

## REAL ESTATE DICTIONARY

**Adjustable-rate mortgage (ARM)** -- Home loan in which the interest rate is changed periodically based on a standard financial index. Most ARMs have caps on how much an interest rate may increase.

**Amortization schedule** -- A detailed table showing the amortization of a loan which includes the beginning principal amount, period payments, the interest portion of each payment, the principal reduction portion each payment, and the ending balance.

**Annual percentage rate (APR)** -- A yearly rate of interest that includes fees and costs paid to acquire the loan. Lenders are required by law to disclose the APR. The rate is calculated in a standard way, taking the average compound interest rate over the term of the loan, so borrowers can compare loans. In mortgages, it is the interest rate of a mortgage when taking into account the interest, mortgage insurance, and certain closing costs including points paid at closing.

**Appraisal** -- An estimate of market value placed on all real property and mobile homes. There are two kinds of appraisals: mass appraisal, in which a community is valued for tax purposes; and fee appraisal, in which one property is appraised, often in comparison with other properties. Each is accomplished under a different set of rules and guidelines and prepared by a qualified appraiser.

**Biweekly mortgage** -- A mortgage that schedules payments every two weeks instead of the standard monthly payment. The 26 biweekly payments are each equal to one-half of the monthly payment. The result for the borrower is a substantial reduction in interest payments because the mortgage is paid off sooner.

**Broker** -- A person, who, for a commission or a fee, brings parties together and assists in negotiating contracts between them.

**Certificate of title** -- A statement provided by a title company or attorney stating that the title to the real estate is legally held by the current owner.

**Closing** -- The meeting at which the sale of a property is completed. The buyer signs the lender agreement for the mortgage and pays closing costs and escrow amounts. The buyer and seller sign documents to transfer ownership of the property. Also known as the settlement.

**Collateral** -- Property pledged as security to a debt. If the borrower fails to repay the loan, the lender may gain ownership of the collateral and sell it to recover the money.

**Combined loan-to-value ratio** -- A person's overall mortgage debt load, expressed as a percentage of the home's fair market value. Someone with a \$50,000 first mortgage and a \$20,000 home equity loan secured against a \$100,000 house would have a CLTV ratio of 70 percent.

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**Commission** -- The fee charged by a broker or agent for providing services related to a real estate transaction, such as procuring the property, bringing the parties together, and negotiating a purchase contract or loan. Often the commission is a percentage of the selling price or the amount borrowed.

**Conventional mortgage** -- Usually refers to a fixed-rate, 30-year mortgage that is not insured by the FHA, Farmers Home Administration (FmHA) or Veterans Administration.

**Convertible ARM** -- An adjustable rate mortgage (ARM) that can be converted to a fixed-rate mortgage under specified conditions.

**Debt-to-income ratio** -- The percentage of before-tax earnings that are spent to pay off loans for obligations such as auto loans, student loans and credit card balances. Lenders look at two ratios. The front-end ratio is the percentage of monthly before-tax earnings that are spent on house payments (including principal, interest, taxes and insurance). In the back-end ratio, the borrower's other debts are factored in.

**Deed** -- A document that provides title to property and is filed with a country recorder.

**Earnest money deposit** -- Money given by a buyer when making a formal offer to demonstrate that the buyer is serious. Also called a deposit.

**Equity** -- The value of a homeowner's unencumbered interest in real estate. Equity is the difference between the home's fair market value and the unpaid principal balance of the mortgage and any liens. Equity increases as the mortgage is paid down and as the property appreciates in value.

**Exclusive listing** -- A legal agreement that gives one real-estate agent the right to sell a property for a specified period. The owner retains the right to sell the property himself or herself without paying the agent a commission.

**Fair Credit Reporting Act** -- A federal law that governs what credit bureaus can report and for how long. It outlines procedures for correcting errors in credit reports. It requires credit bureaus to furnish copies of consumers' credit reports at their request.

**FHA loan** -- A residential mortgage from an approved lender and insured by the Federal Housing Administration. The down payment on an FHA loan usually is less than that for a conventional mortgage. The FHA does not lend money, but nominates approved lenders.

**Good faith estimate** -- Often called a GFE. A written estimate of expected closing costs that a lender must provide a prospective homebuyer within three days of the homeowner submitting a mortgage loan application. Brokers and lenders are required by law to make as accurate an estimate as they can.

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**HUD-1 statement** -- A document with an itemized listing of closing costs payable at the closing or settlement meeting when buying property. The closing costs can include a commission, loan fees and points, and sums set aside for escrow payments, taxes and insurance. It is signed by both the buyer and the seller, who may be paying some of the closing costs. The statement form is published by the Department of Housing and Urban Development (HUD).

**Home inspection** -- A thorough examination of a house's visible structural parts and systems, conducted before purchase.

**Lien** -- A legal claim against property for payment of a debt or for services rendered. One who holds a lien has the right to sell the property to obtain the money, or to recover the money when the property is sold. Valid liens are filed with county recorder's offices.

**Lifetime rate cap** -- In an adjustable rate mortgage (ARM), it limits the amount that the interest rate can increase or decrease over the life of the loan.

**Loan-to-value ratio (LTV)** -- The percentage of the home's price that is paid for by a mortgage. On a \$100,000 house, if the buyer makes a \$20,000 down payment and borrows \$80,000, the mortgage is 80 percent of the price of the house. Therefore, the loan-to-value ratio is 80. When refinancing a mortgage, the loan-to-value ratio is computed using the appraised value of the home, not the sale price.

**Lock** -- A lender's guarantee that the mortgage rate quoted will not change for a specific period. The borrower wants the lock to stay in effect until closing.

**Lock-and-float** -- Rate programs offered by companies that allow borrowers to lock in the current interest rate on a mortgage for a specified period of time, while also letting them "float" the rate down if market conditions improve before closing.

**Mortgage** -- A legal agreement that uses property as collateral to secure payment of a debt. The legal agreement means that when a mortgage is on a house, the lender can take possession of the house if the borrower stops making payments.

**Net worth** -- The total value of all assets, such as house, car, furniture and investments, minus all debts, such as mortgages and credit card bills.

**No-doc loan** -- Short for "no-documentation loan." A mortgage in which the applicant provides a minimum of information -- name, address, Social Security number (so credit reports can be pulled), and contact information for an employer, if there is one. The underwriter decides on the loan based on the applicant's credit history, the appraised value of the house and size of down payment.

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**PMI** -- Private mortgage insurance. A policy that protects the lender by paying the costs of foreclosing on a house if the borrower stops paying the loan. Although PMI protects the lender, it is paid monthly by the borrower. Private mortgage insurance usually is required if the down payment is less than 20 percent of the sale price.

**Point** -- A point equals 1 percent of a mortgage loan. Some lenders charge "origination points" to cover expenses of making a loan. Some borrowers pay "discount points" to reduce the loan's interest rate.

**Pre-approval letter** -- A document from a lender or broker, estimating how much a potential home-buyer could borrow, based on current interest rates and a preliminary look at credit history.

**Pre-qualification** -- A non-binding evaluation of a prospective borrower's finances to determine how much he or she can borrow and on what terms.

**Prime rate** -- The interest rate a bank charges its best or "prime" customers. Each bank will quote a prime lending rate. Many institutions quote prime rates established by large money center commercial banks. There is also a prime rate average listed in the Wall Street Journal that is an average of the largest commercial banks. The rate given to consumers on their loans is often based as the prime rate plus a certain percentage, which represents the lender's assessment of the risk in lending, plus its profit margin.

**Principal** -- 1. The amount of money borrowed. 2. The amount of money owed, excluding interest. 3. The client of a real-estate agent.

**Real estate agent** -- A person who is licensed to represent a buyer or seller of land and the buildings and other improvements on it.

**Realtor** -- A registered collective membership mark which identifies real estate professionals who are members of the National Association of Realtors and subscribe to its strict Code of Ethics. "Real-estate agent" is a generic term and Realtor is a trademarked term.

**Survey** -- A precise measurement of a parcel's dimensions, relation to landmarks and location and dimensions of improvements.

**Title search** -- A check of public records to make sure that the owner of real property has the right to transfer ownership. A title search is designed to spot gaps in the chain of title, liens, problems with the legal description of the property, judgments against the owner, and the like.

**Treasury index** -- A table of yields being paid on government debt, used to determine interest-rate changes for adjustable-rate mortgages and other variable rate loans.

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**Truth in Lending Act** -- A federal law that requires lenders to provide certain information so borrowers can compare one loan to another. The most important facts lenders must provide are: finance charges in dollars and as an annual percentage rate (APR); the credit issuer or company providing the credit line and the size of the credit line; length of grace period, if any, before payment must be made; minimum payment required; any annual fees; and fees for credit insurance, if any.

**Underwriting** -- The process by which a lender decides whether to lend money, based on the value of the property, the borrower's credit history and any other relevant factors.

**VA loan** -- A mortgage made by an approved lender and guaranteed by the Department of Veterans Affairs, often with a low down payment.

**Variable-rate mortgage** -- Home loan in which the interest rate is changed periodically based on a standard financial index. Also called an adjustable-rate mortgage.

**WSJ Prime Rate** -- The initials stand for the Wall Street Journal, which surveys large banks and publishes the consensus prime rate. It's the most widely quoted measure of the prime rate, which is the rate at which banks will lend money to their most-favored customers. The prime rate will move up or down in lock step with changes by the Federal Reserve Board.