

A

Acceptance An offeree's consent to enter into a contract and be bound by the terms of the offer.

Additional principal payment A payment by a borrower of more than the scheduled principal amount due in order to reduce the remaining balance on the loan.

Adjustable-rate mortgage (ARM) A mortgage that permits the lender to adjust its interest rate periodically on the basis of changes in a specified index.

Amortization schedule A timetable for payment of a mortgage loan. An amortization schedule shows the amount of each payment applied to interest and principal and shows the remaining balance after each payment is made.

Annual percentage rate (APR) The cost of a mortgage stated as a yearly rate; includes such items as interest, mortgage insurance, and loan origination fee (points).

Application A form used to apply for a mortgage loan and to record pertinent information concerning a prospective mortgagor and the proposed security.

Appraisal A written analysis of the estimated value of a property prepared by a qualified appraiser. Typically this is done once an offer has been written and accepted by the seller. Most are arranged through the bank where the financing is obtained.

Appraised value An opinion of a property's fair market value, based on an appraiser's knowledge, experience, and analysis of the property.

Appreciation An increase in the value of a property due to changes in market conditions or other causes. The opposite of depreciation.

Assessed value The valuation placed on a property by a public tax assessor for purposes of taxation.

Assessment The process of placing a value on property for the strict purpose of taxation. May also refer to a levy against property for a special purpose, such as a sewer assessment.

B

Balloon mortgage A mortgage that has level monthly payments that will amortize it over a stated term but that provides for a lump sum payment to be due at the end of an earlier specified term.

Balloon payment The final lump sum payment that is made at the maturity date of a balloon mortgage.

Bill of sale A written document that transfers title to personal property.

C

Cash-out refinance A refinance transaction in which the amount of money received from the new loan exceeds the total of the money needed to repay the existing first mortgage, closing costs, points, and the amount required to satisfy any outstanding subordinate mortgage liens. In other words, a refinance transaction in which the borrower receives additional cash that can be used for any purpose.

Certificate of title A statement provided by an abstract company, title company, or attorney stating that the title to real estate is legally held by the current owner.

Chain of title The history of all of the documents that transfer title to a parcel of real property, starting with the earliest existing document and ending with the most recent.

Clear title A title that is free of liens or legal questions as to ownership of the property.

Closing A meeting at which a sale of a property is finalized by the buyer signing the mortgage documents and paying closing costs. Also called “settlement.”

Closing costs Expenses (over and above the price of the property) incurred by buyers and sellers in transferring ownership of a property. Closing costs normally include an origination fee, an attorney’s fee, taxes, an amount placed in escrow, and charges for obtaining title insurance and a survey. Closing costs percentage will vary according to the area of the country; lenders or realtors” often provide estimates of closing costs to prospective homebuyers.

Commitment letter A formal offer by a lender stating the terms under which it agrees to lend money to a home buyer. Also known as a “loan commitment.”

Comparables An abbreviation for “comparable properties”; used for comparative purposes in the appraisal process. Comparables are properties like the property under consideration; they have reasonably the same size, location , and amenities and have recently been sold. Comparables help the appraiser determine the approximate fair market value of the subject property.

Condominium A real estate project in which each unit owner has title to a unit in a building, an undivided interest in the common areas of the project, and sometimes the exclusive use of certain limited common areas.

Contingency A condition that must be met before a contract is legally binding. For example, home purchasers often include a contingency that specifies that the contract is not binding until the purchaser obtains a satisfactory home inspection report from a qualified home inspector.

Conventional mortgage A mortgage that is not insured or guaranteed by the federal government. Contrast with government mortgage.

Credit report A report of an individual’s credit history prepared by a credit bureau and used by a lender in determining a loan applicant’s creditworthiness. See merged credit report.

D

Deed The legal document conveying title to a property.

Deed-in-lieu A deed given by a mortgagor to the mortgagee to satisfy a debt and avoid foreclosure. Also called a “voluntary conveyance.”

Deed of trust The document used in some states instead of a mortgage; title is conveyed to a trustee.

Default Failure to make mortgage payments on a timely basis or to comply with other requirements of a mortgage.

Delinquency Failure to make mortgage payments when mortgage payments are due.

Depreciation A decline in the value of property; the opposite of appreciation.

E

Earnest money deposit A deposit made by the potential home buyer to show that he or she is serious about buying the house.

Easement A right of way giving persons other than the owner access to or over a property.

Encroachment An improvement that intrudes illegally on another's property.

Equity A homeowner's financial interest in a property. Equity is the difference between the fair market value of the property and the amount still owed on its mortgage.

Escrow An item of value, money, or documents deposited with a third party to be delivered upon the fulfillment of a condition. For example, the deposit by a borrower with the lender of funds to pay taxes and insurance premiums when they become due, or the deposit of funds or documents with an attorney or escrow agent to be disbursed upon the closing of a sale of real estate.

Estate The ownership interest of an individual in real property. The sum total of all the real property and personal property owned by an individual at time of death.

Eviction The lawful expulsion of an occupant from real property.

Exclusive listing A written contract that gives a licensed real estate agent the exclusive right to sell a property for a specified time, but reserving the owner's right to sell the property alone without the payment of a commission.

Executor A person named in a will to administer an estate. The court will appoint an administrator if no executor is named. "Executrix" is the feminine form.

F

Fair market value The highest price that a buyer, willing but not compelled to buy, would pay, and the lowest a seller, willing but not compelled to sell, would accept.

FHA mortgage A mortgage that is insured by the Federal Housing Administration (FHA). Also known as a government mortgage.

Foreclosure The legal process by which a borrower in default under a mortgage is deprived of his or her interest in the mortgaged property. This usually involves a forced sale of the property at public auction with the proceeds of the sale being applied to the mortgage debt.

H

Hazard insurance Insurance coverage that compensates for physical damage to a property from fire, wind, vandalism, or other hazards.

Home inspection A thorough inspection that evaluates the structural and mechanical condition of a property. A satisfactory home inspection is often included as a contingency by the purchaser.

Homeowners' association A nonprofit association that manages the common areas of a planned unit development (PUD) or condominium project. In a condominium project, it has no ownership interest in the common elements. In a PUD project, it holds title to the common elements.

Homeowner's insurance An insurance policy that combines personal liability insurance and hazard insurance coverage for a dwelling and its contents.

HUD-1 statement A document that provides an itemized listing of the funds that are payable at closing. Items that appear on the statement include real estate commissions, loan fees, points, and initial escrow amounts. Each item on the statement is represented by a separate number within a standardized numbering system. The totals at the bottom

of the HUD-1 statement define the seller's net proceeds and the buyer's net payment at closing. The blank form for the statement is published by the Department of Housing and Urban Development (HUD). The HUD-1 statement is also known as the "closing statement" or "settlement sheet."

I

Insurable title A property title that a title insurance company agrees to insure against defects and disputes.

Insurance A contract that provides compensation for specific losses in exchange for a periodic payment. An individual contract is known as an insurance policy, and the periodic payment is known as an insurance premium.

Insurance binder A document that states that insurance is temporarily in effect. Because the coverage will expire by a specified date, a permanent policy must be obtained before the expiration date.

Insured mortgage A mortgage that is protected by the Federal Housing Administration (FHA) or by private mortgage insurance (MI). If the borrower defaults on the loan, the insurer must pay the lender the lesser of the loss incurred or the insured amount.

J

Joint tenancy A form of co-ownership that gives each tenant equal interest and equal rights in the property, including the right of survivorship.

L

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

Loan-to-value (LTV) percentage The relationship between the principal balance of the mortgage and the appraised value (or sales price if it is lower) of the property. For example, a \$100,000 home with an \$80,000 mortgage has a LTV percentage of 80 percent.

M

Mortgage insurance A contract that insures the lender against loss caused by a mortgagor's default on a government mortgage or conventional mortgage. Mortgage insurance can be issued by a private company or by a government agency such as the Federal Housing Administration (FHA). Depending on the type of mortgage insurance, the insurance may cover a percentage of or virtually all of the mortgage loan. See private mortgage insurance (MI) .

Mortgage insurance premium (MIP) The amount paid by a mortgagor for mortgage insurance, either to a government agency such as the Federal Housing Administration (FHA) or to a private mortgage insurance (MI) company.

P

Point A one-time charge by the lender for originating a loan. A point is 1 percent of the amount of the mortgage.

Power of attorney A legal document that authorizes another person to act on one's behalf. A power of attorney can grant complete authority or can be limited to certain acts and/or certain periods of time.

Promissory note A written promise to repay a specified amount over a specified period of time.

Q

Qualifying ratios Calculations that are used in determining whether a borrower can qualify for a mortgage. They consist of two separate calculations: a housing expense as a percent of income ratio and total debt obligations as a percent of income ratio.

Quitclaim deed A deed that transfers without warranty whatever interest or title a grantor may have at the time the conveyance is made.

R

Real Estate Settlement Procedures Act (RESPA) A consumer protection law that requires lenders to give borrowers advance notice of closing costs.

T

Title A legal document evidencing a person's right to or ownership of a property.

Title insurance Insurance that protects the lender (lender's policy) or the buyer (owner's policy) against loss arising from disputes over ownership of a property.

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 other claims outstanding.

Transfer tax State or local tax payable when title passes from one owner to another.