

# A HOME BUYER'S GLOSSARY



When buying a home, it's important to understand the key concepts and terms.



The following is a list of terms to know:

- ✔ **Abstract of Title** – complete historical summary of the public records relating to the legal ownership of a particular property from the time of the first transfer to the present.
- ✔ **Adjustable Rate Mortgage (ARM)** – also known as a variable-rate loan, an ARM is one in which the interest rate changes over time, relative to an index like the Treasury index.
- ✔ **Agreement of Sale** – also known as contract of purchase, purchase agreement, or sales agreement according to location or jurisdiction. A contract in which a seller and buyer agree to transact under certain terms spelled out in writing and signed by both parties.
- ✔ **Amortization** – the process of reducing the principal debt through a schedule of fixed payments at regular intervals of time, with an interest rate specified in a loan document.
- ✔ **Appraisal** – a professional appraiser's estimate of the market value of a property based on local market data and the recent sale prices of similar properties.
- ✔ **Assessed Value** – the value placed on a home by municipal assessors for the purposes of determining property taxes.



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- ✓ **Closing** – the final steps in the transfer of property ownership. On or before the Closing Date, as specified by the sales agreement, the buyer inspects and signs all the documents relating to the transaction and the final disbursements are paid. Also referred to as the Settlement.
- ✓ **Closing Costs** – the costs to complete a real estate transaction in addition to the price of the home. These may include: points, taxes, title insurance, appraisal fees and legal fees.
- ✓ **Contingency** – a clause in the purchase contract that describes certain conditions that must be met and agreed upon by both buyer and seller before the contract is binding.
- ✓ **Counter-offer** – an offer, made in response to a previous offer, that rejects all or part of it while enabling negotiations to continue towards a mutually-acceptable sales contract.
- ✓ **Conventional Mortgage** – one that is not insured or guaranteed by the federal government.
- ✓ **Debt-to-Income Ratio** – a ratio that measures total debt burden. It is calculated by dividing gross monthly debt repayments, including mortgages, by gross monthly income.
- ✓ **Down Payment** – the money paid by the buyer to the lender at the time of the closing. The amount is the difference between the sales price and the mortgage loan. Requirements vary by loan type. Smaller down payments, less than 20%, usually require mortgage insurance.
- ✓ **Earnest Money** – a deposit given by the buyer to bind a purchase offer and which is held in escrow. If the property sale is closed, the deposit is applied to the purchase price. If the buyer does not fulfill all contract obligations, the deposit may be forfeited.
- ✓ **Equity** – the value of the property, less the loan balance and any outstanding liens or other debts against the property.





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- ✓ **Easements** – legal right of access to use of a property by individuals, or groups, for specific purposes. Easements may affect property values and are sometimes part of the deed.
- ✓ **Escrow** – funds held by a neutral third party (the escrow agent) until certain conditions of a contract are met and the funds can be paid out. Escrow accounts are also used by loan servicers to pay property taxes and homeowner's insurance.
- ✓ **Fixed-Rate Mortgage** – a type of mortgage loan in which the interest rate does not change during the entire term of the loan.
- ✓ **Home Inspection** – professional inspection of a home, paid for by the buyer, to evaluate the quality and safety of its plumbing, heating, wiring, appliances, roof, foundation, etc.
- ✓ **Homeowner's Insurance** – a policy that protects you and the lender from fire or flood, a liability such as visitor injury, or damage to your personal property.
- ✓ **Lien** – a claim or charge on property for payment of a debt. With a mortgage, the lender has the right to take the title to your property if you don't make the mortgage payments.
- ✓ **Market Value** – the amount a willing buyer would pay a willing seller for a home. An appraised value is an estimate of the current fair market value.
- ✓ **Mortgage Insurance** – purchased by the buyer to protect the lender in the event of default (typically for loans with less than 20% down). Available through a government agency like the Federal Housing Administration (FHA) or through private mortgage insurers (PMI).
- ✓ **Possession Date** – the date, as specified by the sales agreement, that the buyer can move into the property. Generally, it occurs within a couple days of the Closing Date.



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- ✓ **Pre-Approval Letter** – a letter from a mortgage lender indicating that a buyer is approved for a mortgage of a specific amount. It also shows a home seller that you're a serious buyer.
- ✓ **Principal** – the amount of money borrowed from a lender to buy a home, or the amount of the loan that has not yet been repaid. Does not include the interest paid to borrow.
- ✓ **Purchase Offer** – a detailed, written document which makes an offer to purchase a property, and which may be amended several times in the process of negotiations. When signed by all parties involved in the sale, the purchase offer becomes a legally-binding sales agreement.\*
- ✓ **Title** – the right to, and the ownership of, property. A Title or Deed is sometimes used as proof of ownership of land. Clear title refers to a title that has no legal defects.
- ✓ **Title Insurance** – insurance policy that guarantees the accuracy of the title search and protects lenders and homeowners against legal problems with the title.
- ✓ **Truth-In-Lending Act (TILA)** – federal law that requires disclosure of a truth-in-lending statement for consumer loans. The statement includes a summary of the total cost of credit.
- ✓ **Title Search** – a historical review of all legal documents relating to ownership of a property to determine if there have been any flaws in prior transfers of ownership or if there are any claims or encumbrances on the title to the property.

\* The purchase offer and contract procedures vary by region.

