

A MORTGAGE & HOMEBUYER'S GLOSSARY...

Add-on Rate

A type of loan repayment plan arranged to divide the principal into equal installments. Interest is *added-on* to the principal, resulting in high initial monthly payments that, overtime, are reduced as the principal balance is reduced.

Adjustable Rate Mortgage (ARM)

A mortgage in which interest and payment rates vary periodically, based on a specific index, such as 30 year Treasury bills or the Cost-of-Funds index.

Adjustments

Money credited to either/both buyer and seller at closing, including real estate taxes, price adjustments based on disclosures in the inspection, etc.

Amortization

A method by which monthly mortgage payments are equalized over the life of the loan despite the fact that the proportion of principal to interest changes.

Appraisal

Professional and unbiased written opinion of property's value based on recent, comparable sales, quality of construction and current condition, and style of architecture.

Assessor

A municipal or county official who determines the value of properties for the purpose of taxation.

Assumption of Mortgage

The buyer assumes liability for an existing mortgage held by the seller, subject to approval by the lender.

Balloon Mortgage

A short-term mortgage, generally at a fixed rate of interest, to be paid back in pre-determined, equal monthly payments, with a large, final payment for the balance of the loan paid at the end of the term.

Binder

Generally a small amount of money from the buyer, accompanying a brief written offer to buy. (See Earnest Money.)

Cap

A limit on the total amount an interest rate can be increased. (See ARM.)

Closing

The final settlement at which time the title is transferred from seller to buyer, accounts are settled, new mortgages signed and all fees and expenses dispersed or satisfied.

Closing Costs

All fees, taxes, charges, commissions and other costs paid by buyer and/or seller at the closing.

Comparables

Closely similar properties in type, size and price that have changed hands within recent months, used for comparison in the appraisal report.

Condominium (Condo)

Real estate ownership in which a property owner has title to a specific unit, but shared interest in the common areas.

Conventional Mortgage

Most popular home financing form not insured by FHA or guaranteed by VA. Available from many lenders at varying rates, terms and conditions.

Conversion Clause

Clause in an ARM permitting conversion from an adjustable to a fixed-rate loan.

Cooperate (Co-op)

Real estate ownership in which all property owners (shareholders) own the entire property and each shareholder has proprietary rights to specific units.

Curb Appeal

A term used by realtors including all that a buyer sees from the street that may induce the buyer to look more closely at the property.

Deed

A legal "instrument" that conveys the title to a property from seller to buyer.

Down Payment

The buyer's payment to the seller at the time the sales contract has been mutually agreed to, or at closing, for the percentage of the total purchase price required by the buyer's mortgage loan.

Earnest Money

Money paid by the buyer at the time an official offer to purchase is submitted to the seller, intended to demonstrate the good faith of the buyer to complete the purchase. Earnest money is applied against the purchase price; however, it may be forfeited if the buyer fails to complete the purchase under the terms of the sales contract.

Equity

The difference between the sale price of a property and the mortgage on the property.

Escrow Account

A third party account used to retain funds including the property owner's real estate taxes, buyer's earnest money or hazard insurance premiums.

Fair Market Value

The highest price an informed buyer will pay, assuming there is no unusual pressure to complete the purchase.

Fannie Mae

Federal National Mortgage Association (FNMA) is a privately owned corporation created by Congress to buy mortgage notes from local lenders and provide guidelines for most lenders to use to qualify borrowers.

FHA Insured Mortgage

The Federal Housing Administration makes available through banks and other lenders, insured mortgages with low down payment requirements.

Fixed-Rate Mortgage

A mortgage that has a set interest rate and is basically unaffected by interest rate changes.

Graduated Payment Mortgage

This mortgage offers low initial monthly payments which increase at a pre-determined rate, then cap at a final level for the duration of the mortgage.

Hazard Insurance

Often confused with "Home Owner's" insurance, it's designed to compensate for specific hazards including, fire and wind. An "all-risk homeowner's policy" provides more complete coverage.

Home Inspection

A formal survey of a home's structure, mechanical systems and overall condition, generally performed by a licensed professional inspector.

Home Warranty

A policy available to the buyer or seller as assurance against unanticipated home repair costs.

Homeowner's Policy

A hazard insurance policy covering at the very least appraised value of a house and property.

Inspection Clause

A written stipulation contained in an offer-to-buy that makes the sales contract contingent upon the findings of a professional home inspector.

Interest

The pre-determined charge or fee paid to a lender by the borrower for the use of monies loaned.

Lease-Purchase Agreement

An agreement between owner and tenant specifying a portion of monthly rent, during a specified period, to be credited toward purchase of property.

Market Price

The actual price at which a property is sold.

Market Value

The price that is established by existing economic conditions, property location and market style and size preferences.

Mortgage

A legal claim received by the lender on a property as security for the loan made to a buyer to facilitate the purchase.

Mortgage Broker

An independent, third-party, licensed broker who arranges loan transactions between lender and borrowers by facilitate the application and approval process and by securing favorable terms.

Negative Amortization

Most likely to occur with ARMs when monthly payments are not sufficient to cover interest costs. Additional interest is added to principal balance and the borrower may end up owing more than at the initiation of the loan.

Origination Fee

Similar to a pint, this fee is a supplemental fee paid by buyers to lenders.

Over Improvement

Additions or improvements in which the cost is greater than the value added.

PITI

Common real estate acronym, meaning Principal, Interest, Taxes, Insurance.

Point

A single percent of the loan principal, often charged by the lender in addition to various fees and interest.

Prepayment

Borrower pays off an entire mortgage before the scheduled date.

Prepayment Penalty

A fee included in the mortgage agreement requiring borrower to pay in the event the loan is paid before the due date.

Prequalification

An informal estimate of the "financing potential" of a prospective borrower.

Principal

The amount of money borrowed against which interest and possibly fees will be charged. (A second meaning: one of the parties to a contract.)

Prorate

Proportionate division of expense based on days or time occupied or used by the seller and/or buyer

Purchase Agreement

A legally binding, written contract that defines how much a buyer will pay for a property, depending in satisfactory agreement with a list of contingencies.

Qualify

Ability of a borrower to satisfy a lender's mortgage approval requirements.

Rate Cap

See definition of Cap.

Referral

The recommendation by one agent of a potential buyer and/or seller to another agent either locally or long-distance.

Refinancing

The process of applying for a new mortgage to gain better terms or use of equity.

Relocation Specialist

A firm or person specializing in advising buyers or sellers on relocating to different and/or new communities.

RESPA Statement

The Real Estate Settlement Procedure Act requires a precise listing of all closing costs for both sellers and buyers.

Return on Investment (ROI)

The profit gain as the result of money spent on an improvement or addition to a home or property.

Settlement

This term relates to all legal and financial transactions required to finalize the contract between buyer and seller, at the conclusion of which closing takes place.

Settlement Disclosure Statement

A statement or list providing a complete breakdown of costs involved in finalizing a real estate transaction, prepared by the lender's agent prior to and reviewed at closing by buyer and seller.

Title

A legal document that defines the property, right of ownership and possession.

Title Insurance

An insurance policy that protects the buyer against errors, omissions or any defects in the title.

Title Search

A highly detailed search of the document history of a property title for the purpose of identifying any/all legal encumbrances to the property, prior to title transfer to a new owner.

VA Mortgage

The Department of Veterans Affairs has made guaranteed mortgages available through banks and other lending institutions, to active military personnel, veterans, or spouses of veterans who died of service-related injuries.

Walk-Through Inspection

The final inspection by the buyer and/or the buyer's representative to ensure that all conditions noted in the purchase agreement and all seller-related contingencies have been met. This inspection is most often completed within 1 week prior to the official act of closing.

Zoning

Virtually all local communities have established specific restrictions for land use, new construction, remodeling and/or improvements made to existing structures. Records of all recent construction and/or remodeling activity are available to you through a local regulatory department such as The Building Inspectors department or office, or The Planning and Zoning Board (P&Z)