

Homebuyer's Glossary

Real Estate has a language all its own.

Here are working definitions of some of the terminology you will be hearing.

Closing: The final procedure in which documents are executed, and the sale (or loan) is completed. This is when you get the keys to your new home!

Closing Statement: The statement which lists the financial settlement between buyer and seller, and also the costs each must pay.

Contingency: Commonly, a stated event which must occur before a contract is binding. For example, a home sale may be contingent upon home inspection.

Deposit or Earnest Money: A portion of the downpayment given by the buyer to seller or escrow agent with a written offer to purchase. Shows good faith.

Downpayment: Cash portion of the purchase price paid by a buyer from his own funds as opposed to that portion which is financed.

Escrow: A procedure in which a third (neutral) party holds all funds, documents, etc., necessary to the sale, with instructions from both buyer and seller as to their use and disposition.

Fee Simple: A property in which the owner is entitled to unrestricted powers to alter and/or dispose of the property, and which can be left by will or inherited i.e. no homeowners or condo association.

Lien: A legal claim or charge on property as security for payment of a debt or for the discharge of an obligation.

Ratification: The point in time at which all parties to a contract have agreed to and signed off on all terms of the contract. Contract contingencies will often count forward from this point in time (the ratification date).

Title Insurance: Insurance against loss resulting from defects of title of public record.

Loan Terminology

Adjustable Mortgage Loans: Mortgage loans under which the interest rate is periodically adjusted to more closely coincide with current rates. The amounts and times of adjustment are agreed to at the inception of the loan. *Also called:* Adjustable Rate Mortgages (ARMs), Flexible Rate Loans, Variable Rate Loans.

Amortization: Payment of a debt in equal installments of principal and interest, rather than interest-only payments.

Annual Percentage Rate (A.P.R.): The yearly interest percentage of a loan, as expressed by the total finance charge actually paid (interest, loan, fees, points). The A.P.R. is disclosed as a requirement of federal truth in lending statutes.

Buydowns: A payment to the lender from the seller, buyer, or third party, or some combination of these, that causes the lender to reduce the interest rate during the early years of the loan.

Cap: In adjustable rate mortgages, the limit on how much the interest rate or monthly payment can change.

FHA Loan: A loan insured by the Federal Housing Administration, a part of the Department of Housing and Urban Development FHA insurance enables lenders to loan a very high percentage of the sales price.

Graduated Payment Mortgage: A mortgage initially offering low monthly payments that increase at fixed intervals and at a predetermined rate.

Index or Rate Index: A measure of interest rate changes used to adjust the interest rate of a Adjustable Mortgage Loan. Example: the change in U.S. Treasury securities (T-bills) with a 1-year maturity, based upon their weekly average yield.

Loan Commitment: A written promise to make or insure a loan for a specified amount and on specified terms.

Loan-to-Value Ratio: The ratio-expressed as a percentage-of the amount of a mortgage loan to the appraised value or selling price of the property. Usually, the higher the percentage, the greater the interest charged.

Margin: In Adjustable Mortgage Loans, the number of percentage points the lender adds to the index rate to determine the new interest rate at each adjustment.

PITI (Principle, Interest, Taxes and Insurance): Used to indicate the four major items included in a monthly payment on property.

Points: A fee charged by a lender as a service charge or as an amount needed to make the yield on a mortgage competitive with other types of investments. Each point represents 1% of the loan amount.

Principal: Amount of debt, not including interest; the face value of a loan.

Private Mortgage Insurance: Insurance issued by a private company against a loss by a lender in the event of default. Premium is included in the borrower's monthly mortgage payment.

Second Mortgage: A mortgage which ranks after the first mortgage in priority.

VA Loans: Loans partially guaranteed by the Veteran's Administration, enabling veterans to buy a home with little or no down payment.