



## Glossary of home buying terms

Speak with home owners, realtors, and mortgage professionals, and you will quickly realize that there is another language devoted to the home buying process. This glossary contains a number of terms that you will hear and should probably know as you make your way through the home buying process.

- **203(b)** FHA program which provides mortgage insurance to protect lenders from default; used to finance the purchase of new or existing one- to four family housing; characterized by low down payment, flexible qualifying guidelines, limited fees, and a limit on maximum loan amount.
- **203(k)** this FHA mortgage insurance program enables homebuyers to finance both the purchase of a house and the cost of its rehabilitation through a single mortgage loan.
- **Acceleration Clause** A provision in a mortgage that gives the lender the right to demand payment of the entire outstanding balance if a monthly payment is missed.
- **Acceptance** A party's consent to enter into a contract and be bound by the terms of the offer.
- **Adjustable Rate Mortgage (ARM)** A mortgage whose interest rate changes over time based on a pre-determined economic index.
- **Administrative Fee** A fee charged by a lender to cover the administrative costs of processing your loan request (e.g., a lender fee).
- **Amenities** Features of real property that enhances its attractiveness and increase the satisfaction of the occupant or user, even though the feature is not essential to the property's use (e.g., a swimming pool).
- **Amortization** The gradual repayment of a mortgage by installments.
- **Annual Percentage Rate (APR)** The total yearly cost of a mortgage stated as a percentage of the loan amount, including the base interest rate, primary mortgage insurance, and loan origination fee (points).
- **Application** A form used by the lender to collect information about a prospective borrower and the property being used as collateral.
- **Application Deposit** Funds required by a lender in advance of processing a loan request. Generally, a deposit is collected to cover the costs of an appraisal and credit report and may or may not be refundable.
- **Appraisal** An evaluation of the property to determine its value for purposes of the mortgage loan. An appraisal is concerned chiefly with market value, or what the home would sell for in the marketplace.



- **Appreciation** An increase in the value of a property.
- **Assessed Value** The valuation placed on property by a public tax assessor for the purposes of taxation.
- **Assessment** The process of placing a value on property for the strict purpose of taxation. Assessment may also refer to a levy against a property for a special purpose (e.g., a sewer assessment).
- **Assumable Mortgage** A mortgage that can be taken over ("assumed" by the buyer) when a home is sold.
- **Balloon Mortgage** a mortgage that typically offers low rates for an initial period of time (usually 5, 7, or 10) years; after that time period elapses, the balance is due or is refinanced by the borrower.
- **Bankruptcy** a federal law whereby a person's assets are turned over to a trustee and used to pay off outstanding debts; this usually occurs when someone owes more than they have the ability to repay.
- **Basis Point** 1/100th of one percent.
- **Binder** A preliminary agreement, secured by the payment of earnest money, under which a buyer offers to purchase real estate.
- **Borrower** a person who has been approved to receive a loan and is then obligated to repay it and any additional fees according to the loan terms.
- **Budget** a detailed record of all income earned and spent during a specific period of time.
- **Building Code** Local or state building regulations that govern the design, construction and materials used in a building.
- **Buyer's Broker** A broker who represents the buyer in a fiduciary capacity.
- **Buyer's Market** A situation in which the supply of properties available exceeds demand. As a result, sellers are forced to lower their prices to attract buyers.
- **Cap** A provision of an ARM limiting how much the interest rate or mortgage payments may increase or decrease in any single adjustment or over the life of the loan. See also Lifetime Cap.
- **Cash reserves** a cash amount sometimes required to be held in reserve in addition to the down payment and closing costs; the amount is determined by the lender.
- **Certificate of Title** Like a car title, this is the paper that signifies ownership of a home.
- **City/County Tax Stamp** A tax that is required in some municipalities if a property changes hands or a new mortgage is obtained. The amount of this tax can vary with each state, city and county.
- **Clear Title** A title that is free of clouds, liens, disputed interests or legal questions with regard to ownership of the property.



- **Closing Costs** Sometimes called settlement costs, these are costs in addition to the price of the home, including mortgage service charges, title search and insurance, and transfer of ownership charges.
- **Closing Day** The date on which the title for property passes from the seller to the buyer, and/or the date on which the borrower signs the mortgage.
- **Commitment Letter** A formal offer by a lender stating the terms under which the lender agrees to loan money to a borrower.
- **Condominium** A type of property that includes individual ownership of one unit in a multi-unit dwelling, and an undivided interest in the common area and facilities that serve the entire multi-unit project.
- **Contingency** A condition that must be met before a contract is legally binding.
- **Cosigner** Another person who signs your loan and assumes equal responsibility for it.
- **Credit Bureau** An agency that gathers and keeps your credit record (e.g., Experian, Equifax and TransUnion).
- **Credit Report** A report of an individual's credit history prepared by a credit bureau and used by a lender in determining a loan applicant's credit worthiness.
- **Deed** A legal document that transfers ownership of a property from one person to another.
- **Default** Failure to make mortgage payments on a timely basis or to comply with other conditions of a mortgage.
- **Depreciation** A decline in the value of a home as the result of time, changes in the housing market, wear and tear, adverse changes in the neighborhood and its patterns, or any other reason.
- **Down payment** An initial payment on a home, usually a specific percentage of the home purchase price that is required of a borrower at the time of loan closing.
- **Earnest Money** The deposit money given to the seller by the potential buyer to show that he/she is serious about buying the home. If the deal goes through, the earnest money is usually applied toward the down payment. If the deal does not go through, it may be forfeited.
- **Easement Rights** A right of way granted to a person or company authorizing access to or over the owner's land. Electric companies often have easement rights across your property.
- **Equal Credit Opportunity Act (ECOA)** A federal law that prohibits lenders from denying mortgages on the basis of the borrower's race, color, religion, national origin, handicap, age, sex, marital status, or receipt of income from public assistance programs.



- **Equity** The difference between the market value of the home and the amount of money you still owe on it.
- **Escrow** The holding of documents and money by a neutral third party prior to closing; also an account held by the lender into which a homeowner pays money for taxes and insurance.
- **Escrow Account** The account in which funds are held by the lender for the payment of real estate taxes and/or homeowners insurance. This can also refer to the account in which funds are held for the completion of repairs or improvements to a property that cannot be completed prior to closing.
- **Escrow Funds** Money, or papers representing transactions, that are given to a third party to hold until all conditions in a contract are fulfilled.
- **Fair Credit Reporting Act** A consumer protection law that sets up a procedure for correcting mistakes on one's credit record.
- **FNMA** Federal National Mortgage Association. A quasi-public corporation that purchases loans through the secondary mortgage market.
- **Fixed Rate Mortgage** A mortgage in which the interest rate does not change during the entire term of the loan.
- **Flood Insurance** required for properties in federally designated flood areas.
- **Foreclosure** The process by which a mortgaged property may be sold by the mortgage lender when the homeowner fails to pay the monthly mortgage payment. The mortgage is considered in default.
- **Hazard Insurance** to protect the homeowner and the lender against physical damage to a property from fire, wind, vandalism or other hazards.
- **Homeowner's Association Fee** A term related to a condominium associations collection of money from the owners of each condominium. In determining whether you can afford the property, the lender will calculate the homeowner's association fee as part of your housing-to-income ratio. The fee pays for common expenses including insurance, maintenance, trash removal and is used to establish reserves for future major expenditures.
- **Home Inspection** A complete and detailed inspection that examines and evaluates the mechanical and structural condition of a property. A complete and satisfactory home inspection is often required by the home buyer.
- **Homeowners Insurance** that protects a homeowner against the cost of damages to a property caused by fire, windstorms, and other common hazards. Also referred to as hazard insurance.
- **Home Mortgage Loan** A loan used to buy a home.



- **HUD** Also known as the U.S. Department of Housing and Urban Development; among other things, HUD ensures that home mortgage loans made by lenders meet minimum standards.
- **HUD-1 Statement** Also referred to as the closing statement or the settlement statement, this document that provides line-by-line information of the financial details related to a specific real estate transaction, such as the fees paid by the seller and the buyer for a purchase transaction.
- **Interest** The fee charged for borrowing money.
- **Joint Tenancy** A form of co-ownership that gives each tenant equal interest and equal rights in the property, including the right of survivorship.
- **Late Charge** The penalty a borrower must pay when a payment is made after the due date.
- **Lender** The bank, mortgage broker or financial institution providing the loan funds to a borrower.
- **Liabilities** A person's financial obligations, including both long-term and short-term debt, as well as any other amounts that are owed to others.
- **Lien** A legal claim against a property that must be paid when the property is sold.
- **Lifetime Cap** A provision of an ARM that limits the total increase or decrease in the loan interest rate over the life of the loan.
- **Loan-to-Value Ratio (LTV)** The relationship between the amount of a mortgage and the total value of the property.
- **Lock-In** A written agreement guaranteeing the home buyer a specified interest rate, provided the loan is closed within a set period of time.
- **Margin** The set percentage that the lender adds to the index rate to determine the interest rate of an ARM.
- **Mortgage Commitment** The written notice from the bank or other lender saying that it will advance you the mortgage funds in a specified amount to enable you to buy the home.
- **Mortgage** The legal document that pledges a property to the lender as security for payment of debt.
- **Mortgagee** The bank or lender who loans the money to the mortgagor.
- **Mortgagor** The homeowner who is obligated to repay a mortgage loan on a purchased property.
- **Non-Liquid Assets** Any assets that cannot easily be converted into cash (e.g., property).



- **Offer to Purchase Real Estate** A promise by a buyer to enter into an agreement to purchase real estate, provided certain terms and conditions are met by the property's seller.
- **Origination Fee** A fee charged for the work involved in preparing and processing a proposed mortgage loan. This is stated as a percentage of the mortgage amount, or points, and is usually paid at closing.
- **PITI (P)rincipal, (I)nterest, (T)axes and (I)nsurance;** a reference to the total monthly payment required to repay a mortgage in accordance with its term, as well as monthly escrow payments for taxes and insurance.
- **Points** A one-time charge by the lender to increase the yield of the loan. A point is 1% of the mortgage amount.
- **Prepaid Expenses** The initial deposit at the time of closing for taxes, hazard insurance, and the subsequent monthly deposits made to the lender for that purpose. Expenses may also include an interest amount.
- **Prepaid Items/Expenses** Obligations paid in advance at a real estate closing.
- **Pre-Qualification** The process of determining how much money a prospective home buyer will be eligible to borrow before a loan is applied for.
- **Principal** The amount borrowed or remaining unpaid; also, that part of the monthly mortgage payment that reduces the outstanding balance of a mortgage.
- **Private Mortgage Insurance (PMI)** Insurance provided by non-government insurers that protects lenders against loss if a borrower defaults.
- **Processing/Administrative Fee** A fee charged by a lender to cover the administrative costs of processing a loan request.
- **Purchase and Sale Agreement (P&S)** A written contract signed by the buyer and seller stating the terms and conditions under which a property will be sold.
- **Property Taxes** based on the assessed value of the home, paid by the homeowner for community services such as schools, public works and other costs of local government. Property taxes are sometimes paid as part of the monthly mortgage payment.
- **Qualifying Ratios** Guidelines applied by lenders to determine how large a loan may be granted to a home buyer.
- **Radon** A naturally appearing radioactive gas, found in some buildings, that in sufficient concentrations may cause health problems.
- **Rate Lock** An agreement by a lender to guaranty the interest rate offered for a mortgage provided the loan closes within a specified period of time.



- **Real Estate Agent** A person licensed to negotiate and transact the sale of real estate on behalf of an owner or a seller.
- **Real Estate Settlement Procedures Act (RESPA)** A consumer protection law that requires lenders to give borrowers advance notice of closing costs.
- **Recording Fees** A fee charged by the local government to record mortgage documents into the public record so that any interested party is aware that a lender has an interest in the property.
- **Refinancing** The process of paying off one loan with the proceeds from a new loan secured by the same property.
- **Repair and Maintenance** The costs incurred in replacing damaged items or maintaining household systems to prevent damage.
- **Second Mortgage** A mortgage with rights that are subordinate to the rights of the first mortgage holder.
- **Sellers Market** An economic situation that favors the seller because the demand for property exceeds the supply.
- **Special Assessment** A tax for a specific purpose such as providing paved streets or new sewers. People whose properties abut the improved streets or tie into the new sewer system must pay the tax. Condominium owners may also be assessed for major repairs done in common areas of their building.
- **Survey** A drawing that shows the legal boundaries of a property.
- **Tenancy by Entirety** A type of joint ownership of property available only to a husband and wife.
- **Tenancy in Common** A type of joint ownership in a property without the right of survivorship.
- **Title** The evidence of a person's legal right to possession of property, normally in the form of a deed.
- **Title Company** A company that specializes in insuring title to property.
- **Title Insurance** This special insurance protects lenders against a loss of interest in a property due to unforeseen occurrences that have already occurred and might be traced to legal flaws in previous ownerships (e.g., forged deed). An owner can protect his interest by purchasing separate coverage.
- **Title Search** A check of the title records to ensure that the seller is the legal owner of the property, and that there are no liens or other claims outstanding.
- **Total Debt Ratio** A standard calculation performed by mortgage lenders to determine if a borrower qualifies for a specific loan type. Total debt ratio is calculated by dividing the monthly housing expense (PITI plus all other monthly debt obligation) by the borrower's monthly gross income. This is also referred to as a "back-end ratio" or "bottom ratio."



- **Truth-in-Lending** A federal law that requires lenders to fully disclose, in writing, the terms and conditions of a mortgage, including the APR and other charges.
- **VA** Department of Veterans Affairs: a federal agency which guarantees loans made to veterans; similar to mortgage insurance, a loan guarantee protects lenders against loss that may result from a borrower default.

Glossary Terms (<http://www.hud.gov/offices/hsg/sfh/buying/glossary.cfm>)