Key Terms/Definitions

What are Key Terms?

Before you start looking for and purchasing a home it's helpful and important to understand the terminology, you'll hear during the Home Buying Process.

Part One: Are You Ready to Buy a Home?

Appraisal: A professional assessment of the market value of a property.

Borrower: The person who obtains a mortgage loan.

Buyer's Agent: A real estate professional who enters into a contract-of-agency relationship with the buyer and typically gets paid by splitting the sales commission with the listing (seller's) agent.

Capacity: An applicant's ability to earn enough income to make mortgage loan payments and still pay all other living expenses. One of the "4 C's of credit."

Capital: The funds a potential homebuyer has available for the upfront costs of home ownership, such as the down payment and closing costs. One of the "4 C's of credit."

Chain of Title: A list of a particular home's owners since it was built.

Closing: The final steps in the transfer of property ownership, which usually occurs at a formal meeting between the buyer, seller, settlement agent and, possibly, real estate agents and attorneys.

Collateral: Property accepted as security for a loan; one of the "4 C's of credit" that measures the value and condition of the house to make sure it is worth at least as much as the loan.

Contingencies/Contingent: Conditions included in an offer to buy a home. A clause in a contract that outlines an event, which may or may not occur, but that must occur before the contract becomes binding.

Credit History: A record kept by the credit reporting agencies of how a borrower has repaid loans. One of the "4 C's of Credit" that measures an applicant's likeliness to repay a home loan based on how previous debts have been handled.

Credit Report: A record of how a consumer has repaid credit in the past, used as a guide to determine a potential homebuyer's creditworthiness.

Credit Reporting Agency: A company that gathers, files and sells information to creditors and others with a legitimate business purpose. Also called "credit bureau."

Credit Score: A numerical value based on the analysis of a credit report that is used by creditors to predict how likely an individual is to repay a loan.

Equity: The difference between how much your home is worth and how much you owe on your loan. For example, if your home is worth $130,000 and you owe the bank $96,000, your "equity" is $34,000.

Escrow: The period between the date the purchase contract is signed and the date of the loan closing.

Fair Market Value: The price a willing buyer will pay and a willing seller will accept for real property.

Foreclosure: A legal proceeding in which your home is usually sold by the lender and the money from the sale pays all or part of the amount that you still owe the bank.

Interest: This is an amount the bank or other lender charges you to borrow money. It is usually a percentage of the amount that you borrow. You will hear people talk about getting a "five percent loan" or "seven percent loan" or some other amount. This means the lender is charging them five or seven percent interest to borrow money. You pay interest on what you have borrowed each month when you make your mortgage payment.

Lender: The entity or person who offers the mortgage loan. Also called a "mortgagee."

Loan Product: The various terms and rates that encompass and define a loan.

Loan Rates: Determines the amount of interest a borrower has to pay off during a loan.

Loan Terms: The amount of time a borrower has to pay off a loan.

Mortgage: A security agreement between the lender and the buyer in which the property is collateral for the loan. If the buyer doesn't pay back the loan, the lender has the right to take back possession of the property.

Pre-approval: A guarantee that a lender will loan a potential buyer a fixed amount as long as certain conditions are met.

Principal: When you borrow money from a bank or other lender, the amount of money you borrow is called the loan "principal." You repay a portion of the principal each month when you make your mortgage payment.

Purchase Offer: A proposal to the seller of a house from a would-be buyer offering a stated amount for the house, often includes certain conditions that must be met.

Title: A legal document establishing the right of ownership of a property.

Title Insurance: Insurance to protect the lender (lender's policy) or the buyer (owner's policy) against loss arising from disputes over ownership of a property.

Part Two: Getting a Mortgage Loan

Mortgage: A secured loan between the lender and the buyer that is used to buy a home. If the buyer doesn't pay back the loan, the lender has the right to take back possession of the property.

P-I-T-I: The four different parts of most mortgage loan payments. The payment is made up of principal, interest, taxes and insurance (PITI).

Pre-Approval: A guarantee that a lender will loan a potential buyer a fixed amount as long as certain conditions are met.

Mortgage Loan Application: Forms that are filled out when applying for a loan. It contains questions about the buyer's income, assets, debts and the property he or she would like to buy.

Loan Processor: They prepare the loan file to be sent it to the lender. Their work includes ordering inspections and organizing the paperwork.

Underwriter: Works for the lender, reviews loan applications and decides whether to approve them.

Prequalified: The lender has determined that the borrower can afford to go to the next step in the loan process. The borrower is given a letter that says what the price range of the homes they could qualify for.

Prequalification: The process lenders use to determine how much a potential buyer could borrw to purchase a home. It is based on unverified information, such as employment status, income and debt.

Prequalification Worksheet: Form used to enter income and debt payments and calculates how much of a house payment the buyer could possibly afford.

Banks: A depository institution that offers checking accounts, savings accounts, loans, and investments.

Credit Union: A financial institution that offers checking accounts, savings accounts and loans to its members. You must be a member of the credit union in order to use their services.

Contract For Deed: A type of seller financing where the buyer makes the down payment and monthly payments to the seller, but the buyer doesn't own the property. The buyer will own the property once the loan is fully repaid or the property is refinanced into the buyer's name.

Wraparound Mortgage: A loan in which the seller finances the buyer a new mortgage and the seller keeps the original loan that is owed to the lender.

Secondary Market: This is one area where lenders get money to loan to homebuyers of homes. Investors purchase mortgage loans already owned by the lenders, giving the lender more money to loan out.

Mortgage Broker: An individual or company that, for a fee, matches a homebuyer with a home lender.

Sole and Separate: Only one person owns the property - either a single man or woman, or a married man or woman who does not share title with his or her spouse.

Tenancy in Common: Two or more people own the same property. They may not have equal ownership in the property. If they want to sell, they can sell the part (percentage) of the property they own.

Open House: The seller of a property decides to invite people into their home to see the house and to talk about it. This is usually done on the weekends and is for a set period of time. This is your chance to see the inside and outside of a home before you make an offer on it.

Foreclosed Homes: These are homes that were taken back from the buyer to be sold to satisfy the debt when the buyer fails to pay the mortgage payments. Many of these homes can be bought below what they are worth because the lender wants to get rid of them.

Auctions: A public sale where the home is sold to the highest bidder. This usually takes place at the home and everyone present has a chance to offer what they want to buy it. Auction property sales typically require the winning bidder to put ten percent down the day of the auction.

Fixer Upper: A home sold at a discount, that requires repairs to make its value comparable to other homes in the area. Many fixer upper homes require a lot of time and money to fix up. Make sure money is available to do the desired work after the home is purchased.

Cul-de-sac Location: A dead-end street usually in a residential area.

Purchase Contract: A binding legal agreement detailing the sale of a property that is signed by both the buyer and seller.

Earnest Money: A deposit that a buyer puts down to show they are serious about buying the home for sale.

Contingency: A statement in a purchase offer that outlines an event which may or may not occur, bu that must occur before the contract becomes binding.

Clear Title: Title that is free of liens and legal questions about the ownership of the property. A lien is a legal right to claim a piece of the property.

Accept: The seller agrees to the terms of the offer made by the buyer.

Counteroffer: A response made by the seller that changes some of the terms of the offer made by the buyer.

Reject: The seller turns down the offer.

Hazard Insurance: Also known as homeowner's insurance. This type of insurance protects the owner if something happens to the property that was covered by the insurance policy. Typically, a hazard insurance policy covers the home in the event of fire damage.

Flood Insurance: This type of insurance is not required for all properties. It is typically required for a home if it is located in a flood zone. Many people think that if they have hazard insurance then they are covered in the event that their house floods, but this is not true with all insurance policies. Make sure you check your insurance policy coverage so you know what is covered.

Title Insurance: Insurance to protect the lender or the buyer against any loss from disagreements over the ownership of the property.

Mortgage Life Insurance: An optional form of life insurance that pays off the mortgage if the borrower dies.

Home Warranty: A guarantee on a home for things such as materials, construction, and the main equipment such as the heating and air conditioning system.

Replacement Cost: Coverage in a homeowner insurance policy that pays to restore the house to its original condition if it is damaged. It can also replace items that are lost. Check your policy about this kind of coverage and make sure you understand what will be covered.

Liability Insurance: This insurance coverage covers people, other than the owner, in case they are injured or hurt while on the homeowner's property.

Premiums: The sum of money that must be paid in order to keep a property's insurance agency.

Truth-In-Lending (TIL) Statement: A statement that tells how much you are borrowing and the cost to do so.This document must be given to you within three days after you give your lender a contract on a home.

HUD-1 Settlement Statement: The final statement at the closing that lists all of the fees and costs that were involved with the purchase and sale of the property. The statement also lists who is paying each fee.

Mortgage Note: The note is a legal paper that requires the borrower to repay a loan at a listed interest rate and period of time.

Mortgage: A written agreement between the buyer and the lender for the property that is being purchased or refinance. The mortgage gives the lender the right to collect payments on the loan and to foreclose if the loan payments are not made.

Affidavits: Sworn statements, in writing, that confirm certain information is true and correct.

Deed: A legal paper that transfers the ownership of a property. It is also known as a "warranty deed".

Title Abstract: The searching of information on a specific property for a given period of time.

Escrow Analysis: A statement that shows the activity that will likely occur over the next 12 months with the borrowers escrow account. It reflects deposits given and payments made throughout the year.

Prepaid Costs: Costs paid before they are due, usually to set up the escrow account. These costs are paid at the closing and are included in the HUD-1 settlement statement. Prepaid interest is one example of a prepaid cost.

Recording and Transfer Charges: Charges that must be paid for the recording of the mortgage and the transfer of the deed.

Closing: The final steps in the transfer of property ownership, which usually occurs at a formal meeting between the buyer, seller, settlement agent and, possibly, real estate agents.

Building Permit: A written permit that must be purchased from the local government by anyone doing remodeling or rehabilitation work on a property.

Contractor: An individual hired to build, remodel or rehabilitate a property.

Encroachment: A building, driveway, fence or other structure that extends over a legal property line or beyond the buildable space of the lot.

Home Improvement: Changes to a house that increase its value, such as modernizing a kitchen or adding a second bathroom to a three-bedroom home.

Liability Protection: Insurance that covers people (other than the insured homeowner) and their personal property in case of injury or damage while on the homeowner's property.

Remodeling: To rebuild and improve a house, often changing the house's layout or adding rooms.

Specifications: A detailed description of the size, shape, materials and other details of a building or remodeling project.

Zoning: A county or city law stating the types of use to which properties can be put in specific areas.

Homeowners Association: A group of homeowners within a defined community, neighborhood or complex who make decisions, pay to maintain and repair land and common areas and/or enforce community rules and covenants.

Appreciation: An increase in the value of a house due to changes in market conditions, home improvement or other factors.

Assessed Value: The value placed on a house by a public tax assessor for the purpose of determining property taxes.

Asset: Anything an individual owns that has commercial or exchange value.

Mortgage Payment: The total monthly loan payment that includes principal, interest, taxes and insurance (PITI).

Reserves: Money set aside for emergencies or repairs.
Homeowners Insurance: An insurance policy on a house and its contents that combines liability coverage and hazard insurance.

Mortgage Insurance (MI): A policy required by the lender if a borrower puts less than 20 percent cash down when buying a home with a conventional or FHA loan. It protects the lender from collateral risk in case of default. Also called "private mortgage insurance (PMI)" for conventional loans and "mortgage insurance premium (MIP)" for FHA loans.

Point: A fee that is 1 percent of the loan amount.

Property Tax: A tax charged by the local government and used to fund a variety of municipal services, such as of the property in exchange for forgiveness of the loan. Also called deed-in-lieu of foreclosure.

Default: Failure to meet financial obligations, which may result in the lender foreclosing on the loan.

Discounted Payoff: An agreement negotiated with a creditor that allows a borrower to pay less money than is actually owed to cease collection activities. Also called "settlement."

Due-On-Sale Clause: A provision in a mortgage allowing the lender to demand repayment in full if the borrower sells the property securing the mortgage.

First Mortgage: A home loan that has priority over the claims of subsequent lenders for the same property in the event of default.

Forbearance: An agreement by the lender to allow a delinquent borrower to skip one or more payments completely and make them up later through a payment plan.

Foreclosure: The legal process used to force the payment of debt secured by collateral whereby the property is sold to satisfy the debt.

Loan Modification: An agreement between a lender and a delinquent borrower that changes the terms of the loan.

Partial Claim: When the mortgage insurance company lends a borrower money to bring a loan current by making a second mortgage on the property.

Payment Plan: An agreement with a lender in which a borrower promises to make up any missed payments by sending one full payment and one partial payment each month until delinquent mortgage payments are caught up.

Preforeclosure Sale: When the lender agrees to allow a delinquent borrower to sell the house to avoid foreclosure.

Arbitration - The hearing and determining of a dispute or the settling of differences between parties by a person or persons chosen or agreed to by them.

Intermediary - A third party who facilitates a deal between two other parties.