GLOSSARY OF TERMS

Appreciation — The increase in a property's value over time.

ARM (Adjustable-Rate Mortgage) — A mortgage in which rate changes according to a formula specified in the loan document.

Closing Costs — The miscellaneous costs associated with closing. These typically include a loan origination fee and discount points, appraisal fee, other lender fees, escrow and title fees, and the first year's insurance premium.

Comparables — Properties that are similarly sized and have similar features to a subject property. By reviewing comparable properties, buyers and their agents can get an idea of a property's market value.

Deed — An official and public document that establishes property ownership.

Discount Points — A measure of interest; 1 point equals 1% of the home loan value. Home buyers may pay points up front, a type of buy-down, in order to lower their overall interest rate and mortgage payment.

Escrow Accounts (Impound Accounts) — Lender-established accounts through which a borrower makes payments and a lender takes deductions to cover the costs of the following: mortgage insurance premiums, property tax payments, and/or casualty insurance premiums. Escrow accounts are customary, especially where the LTV of an original loan exceeds 80%.

FICO — Created by Fair Isaac and Co., this mathematical scoring system is the major credit scoring model used to assess the relative risk of an individual borrower.

Fixed-Rate Loan — A loan in which the interest rate doesn't fluctuate but rather remains consistent for the life of the loan.

Good Faith Estimate — Provided by a mortgage lender or broker, this is a list of estimated fees and costs associated with a home loan. Your lender must, by law, give you this and other disclosures within 3 days of your application.

Interest Rate — The rate, which fluctuates according to various economic forces, that is the measure of the price at which money can be borrowed.

Interest Rate Lock — An assurance from a lender that an interest rate will not rise between the time a borrower locks in the terms of the loan and the time the loan closes.

Lien — A claim by one person or entity on the property of another. Commonly, this is security for money owed, created by the lender when you buy a property. Liens also include obligations not met or satisfied, judgments, unpaid taxes, materials, or labor.

Liquidity — The percentage of assets that can be quickly turned into cash. Liquidity is also a measure of the funds available for down payment, closing costs, and reserves.

Lock Period — Either 15, 30, 45, or 60 days, lock periods are set amounts of time during which the interest rates buyers have been promised cannot be made any higher.

Loan-to-Value (LTV) — A ratio that expresses the amount of a first mortgage lien as a percentage of a property's total appraised value. For example, if a borrower wants $100,000 to buy a home worth $120,000, the LTV ratio is $100,000/$120,000 or 83%.

Piggyback Transaction or Second Mortgage — Typically utilized by borrowers who wish to avoid paying private mortgage insurance (generally a requirement when a person makes a down payment of less than 20%), piggyback transactions or 80-10-10 mortgages as they are alternately called, are transactions by which two separate mortgages are originated at once. The first position lien has an 80% loan-to-value ratio and the second position lien has a 10% loan-to-value ratio. The remaining 10% is accounted for in the form of a down payment.

Pre-approval — A commitment from a lender stipulating how much money a person may borrow and under what terms and conditions.

Preliminary Title Report — Once escrow is opened, a preliminary title report is issued. This report provides buyers with information on a property's title and whether there are any easements, liens and encumbrances on a particular property.

Pre-qualification — An informal, but not binding assessment of how much money a person could potentially borrow from a lender. Pre-qualification is an opinion rather than a promise, and is thus different from pre-approval.

Principal — The balance of the loan outstanding. This is the amount upon which the interest payment is computed.

Private Mortgage Insurance — A form of insurance that lenders generally require when borrowers make down payments that are less than 20%; in other words, when their loan-to-value (LTV) percentage is greater than 80%.

GLOSSARY CONTINUED

Property Appraisal — A fair market value of property performed by a licensed appraiser; takes into account not only condition, but also the value of similar local properties or comparable sales.

Prorate — This refers to an adjustment made on a payment to account for unused service so that buyer and seller each pay their respective share of costs in proportion to the time in which they own the property.

Rate-vs-Fee — An inverse relationship exists between a mortgage interest rate and the upfront fees paid. When borrowers opt to pay more upfront, the lower the interest rate becomes. It is much better to buy down the rate if you are going to be in a home for more than five years.

Reserves — This refers to the amount of liquid assets that a borrower has after paying the down payment and closing costs.

Risk-Based Pricing — The higher the perceived risk, the higher the interest rate the borrower will pay.

Survey — A formal survey of property that establishes boundary lines and defines any types of limits on construction and other features that could affect the value of property; in many cases lenders require buyers to purchase a property survey.

Title — The official document used in the real estate industry that specifies at any one time who owns a piece of property.

Title Company — A title company typically handles all tasks associated with the property title, including insurance and search.

Title Insurance — Insurance taken out on the property title that protects both borrower and lender in the event of a title dispute.

Title Search — Research on a property title usually conducted by a title company to determine if there exist any outstanding liens against the property prior to a sales transaction.

Underwriter — The company or service that evaluates a borrower's creditworthiness prior to loan and mortgage approval.

Warranty Deed — Indicates no past liens or disputes against the property; the holder of the property deed has the right to sell it to another.

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