

# Home Buyer's Glossary

As you start shopping for a new home, you may encounter some unfamiliar words and terms. The following glossary will help get you through the maze of buying a home.

**Adjustable-Rate Mortgage (ARM)** - Loan with an interest rate adjusted according to movements in the financial market. Many offer lower-than-market initial interest rates that rise only gradually for the first few years.

**Annual Percentage Rate (APR)** - Annual cost of credit over the life of a loan including interest, service charges, points, loan fees, mortgage insurance and other items.

**Appraisal** - Unbiased, professional opinion of a property's value based on its style and appearance, construction quality, usefulness, and the value of comparable properties.

**Assessment** - Tax levied on a property or a value placed on the worth of a property by a taxing authority.

**Assumption** - Transaction allowing a buyer to assume responsibility for an existing loan instead of getting a new loan.

**Broker (Real Estate)** - Person who receives a commission or fee for bringing buyer and seller together and assisting in the negotiation of contracts between them. A license is required in most states.

**Building Code** - Local regulations controlling design, construction and materials used in construction. Building Codes are based on safety and health standards.

**Buy-down** - Subsidy, usually paid by a builder or developer, to reduce the monthly payments on a mortgage loan.

**Buyer's Agent** - A real estate agent who represents only the buyer in a real estate transaction.

**Callback** - Request by a homeowner for a builder to handle a service request.



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**Cap** - Limit to the amount an interest rate or monthly payment can increase for an adjustable-rate loan either during an adjustment period or over the life of the loan.

**Certificate of Occupancy** - Document from an official agency stating the property meets the requirements of local codes, ordinances, and regulations.

**Chain of Title** - History of all documents transferring title to a parcel of real property, starting with the earliest existing document, and ending with the most recent.

**Change Order** - Homebuyer's written authorization to add, delete or change an item specified in a contract.

**Closing** - Meeting to sign documents that transfer from a seller to a buyer. (Also referred to as settlement.)

**Closing Costs** - Charges paid at settlement for obtaining a mortgage loan and transferring a real estate title.

**Commission** - Agent's fee for negotiating a real estate or loan transaction, often expressed as the percentage of the sales price or mortgage amount.

**Conditions, Covenants and Restrictions (CC and RS)** - Standards that define how a property may be used and the protections the developer makes for the benefit of all owners in a subdivision.

**Contingency** - Condition that must be met before a contract is binding.

**Convertibility** - Ability to change a loan from an adjustable rate schedule to a fixed-rate schedule.

**Covenant** - Agreement between seller and buyer on a piece of property, restricting the use of that property. (Also called deed restriction.)

**Deed** - Legal document representing property ownership.

**Default** - When a borrower fails to make the required payments of a mortgage contract.



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**Density** - The number of homes built on a particular acre of land. Allowable densities are determined by local jurisdictions.

**Debt-To-Income Ratio** - Long-term debt expenses as a percentage of monthly income; used by lenders to qualify borrowers for mortgage loans.

**Due-on-Sale** - Clause in a mortgage contract requiring the borrower to pay the entire outstanding balance upon sale or transfer of the property.

**Earnest Money** - Sum paid to the seller to show that a potential purchaser is serious about buying.

**Easement** - Right-of-way granted to a person or company authorizing access to the owner's land. For example, a utility company may be granted easement to install pipes or wires. An owner may voluntarily grant an easement or can be ordered to grant one by a local jurisdiction.

**Equity** - Difference between the value of a home and what is owed on it.

**Escrow** - Handling of funds or documents by a third party on behalf of the buyer and/or seller.

**Escrow Amount** - Amount set up by a lender into which periodic, usually monthly, payments for taxes, hazard insurance, assessments and mortgage insurance premiums are made. Funds are held in trust by the lender who pays the sums as they become due.

**Fair Market Value** - Price at which property is transferred between willing buyer and willing seller, each of whom has reasonable knowledge of all pertinent facts and neither being under compulsion to buy or sell.

**Federal Housing Administration (FHA)** - Federal agency that insures mortgages with lower down payment requirements than conventional loans.

**Fixed-Rate Mortgage** - Mortgage with an interest rate that remains constant over the life of the loan.



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**Hazard Insurance** - Protection against damage caused by fire, windstorms, or other common hazards. Many lenders require borrowers to carry it in an amount at least to the mortgage.

**HVAC** - Common building industry abbreviation for heating, ventilation, and air conditioning systems.

**Index** - Interest rate or adjustment standard that determines the changes in monthly payments for an adjustable-rate loan.

**Infrastructure** - Public facilities and services needed to support residential development, including highways, bridges, schools and sewer and water systems.

**Inspection** - Examination of work completed on a structure to determine compliance with building code and other code requirements.

**Joint Tenancy** - Form of ownership in which the tenants own a property equally. If one dies, the other automatically inherits the entire property.

**Loan Origination Fee** - Lender will charge a fee for the cost of processing the loan, usually calculated as a percentage of the loan amount.

**Loan-To-Value-Ratio** - Relationship between the amount of a home loan and the total value of a property.

**Lock-In Rate** - Commitment from a lender to make a loan at a pre-set interest rate at some future date, usually for not more than 90 days. A fee may be charged to "lock-in" a rate.

**Mortgage Commitment** - Formal written communication by a lender agreeing to make a mortgage loan on a specific property, specifying the loan amount, length of time and conditions.

**Mortgage Origination Fee** - Charge for the work involved in preparing and servicing a mortgage application.

**Permit** - Document issued by a local government agency allowing construction work to be performed in conformance with local codes. Work may not commence



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until permits have been obtained, and each permit issuing agency must inspect the work at certain specified points during construction.

**PITI** - Principal, interest, taxes, and insurance: the four major components of monthly housing payments.

**Point** - One-time charge assessed by the lender at closing to increase the interest yield on a mortgage loan.

**Pre-Settlement Walk-Through** - Final inspection of house prior to closing, conducted by builder and buyer.

**Principal** - Amount borrowed, excluding interest and other charges.

**Property Survey** - Survey to determine the boundaries of a piece of property. Cost depends on the complexity of the survey.

**Recording Fee** - Charge for recording the transfer of a property, paid to a city, county, or other appropriate branch of government.

**Specifications** - Contractual document describing in detail the work to be performed; method of construction; standards of workmanship; quality, type and manufacturer of materials and equipment for a particular project.

**Tenancy in Common** - Form of ownership in which the tenants own separate but equal parts. To inherit the property, a surviving tenant must be mentioned in the will or, in the absence of a will, be eligible through state inheritance laws.

**Title** - Evidence, usually in the form of a certificate or deed, of a person's legal right to ownership of a property.

**Title Insurance** - Insurance against any title defects that may exist prior to the time the title is passed from one owner to the next, and which may come to light in a future transaction.

**Veterans Administration (VA)** - Federal agency that insures mortgage loans with very liberal down payment requirements for honorably discharged veterans and their surviving spouses.



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