BECOMING A HOMEOWNER

Mortgage Terminology

Amortization: Repayment of a mortgage loan through monthly installments of principal and interest, causing the loan balance to decrease to zero at the end of a specified time period.

Annual Percentage Rate (APR): Calculated by using a standard formula, the APR shows the cost of a loan expressed as a yearly interest rate. It includes the interest, points, mortgage insurance, and other fees associated with the loan.

Appraisal: A document giving an estimate of a property's fair market value. An appraisal is required by a lender before loan approval to ensure the mortgage loan amount is not more than the value of the property.

Appreciation: The increased value of a property.

Assessed Value: The value placed upon a property by the municipality in which the property is located for taxation purposes

Buy Down: An up-front payment made to the lender by the borrower to reduce the interest rate on the mortgage.

Cap: A limit, such as that placed on an adjustable rate mortgage, on how much a monthly payment or interest rate can increase or decrease.

Cash Reserve: Lenders may require that a buyer have at least 2 months of mortgage payments available after closing.

Closing: A meeting for the finalized sale a property where documents are signed and monies exchanged.

Closing costs: Costs paid to cover obtaining a mortgage and the transfer of ownership at closing. These costs may vary by geographic location and must be disclosed to the borrower after submission of a loan application.

Commission: An amount, usually a percentage of the property sales price, that is collected by a real estate professional as a fee for enabling the transaction.

Credit Report: A record that lists all past and present debts and the timeliness of their repayment. It documents an individual's credit history and is used by lenders to determine the likelihood that a loan will be repaid.

Debt-to-Income Ratio: A comparison of gross income to housing and non-housing expenses. With the Federal Home Administration (FHA), the monthly mortgage payment should be no more than 29 percent of monthly gross income (before taxes), and the mortgage payment combined with non-housing debts should not exceed 41 percent of income.

Deed: The document that transfers ownership of a property.

Depreciation: A decline in the value of the property.

Down Payment: The portion of a home's purchase price that is paid in cash and is not part of the mortgage loan.

Earnest Money: Money that potential buyers put down when they make an offer on a home to show that they are serious about purchasing the home. It becomes part of the down payment if the offer is accepted, or it is returned if the offer is rejected.

Equity: An owner's financial interest in a property. Equity is calculated by subtracting the amount still owed on the mortgage loan from the fair market value of the property.

Escrow Account: A separate account into which the lender puts a portion of each monthly mortgage payment to provide the funds needed for such expenses as property taxes, home owners insurance, mortgage insurance, etc.

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Fair Market Value: Estimate of the price that a willing buyer and seller would agree upon when acting freely, carefully, and with complete knowledge of the situation.

Flood Insurance: Federal insurance that protects home owners against losses from a flood. If a home is located in a flood plain, the lender will require flood insurance before approving a loan.

Foreclosure: A legal process in which a mortgaged property is sold to pay the loan of the defaulting borrower.

Good Faith Estimate: An estimate of all closing fees including lender charges, pre-paid fees and escrow items. These estimates must be given to the borrower within three days after submission of a loan application.

Interest Rate: The amount of interest charged on a loan, usually expressed as an annual percentage.

Loan-To-Value (LTV): A percentage calculated by dividing the amount borrowed by the price or appraised value of the home to be purchased. A higher LTV means the borrower may need less cash down payment to purchase the property; however, the lender may consider the loan a greater risk.

Lock-in (Rate-Lock): Interest rates can change frequently, so many lenders offer an interest rate lock-in that guarantees a specific interest rate if the loan is closed within a specific time.

Mortgage: To pledge as security, real property for the payment of a debt. The borrower retains possession and use of the property.

Mortgage Broker: A fee based intermediary between the lender and borrower.

Note: An agreement by the borrower to promise to pay the lender a specific amount of money, at a certain interest rate, on a specific date each month.

Principal, Interest, Taxes, and Insurances (PITI): The four elements of a monthly mortgage payment. Payments of principal and interest repay the loan, while the portion that covers taxes and insurances (home owners and mortgage, if applicable) goes into an escrow account to cover the fees when they are due.

Point: A fee charged by a lender. One point equals one percent of the loan amount.

Pre-approval: Estimate by the lender of the amount of money a potential home buyer may borrow. The commitment may expire after a certain period of time. If the commitment expires, the borrower must start the pre-approval process over.

Principal: The amount borrowed from a lender. It does not include loan interest or additional fees.

Purchase and Sales Agreement (P& S): Indication by a potential buyer of a willingness to purchase a home at a specific price. Also known as an offer to purchase. This document must be in writing.

Title: A document provided by a qualified source (title company) showing the property legally belongs to the current owner. Before the title is transferred at closing, it should be clear and free of all liens or other claims.

Title Insurance: Insurance that protects the lender against claims arising from disputes about ownership of the property. An owner's Title Insurance policy is also available for home buyers for a nominal charge.

Title Search: A check of public records to ensure that the seller is the recognized owner of the real estate and that there are no unsettled liens or other claims against the property.

Truth-in-Lending: A federal law obligating a lender to give full written disclosure of all fees, terms, and conditions associated with the loan.