (depth) here." If you are "out of your depth," you don't understand something. You are in a situation that is too complicated for you. You're in a situation where you don't know how to get out of it. You don't know what you are doing, basically.

Kiko says, "Me, too. What should we do now?" Rafael asks, "Continue to rent?" In other words, instead of buying a house, they'll just continue renting because getting a mortgage loan is too complicated for them.

Now let's listen to the dialogue, this time at a normal speed.

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[end of dialogue]

Our scriptwriter is never out of her depth when it comes to English. We thank the wonderful Dr. Lucy Tse.

From Los Angeles, California, I'm Jeff McQuillan. Thank you for listening. Come back and listen to us again right here on ESL Podcast.

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