

Useful Terms and Definitions for First-Time Homebuyers

Amortization Schedule - A timetable for repayment of a mortgage showing the amount of each payment applied to interest and principal and the remaining balance.

Annual Percentage Rate (APR) - The total yearly cost of a mortgage stated as a percentage of the loan amount; includes interest rate, loan fees, points or other charges.

Appraisal - A professional opinion of the market value of a property.

Assessed Value - The valuation placed on a property by a public tax assessor.

Assumable Loan - A loan which the lender is willing to "transfer" from the previous owner of the home to the new owner, sometimes at the same interest rate, sometimes at a new rate. An assumable loan can make your home more attractive to buyers when you want to sell.

Cap - A provision of an ARM limiting how much the interest rate or mortgage payments may increase.

Clean Title - A title that is free of liens and legal questions as to ownership.

Closing - The occasion where a sale is finalized; also called a "settlement"

Closing Costs - Costs the buyer must pay when the sale is finalized in addition to the down payment, including: points, mortgage insurance premium, homeowners insurance, prepayments for property taxes, etc. Closing costs average 3-4% of the loan amount.

Commission - Money paid to the broker by the seller, usually 6-7% of the cost of the house.

Contingency - A condition that must be met before a contract is legally binding.

Conventional Mortgage - A mortgage that is not insured or guaranteed by the federal government.

Convertible ARM - An adjustable-rate mortgage that can be converted into a fixed-rate mortgage under specified conditions.

Credit Report - A report of an individual's credit history.

Deposit - Cash paid to the seller when a formal sales contract is signed.

Down Payment - A percentage of the purchase price that must be paid up front.

Down Payment Assistance Programs - Programs that help a home buyer purchase a home with a lower down payment requirement or the use of a second mortgage.

Earnest Money - A deposit given to the seller to show the prospective buyer is serious about buying the house.

Equity - The difference between the market value of a property and the homeowner's outstanding mortgage balance.

Escrow - A procedure in which documents or transfers of cash and property are put in the care of a third party, other than the buyer and seller.

FHA Financing - A mortgage that is insured by the Federal Housing Administration.

Fixed Rate Mortgage - A mortgage with an interest rate that stays the same over the term of the loan. Your principal and interest payment remain stable, making it easier to plan a monthly budget, but initial interest rates may be higher than other types of loans.

Flood Insurance - Insurance required for properties in federally- designated flood areas.

Foreclosure - The process by which a mortgaged property may be sold when a mortgage is in default.

Graduated Payment Mortgage - A mortgage that starts with low monthly payments that increase at a pre-determined rate.

Gross Income - Your income before taxes are deducted from your pay check.

Homeowners Insurance - Insurance that protects the homeowner from "casualty" (losses or damage to the home or personal property) and from "liability" (damages to other people or property). Required by the lender and usually included in the monthly mortgage payment.

Interest - The fee charged for borrowing money.

Lien - A legal claim against a property that must be paid when the property is sold.

Loan-to-Value Ratio - The percent of a home's property value that will be loaned, typically from 80-97%. Banks may differ widely in this ratio which affects the amount of the down payment.

"Lock-in" Fee - A fee paid to the lender for "freezing" the interest rate and/or points at the time of loan application to keep them from changing during the time it takes to process your loan.

Mortgage - A loan for a home. A "first mortgage" is the primary loan for the purchase of the home. A "second mortgage" is often obtained for down payment assistance programs, rehabilitation, home equity loans, etc.

Mortgage Insurance Premium (MIP) - A charge paid by the borrower (usually as part of the closing costs) to obtain financing, especially when making a down payment of less than 20% of the purchase price.

MSA (Metropolitan Statistical Area) - An area established by the federal government primarily for gathering census and statistical information

Origination Fee - A fee paid to the lender for processing a loan application.

Owner Financing - A sales transaction in which the property seller provides all or part of the financing.

PITI - Stands for loan **P**incipal, **I**nterest, property **T**axes and homeowners **I**nsurance - the components of a monthly mortgage payment.

Point - A one-time charge by the lender to increase the yield of the loan; a point is 1% of the principal amount being borrowed.

Prequalification - The process of determining how much money a prospective home buyer will be eligible to borrow before a loan application is made.

Principal - The amount borrowed or remaining unpaid; also, that part of a monthly payment that reduces the outstanding balance of a mortgage.

Property Taxes - Taxes paid by the homeowner for community services such as schools, public works, and other costs of local government.

Secondary Mortgage Market - Companies that purchase home loans from lenders in large quantities and may offer special programs for home-buyers (i.e., Freddie Mac, Fannie Mae).

Title - A legal document establishing the right of ownership.

Title Insurance - Insurance to protect the lender or buyer against loss arising from disputes over property ownership.

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 claims outstanding.

Underwriting - The process of evaluating a loan application to determine the risk involved for the lender.

VA Loan - A loan guaranteed by the Department of Veterans Affairs.