

## GLOSSARY OF TERMS FOR PROSPECTIVE HOMEBUYERS

**Adjustable Rate Mortgage (ARM)** – A mortgage loan with an interest rate that may change periodically as a pre-determined index increases or decreases.

**Annual Percentage Rate (APR)** – The cost of credit expressed as a yearly percentage rate, including items such as base interest rate, mortgage insurance, origination fee, etc.

**Appraisal** – An opinion of the value of a property provided by a certified appraiser. This is the value that lenders use to determine the amount of the mortgage or cooperative loan they are willing to make on a property.

**Closing Costs** – Costs to both the buyer and seller associated with the purchase, sale or refinance of a home. Examples of closing costs include survey cost, points, mortgage insurance, mortgage tax, title insurance, recording fee, attorney's fee and escrow for insurance and taxes. Also called Settlement Costs.

**Co-Borrower** – In addition to the borrower, a co-borrower signs a loan note and is equally liable for repayment of the funds. Also referred to a 'co-signer', 'co-applicant' or 'co-maker'.

**Commitment** – A written offer by a lender stating the terms under which it agrees to loan money to a homebuyer.

**Condominium** – A form of property ownership in which the homeowner has title to an individual unit and shares an undivided interest in the development's common area.

**Contract of Sale** – Contract in which seller agrees to sell and buyer agrees to buy under certain specific terms and conditions spelled out in writing and signed by both parties. Also called a Purchase Agreement.

**Cooperative (Co-op)** – A type of property ownership in which the residents of a multi-unit housing complex own shares in a corporation that owns the property. A proprietary lease is given to each resident shareholder permitting occupancy of a specific unit.

**Credit Report** – A report on an applicant's credit history compiled by a credit reporting bureau for the purpose of determining the overall creditworthiness of the applicant.

**Debt-to-Income Ratio** – A ratio, expressed as a percentage, comparing monthly debt to gross monthly income. Used by the lender to evaluate the applicant's ability to repay a loan.

**Discount Points** – A fee paid to the lender for processing a mortgage or cooperative loan.

**Down Payment** – The part of the purchase price that the buyer pays to the seller to bind a sale upon signing a contract.

**Escrow Funds** – Monies held by the lender on the borrower's behalf to pay for items such as taxes, mortgage insurance, hazard insurance, etc.

**Fixed Rate Mortgage** – A mortgage in which the interest rate does not change during the entire term of the loan.

**Flood Insurance** – Insurance that provides coverage for property damage caused by flooding. It is required for properties located in federally designated flood areas.

**Hazard Insurance** – Insurance that provides coverage for a loss on a specific property due to damages caused by fire, vandalism, theft, storms and certain other natural disasters.

**Homeowners' Insurance** – Insurance that provides personal liability and hazard insurance coverage for a dwelling and its contents.



**Interim Interest** – Interest calculated from the funding date of the loan to the first day of the payment cycle at the same rate as the loan notes.

**Lien** – A legal claim against the property or the applicant.

**Lien Search** – A review of public records to determine if there are any claims against the property that must be satisfied, i.e.: paid-in-full, prior to transfer of ownership.

**Loan-to-Value Ratio (LTV)** – The relationship between the unpaid principal balance of the mortgage and the appraised value (or sales price if it is lower) of the property.

**Mortgage** – A legal document that pledges a property as security for payment of a debt.

**Mortgagee** – The lender.

**Mortgagor** – The borrower.

**Mortgage Insurance** – Insurance provided to lenders to protect against loss if a borrower defaults. It is generally required for loans with LTVs greater than 80%. Also called ‘Private Mortgage Insurance (PMI).’

**PITI** – This stands for Principal, Interest, Taxes and Insurance that are the parts of a monthly mortgage payment.

**Point** – One point is equal to 1% of the loan amount.

**Principal** – Amount of debt not including interest. The face value of a note or mortgage.

**Private Mortgage Insurance (PMI)** – see ‘Mortgage Insurance.’

**Purchase Agreement** – See ‘Contract of Sale’.

**Refinance** – The process of paying off the unpaid balance of an existing loan and replacing it with a new loan on the same property.

**Settlement Costs** – See ‘Closing Cost’.

**Survey** – A drawing or a map, showing the legal boundaries of a property, its improvements, legal rights affecting the property and other physical features.

**Three/Two (3/2) Option** – Financing options that allow the borrower to make a 5% down payment using 3% of his/her own funds, with the remaining 2% coming from any of the following: a gift from a relative, a grant, an unsecured loan from a non-profit organization or a federal, state or local government program. This option is only available on 1-family houses and condominiums.

**Title** – The legal evidence of right to ownership of a property.

**Title Insurance** – Insurance to protect the lender and/or the borrower against losses arising from disputes over ownership of property.

**Title Search** – A review of the records to ensure that the seller is the legal owner of the property and that there are no liens or other claims outstanding.

**Truth-In-Lending Act** – A federal law that requires lenders to fully disclose, in writing, the terms and conditions of a mortgage, including the APR and other charges.