

Glossary: Real Estate Terms

Adjustable-Rate Mortgage (ARM): An ARM's interest rate will increase or decrease over the life of the loan, impacting your loan payments. An ARM, also known as a Variable Rate Loan, usually has an attractive initial low interest rate. To fully understand the long-term cost of the loan, you need to know the maximum interest rate you could be required to pay.

Annual Percentage Rate (APR): The cost of credit expressed as a yearly rate. Many include interest rate, points, broker fees, and other credit charges that the borrower is required to pay.

Appraisal: a document that gives an estimate of a property's fair market value; an appraisal is generally required by a lender before loan approval to ensure that the mortgage loan amount is not more than the value of the property.

Balloon Payment: A large single payment at the end of the loan term because the monthly payments are too low to pay off the entire loan amount.

Bankruptcy: a federal law whereby a person's assets are turned over to a trustee and used to pay off outstanding debts; this usually occurs when someone owes more than they have the ability to repay.

Closing or Settlement: The meeting where loan documents are reviewed and signed.

Closing Costs: Fees required by the lender at closing. While the fees can vary among lending institutions, many include one-time processing fees such as application, origination or appraisal fees, points, title search, or title insurance. Find out what closing costs will be charged before the closing and which fees may be negotiable. If you are unsure about any of the fees, ask for clarification.

Commission: an amount, usually a percentage of the property sales price, that is collected by a real estate professional as a fee for negotiating the transaction.

Conventional loan: a private sector loan, one that is not guaranteed or insured by the U.S. government.

Credit history: history of an individual's debt payment; lenders use this information to gauge a potential borrower's ability to repay a loan.

Credit report: a record that lists all past and present debts and the timeliness of their repayment; it documents an individual's credit history.

Credit Insurance: A loan option that repays the lender should the borrower die or become disabled. In the case of single-premium credit insurance, the full premium is paid all at once by being added to the amount financed in the loan rather than on a monthly basis. Adding the full premium to the amount of the loan will increase the amount of interest you pay over the life of the loan.

Deed: the document that transfers ownership of a property.

Deed-in-lieu: to avoid foreclosure ("in lieu" of foreclosure), a deed is given to the lender to fulfill the obligation to repay the debt; this process doesn't allow the borrower to remain in the house but helps avoid the costs, time, and effort associated with foreclosure.

Default: Any breach of the mortgage contract can constitute default {for example, failure to maintain the property or carry adequate insurance). Commonly default occurs when the homeowner fails to make their monthly payments. It is important to read and understand your mortgage contract to determine what your lender regards as default.

Delinquent: The homeowner is delinquent when their monthly payment is late. When the payment has been missed completely and the succeeding payment is due, the mortgage moves into default.

Equity: The difference between what a property is worth and what the owner owes against that property. (i.e. the difference between the house value and the remaining mortgage or loan payments).

Escrow account: a separate account into which the lender puts a portion of each monthly mortgage payment; an escrow account provides the funds needed for such expenses as property taxes, homeowners insurance, mortgage insurance, etc.

Fair Housing Act: a law that prohibits discrimination in all facets of the home-buying process on the basis of race, color, national origin, religion, sex, familial status, or disability.

Fair market value: the hypothetical price that a willing buyer and seller will agree upon when they are acting freely, carefully, and with complete knowledge of the situation.

Fixed Rate Mortgage: Loans in which the interest rate remains the same over the life of the loan.

Foreclosure: The legal process by which the lender takes back and sells the property.

Forbearance: The period of time during which foreclosure proceedings are stalled while Possible solutions are being fulfilled.

Good faith estimate: an estimate of all closing fees including pre-paid and escrow items as well as lender charges; must be given to the borrower within three days after submission of a loan application.

Home Equity Loan: A cash loan in which the homeowner borrows against the equity in their home. The loan is secured by using the home as collateral.

Interest: The fee paid to borrow money. It is a percentage of the amount borrowed.

Lien: a legal claim against property that must be satisfied When the property is sold

Mortgage: Generally refers to a loan that finances the purchase of real estate, usually with specified payment periods and interest rates. The mortgage lender has the right to take the property if the borrower fails to make loan payments.

Predatory Lending: Predatory lending is a term used to describe a wide range of abusive and unfair lending practices. Predatory lenders often try to pressure consumers into signing loan agreements they cannot afford or simply are not in the consumers' best interest. Often, through the use of false promises and deceptive sales tactics, borrowers are convinced to sign a loan contract before they have had a chance to review the paperwork and do the math to determine whether they can truly afford the loan.

Prepayment Penalty: A penalty some lenders charge for paying a loan off early. Before signing loan papers, check to see if you loan has a penalty and how long it will be in effect. If you think you might make early payments, or sell you home before the loan is paid off, the prepayment penalty could be costly.

Principal: The amount of money borrowed or that remains unpaid.

Refinancing: The process of paying off one loan with the proceeds from a new loan secured by the same home or property.

Second Mortgage: A second loan on the property that is recorded after the first loan. A Home Equity Line of Credit (HELOC) is normally recorded as a second mortgage.