

Glossary of Terms

Amortization: A loan repayment plan, which enables the borrower to reduce his debt gradually through monthly payments of principal and interest.

Appraisal: An analysis performed by a qualified individual to determine the estimated value of a home.

APR: To make it easier for consumers to compare mortgage loan interest rates the federal government developed a standard format, called an "Annual Percentage Rate" or APR, to provide an effective interest rate for comparison shopping purposes.

APY: Annual percentage yield (APY) is a normalized representation of an interest rate, based on a compounding period of one year.

Arm Rate: An ARM (adjustable rate mortgage) is a loan type that allows the lender to adjust the interest rate during the term of the loan.

Bank owned property: A property that has reverted to the mortgage lender after the home fails to sell in a foreclosure auction.

Closing costs: The total of all the items that must be paid at closing related to your new mortgage.

Debt to income ratio: Total minimum monthly debt divided by your gross monthly income.

Earnest money: A sum of cash paid to a seller by a buyer prior to the closing to show that the buyer is serious about buying the house.

Escrow: Funds paid by one party to another to hold until a specific date when the funds are released to a designated individual.

FHA Mortgage: A mortgage insured by the Federal Housing Administration (FHA). FHA loans are also known as government mortgages.

Fixed Rate: A type of mortgage in which the monthly principal and interest payments remain the same throughout the life of the loan.

For sale by owner (FSBO): The process of selling real estate without the representation of a real estate broker or real estate agent.

HUD-1 Settlement Statement: The document that provides line by line detail of the financial details related to a specific real estate transaction such as the fees paid by the seller and the buyer for a purchase transaction or the fees paid by the borrower for refinances.

Inspection: Examination of property's condition.

Lien: An encumbrance against a property for money due.

Origination fee: A fee charged by a lender as a way to cover processing expenses or to increase profitability for originating a mortgage loan.

Points: Fees that are collected by the lender in exchange for a lower interest rate.

Preapproval: Procedure to determine how much money a potential homebuyer will be eligible to borrow prior to actually applying for a loan.



Principal balance: The outstanding balance of principal on a loan.

Private Mortgage Insurance: Insurance provided by a private company to protect the mortgage lender against losses that might be incurred if a loan defaults. The cost of the insurance is usually paid by the borrower and is most often required if the loan amount is more than 80% of the home's value.

Promissory note: A written promise to pay a specified amount to a specified person over a period of time.

Purchase agreement: A written contract signed by the buyer and seller stating the terms and conditions under which a property will be sold.

Title insurance: An insurance policy that protects the lender against loss due to disputes over the ownership of a property and defects in the title that were not found in the search of the public record.

VA Loan: A mortgage for veterans and service persons. The loan is guaranteed by the Department of Veterans Affairs (VA) and requires low or no down payment.

Variable Rate: A type of home loan in which the interest rate is not fixed.

