

Real Estate Terms – What Do They All Mean?



Adjustable-Rate Mortgage (ARM): A loan on which the monthly payments will increase or decrease over time, based on changes in the ARM's interest rate index. ARM payments typically are adjusted every six months or once a year. Common indices to which ARMs are tied include the 11th District Cost of Funds, one-year T-note and six-month T-bill.

Amortization: The gradual repayment of a mortgage through monthly (e.g., installment) payments. In the early years of a mortgage,

most of the monthly payment goes toward interest. Later in the mortgage, more of the payment goes toward reducing the loan's principal balance.

Annual Percentage Rate (APR): The annual cost of a mortgage, including interest, loan fees and other costs, stated as a percentage of the loan amount.

Appraisal/Appraised Value: An opinion of the market value of a home expressed by a real estate appraiser.

Arbitration: The term used to describe a form of dispute resolution that occurs outside of the court system. Basically, arbitration is a dispute resolution system where the parties submit arguments and evidence to a neutral person, known as the arbitrator, who then renders a decision, called an award, based upon the evidence and arguments presented.

Caps: Provisions of an ARM limiting how much the interest rate can change at each adjustment period (e.g., every six months, once a year) or over the life of the loan (rate cap). A payment cap limits how much the payment due on the loan can increase or decrease.

Closing: The meeting at which a home sale is finalized. The buyer signs the mortgage, pays closing costs and receives title to the home. The seller pays closing costs and receives the net proceeds from the home sale.

Closing Costs: Expenses in addition to the price of the home incurred by buyers and sellers when a home is sold. Common closing costs include escrow fees, title insurance fees, document recording fees and real estate commissions.

Conventional Mortgage: A loan not guaranteed, insured or made by the federal or state government.

Debt-to-Income (DTI) Ratio: The ratio of monthly debt payments to monthly gross income. Lenders use a housing DTI ratio (house payment divided by monthly income)

and a total DTI ratio (total debt payments including the house payment divided by monthly income) to determine whether a borrower's income qualifies him or her for a mortgage.

Deed: A legal document conveying ownership of property.

Downpayment: The portion of the home's purchase price the buyer pays in cash.

Earnest Money: The deposit given by a buyer to a seller to show that the buyer is serious about purchasing the home. Earnest money usually is refundable to homebuyers in the event a contingency of the sales contract cannot be met.

Equity: The difference between a home's value and the mortgage amount owed on the home.

Escrow: The holding of documents and money by a neutral third party prior to closing.

Fannie Mae (the Federal National Mortgage Association) and Freddie Mac (the Federal Home Loan Mortgage Corporation): Government-sponsored, privately owned entities which purchase mortgages from lenders and turn the mortgages into securities which are bought by investors. Fannie Mae and Freddie Mac are the key secondary mortgage market agencies.

Fixed-Rate Mortgage (FRM): A loan on which the interest rate and monthly payment do not change.

Hazard Insurance: A policy which protects against the damage to a property caused by fire, wind or other hazards.

Homeowner's Warranty: A policy that covers certain repairs (e.g., plumbing or heating) of a newly purchased home for a certain period of time.

Impound Account: An account established by a lender to collect a borrower's property tax and insurance payments. Impound accounts are normally required on mortgages with down payments of 10 percent or less.

Loan-To-Value (LTV) Ratio: The ratio of the amount of money owed on a home to the home's value. The LTV ratio for a \$100,000 home financed with a \$90,000 mortgage would be 90 percent, for example.

Mediation: A process used to resolve disputes. In mediation, the parties to the dispute are assisted by a neutral third person called a mediator. The mediator is not empowered to impose a settlement or decision on the parties, rather the mediator facilitates discussions and negotiation between the parties with the goal of assisting the parties in reaching a mutually acceptable settlement of their dispute.

Mortgage Banker: A company which originates mortgages for sale into the secondary mortgage market (e.g., to Fannie Mae and Freddie Mac).

Mortgage Broker: An individual or company that arranges mortgage financing between a borrower and a lender.

Mortgage Interest Deduction: The ability of mortgage borrowers to deduct the interest paid on a home loan for purposes of federal and state income taxes.

Origination Fee: A fee charged by a lender for making a mortgage.

PITI: Principal, interest, taxes and insurance -- the primary components of a monthly mortgage payment.

Points: One point equals 1 percent of the mortgage amount. Points are charged by lenders to increase the lender's return on the mortgage. Typically, lenders may charge anywhere from zero to two points. Loan points are tax deductible.

Principal: The loan amount borrowed or still owed.

Private Mortgage Insurance (PMI): Insurance issued by private insurers which protects lenders against a loss if a borrower defaults on a mortgage with a low downpayment (e.g., less than 20 percent).

REALTOR: A real estate broker or agent who, as a member of a local Board/Association of REALTORS, a state association of REALTORS and the NATIONAL ASSOCIATION OF REALTORS, adheres to high standards of professionalism and a strict code of ethics.

Seller Financing: A financing agreement in which a seller provides part (or all) of the financing needed by a buyer to purchase the seller's home.

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

Title Insurance: Insurance to protect the buyer and lender against losses arising from disputes over the ownership of a property.

Underwriting: The process of evaluating a loan application to determine if it meets the lender's standards.