Real Estate Terms Every Home Buyer Should Know

A

Adjustable-Rate Mortgage (ARM) - Loans with an initial fixed rate period (usually 5, 7 or 10 years. After the fixed rate period, your interest rate may change once per year—either up or down depending on market conditions. ARMs are almost always lower in rate than fixed loans and can offer huge savings to first time home buyers, especially those who don't plan on staying in their home for more than 10 years.

Amortization - The paying off of a debt with a fixed repayment schedule in regular installments over a period of time.

Annual Percentage Rate (APR) - The total cost of a loan which includes not only the interest rate, but all costs associated with the loan, such as closing costs and fees. Once this is determined, the APR is then amortized over the life of the loan. In order to allow borrowers to compare various loans and lenders, the APR is required to be disclosed by the Federal Truth-in-Lending statutes.

Application Fee - One time processing fee for a loan. This fee may be applied towards various costs, including the appraisal and credit report.

Appraisal - An estimate of the current market value of the property.

B

Buydown - The ability for the buyer to lower their initial interest rate by providing money upfront or by paying extra points up front at the closing of the loan.

C

Closing - The time where buyer and seller exchange money for title and sign closing papers to a new home. This finalizes the agreements reached in the sales agreement.

Closing Costs - Refers to the lender's costs for closing a loan, or all the costs associated with closing on a piece of property as a buyer.

Conventional Mortgage - A loan that is underwritten following specific guidelines, by banks, savings and loans, or other types of mortgage companies. Typically, this refers to loans underwritten to the guidelines of Fannie Mae or Freddie Mac.

D

Deed of Trust - The legal document that transfers property from one owner to another.

Down Payment – The amount of your home's purchase price you pay upfront.

E

Earnest Money - Upfront money provided by the borrower to the seller as a show of good faith towards the purchase price of a home.

Escrow - Borrowers with less than 20% equity in a home may need to set up an escrow account. Funds from the account are automatically sent to the city or town and insurance agent when payments are due.

Escrow Closing - A third party that acts as a neutral party and receives documents for the exchange of the deed by the sellers for the buyer's money.

F

First Mortgage - Takes priority when there are other voluntary liens present.

Foreclosure - When a homeowner's right and interest in a property is taken away by legal action – typically non-payment on the debt, in order to allow the property to be sold in a foreclosure sale to satisfy a debt.

G

Gift Letter - A letter, which details the amount of gift and name of the giver, which indicates a gift of cash to the buyer of a home. This can be provided by relatives, friends, nonprofit organizations, or government agencies depending on the requirements of given lender and product.

Good Faith Estimate (GFE) – A written estimate of closing costs that lenders are required to provide potential borrowers within three days of an application submission.

H

Hazard Insurance - Also known as homeowners insurance, this covers the property from damages that may affect the value.

I

Interest - The fee a lender charges for permitting the borrower to use their money for a specific length of time.

Interest Rate Cap - The max amount of percentage points that ARMs may rise over a loan's life.

J

Loan Origination Fee - Fee charged by a lender to cover administrative costs of processing a loan.

L

Loan-to-Value Ratio (LTV) - The money borrowed in a mortgage transaction compared with the value of the property you wish to purchase. (loan amount / home value)

M

Mortgage - The document providing a lien on a home in exchange for a lender's financing. The lender secures this financed loan through this mortgage, and has the ability to foreclose on this home as well.

Mortgage Banker - An entity that lends its own funds to borrowers while also bringing together lenders and borrowers. Mortgage bankers may also collect monthly payments.

Mortgage Broker - An entity that solely brings together borrowers and lenders while processing mortgage applications. Mortgage Brokers provide the benefit of access to many different lenders, optimizing choices around pricing, product, and service levels. The mortgage broker does not fund the loan but they may receive a payment from the lender
for their services.

O

Origination Fee - A fee that is charged by a lender to cover the administrative costs of processing a loan.

P

PITI (Principal-Interest-Taxes-and-Insurance) - Four pieces included in a monthly mortgage payment. Portion of each payment applied to each of those elements.

Point - Each point equals one percent of your total loan amount. The more points you pay, the lower the interest rate you get. For example, for a loan amount of $100,000 one point would equal $1,000 (1% of the loan amount). Points can be paid out of pocket or by rolling the cost into the loan amount, if the appraised value allows for it.

Private Mortgage Insurance (PMI) -
PMI is required when borrowing more than 80% of a home's value or purchase price, whichever is less. This protects the lender if a borrower fails to make mortgage payments as agreed. Paid in monthly installments by a borrower or upfront as part of the closing costs.

R

Recording - Filing documents at various government agencies, local, state, and federal to create a public record.

S

Settlement Statement - Known as the HUD-1, this details the transaction paid out and received by the buyer and seller at closing.

T

Term - Typically 15 or 30 years, this is the life of the loan.

Title – The title is the actual document that gives evidence of ownership of a property.

Title Insurance - Title insurance protects lenders against any title dispute that may arise over a particular property. Home title insurance is a required fee paid at closing.

U

Underwriter - Someone who underwrites a loan for the lender or interested party. The process includes a review of the potential borrower's credit and employment history, financial statements and a judgment of the quality of the property.