

Glossary

This brochure is intended solely to provide helpful information to buyers and sellers. The laws of each state may vary. Please consult with an attorney of your choice for specific information or legal advice.

Adjustable Rate Mortgage (ARM)

A loan with an interest rate that changes periodically based on a current index, like one-year treasury bills. Typically, ARMs can't change by more than two percentage points per year or six points above the starting rate. Check the specific rates carefully for any type of mortgage loan.

Amortization

A payment plan, which enables the borrower to pay off the debt gradually through equal monthly payments of principal and interest.

Appraisal

An expert judgment or estimate of the quality or value of real estate as of a given date. This appraisal is done for financial lending purposes and may not reflect the actual market value.

Appraised Value

An estimate of the value of the property offered as security for a home loan.

Bridge Finance

A short-term loan, usually at a higher rate of interest than the longer term mortgage used by borrowers who have bought a house while waiting for theirs to be sold. May also refer to a second subordinate loan.

Caveat Emptor

Latin for "let the buyer beware". This puts the burden on the buyer to be satisfied with the item before purchasing the property. Many states have passed laws that require sellers to disclose any defects or problems with the property being sold.

Chattels

Items of personal property that are movable (i.e., clothing, furniture), as distinguished from real property (i.e., land, a house).

Closing Protection Letter or CPL

A letter from a title insurance company generally given to a lender for one or more closings that indemnifies the lender for loss, caused by the policy issuing agent's or approved attorney's failure to comply with the lender's written closing instructions or for certain kinds of misconduct committed by the issuing agent or approved attorney if the failure or misconduct affects the title or the mortgage.

Commission

Fee payable to real estate agents for selling the property by the person authorizing the sale; usually a percentage of the sales price – though this can be negotiated and paid by the buyer or split between the parties. Often the commission is shared by the listing and buyers' real estate agent.

The Consumer Financial Protection Bureau® (CFPB)

An independent government agency responsible for consumer protection in the financial sector.

Consummation

The point in time when a borrower becomes contractually obligated to the creditor on the loan under state law.

Contingent Offer

Offer to buy or sell is subject to some condition, such as the buyers selling their current home, or the home passing an inspection. If the condition is not met, then the parties may agree to waive the condition, or the contract may terminate.

Contract of Sale

Written agreement setting out the terms and conditions of a property sale.

Covenant

A promise or agreement in a written contract or deed of real property defining specific conditions or actions concerning the property.

Conventional Mortgage

A mortgage loan not insured by the United States Department of Housing and Urban Development or guaranteed by the Veterans' Administration. It is subject to conditions established by the lending institution and state statutes. The mortgage rates may vary with different institutions and between states. (States have various interest limits.)

Credit Report

A report detailing a loan applicant's credit history used by a lender to determine creditworthiness.

Deposit also called Earnest Money

An agreed to percentage of the purchase price of a property placed in escrow as evidence of intention to buy. May be non-refundable based upon the terms and conditions of the contract. Usually the deposit goes toward the purchase price when the sale goes through.

Document Preparation

A charge by an attorney for preparing legal documents for a transaction.

Encroachment

When a structure, overhangs someone else's property, a fence or other structure is built over the dividing line between two properties.

Encumbrance

An easement, lien or other restriction on a property, which impedes its use or transfer.

Equity

The difference between the market value of the property and any loans that are outstanding on the property. If the market value is less than any outstanding loans, there will be a negative equity.

Escrow Funds

Funds paid by one party to another (the escrow agent) to hold until the occurrence of a specified event, after which the funds are released to the designated individual, such as the completion of repairs or the payment of insurance and taxes. After closing, many lenders will require that the buyer make monthly payments (in addition to the principal and interest) to cover these expenses.

Exclusions

Any item that is specifically not included in the sale (e.g., an above ground pool, garden shed). These should be shown in the contract.

Fixed Rate Mortgage

A loan that carries an unchangeable interest rate over its entire term – typically a period of 15 to 30 years.

Homeowners Insurance

Protects the property and contents in case of damage or loss; most lenders require that the insurance be for at least the loan amount or for 80% of the value of the improvements, whichever is greater.

Inclusions

Lights, curtains, blinds, ceiling fans, air-conditioning units, fly screens, dishwasher, range hood, stove, fixed cupboards, clothes hoist or any other removable item (chattel) that the seller has agreed will be included in the sale.

Inspections

An examination to determine the condition of property, such as termite inspections. Inspections are also conducted to see if required repairs were made before funds are disbursed.

Interest

A charge paid for borrowing money.

Interest Only Loan

Loan on which interest only is paid periodically, and the principal is paid at the end of the term. Some loans may be interest – only for a certain period of time, and then both principal and interest will be paid in monthly installments.

Inventory

List of items included with a property for sale; usually furniture, furnishings and other removable items.

Investment

The purchase of an asset, such as real estate, with the goal of producing income, including capital gain on the resale of the asset.

Joint Tenants With Right of Survivorship

Joint tenancy is the equal holding of property by two or more persons. If one owner dies, the deceased's share passes on to the survivors.

Liabilities

Your outstanding debts or what you owe.

Lien

A claim one person holds on the property of another as security for money owed. Such claims may include obligations not met, judgments, unpaid taxes, materials or labor.

Loan Application Fee

Paid to the lender at the time of application. The amount varies by lender.

Loan Discount or Points

Sometimes also called "discount points", are a form of pre-paid interest. One point equals generally one percent of the loan amount. By charging a borrower points, a lender effectively increases the yield on the loan above the amount of the stated interest rate. Borrowers can offer to pay a lender points as a method to reduce the interest rate on the loan, thus obtaining a lower monthly payment in exchange for this up-front payment. For each point purchased, the loan rate is typically reduced by 1/8% (0.125%), but check with your lender for the specific reduction.

Loan Estimate Form and Closing Disclosure Form

The forms, one a Loan Estimate and the other a Closing Disclosure, are intended, in the words of the Consumer Financial Protection Bureau (CFPB), to help consumers make informed decisions when shopping for a mortgage and avoid costly surprises at the closing table. These forms are required in most transactions.

Maintenance Fee

Periodic charge by the homeowners' association as set out in the subdivision restrictions.

Maturity Date

The last day of the term of the home loan agreement. The home loan must then be paid in full, or the home loan agreement must be renewed or refinanced.

Mortgage or Deed of Trust

A legal agreement – containing the lender's terms and conditions – in which the owner pledges his/her/its title to real property to the lender as security for a loan described in a promissory note (a mortgagee lends the money to a mortgagor, the borrower.) Mortgages are normally recorded in the county records.

Mortgagee's or Lender's Title Policy

A title insurance policy which insures the validity, enforceability and priority of a lender's lien. This policy does not provide protection for the owner.

Multiple Listing Service (MLS)

System of offering the property through many real estate agents.

Offer to Purchase

A formal legal agreement, which offers a specified price for a specified property. The offer may be firm (no conditions attached) or conditional (certain conditions apply).

Option to Buy

Legal agreement giving the buyer the right to purchase property at a certain time and price. Option fee, usually a percentage of the price or fixed amount, is payable and may be forfeited if the buyer does not go through with the transaction. Option may be refunded if conditions are not met.

Origination Fee

A fee the borrower pays the lender to originate a new loan.

Owner's Title Policy

Insures that the buyer has the title to the property, subject to policy terms.

PITI

Abbreviation for principal, interest, taxes and insurance – all of which can be lumped together in your monthly mortgage payment.

Power of Attorney (POA)

A written authorization by a person to another person to act for him on his behalf.

Principal

The actual amount of money that has been borrowed to buy a property.

Private Mortgage Insurance (PMI)

Insurance against a loss by a lender (mortgagee) in the event of default by a borrower (mortgagor). PMI is often required for larger loans.

Real Estate Professional Fee

Usually called commission, the amount paid to real estate professionals as compensation for their services.

Recording Fees

Charged by the county clerk to record documents in the public records.

Restrictions

These limit the way in which a property can be used or modified and are written into (or referred to in) the deed for the property. They are usually enforced by the developer or builder, the neighborhood or the homeowners' association. A certified copy of deed restrictions is usually required by the lender. Restrictions normally have a termination date but may be renewed.

Settlement

Completion of sale when the balance of contract price is paid to the seller and the buyer is legally entitled to take possession of the property.

Survey

Confirms lot size and identifies any encroachments or restriction violations.

Tax Proration

The seller and buyer split up property taxes based on the length each party owns the home during the year.

Title Insurance

Title insurance protects real estate owners and lenders against any property loss or damage they might experience because of liens, encumbrances or defects in the title to the property. Each title insurance policy is subject to specific terms, conditions and exclusions.

Title Search

The process of examining the land title normally by the title company to determine the terms and conditions under which the title company will issue a title policy.