

Real Estate Terminology

ADJUSTABLE RATE MORTGAGE

Type of mortgage in which the interest rate applied on the outstanding balance varies throughout the life of the loan. The initial rate is fixed but after a certain amount of time it resets periodically.

ANNUAL PERCENTAGE RATE

This is the annual rate charged for borrowing or earned through an investment, and is expressed as a percentage that represents the actual yearly cost of funds over the term of a loan.

APPRAISAL

Evaluation by a qualified appraiser to assess the current market value of a property, estimate the extent of damage to an insured property and cost of repairs, or determine if a total loss occurred.

BUY DOWN

A buydown is a mortgage-financing technique with which the buyer attempts to obtain a lower interest rate for at least the first few years of the mortgage, but possibly its entire life.

CLOSING COSTS

These are expenses over and above the price of the property in a real estate transaction. These include loan origination fees, discount points, appraisal fees, title searches, title insurance, surveys, taxes, etc.

CONVENTIONAL MORTGAGE LOAN

Is a home loan that isn't guaranteed or insured by the federal government and conforms to the loan limits set forth by Freddie Mac and Fannie Mae. It can be at a fixed or adjustable rate.

ESCROW

An item of value, money, or documents deposited with a third party to be delivered upon the fulfillment of a condition. For example, the earnest money deposit is put into escrow until delivered to the seller.

FORECLOSURE

The legal process by which a borrower in default under a mortgage is deprived of his/her interest in the mortgaged property. This usually involves a forced sale of the property at a public auction.

LIEN

A lien is an encumbrance on property which acts as security for the payment of a debt or the performance of an obligation. A lender will want most liens on a property removed before making a mortgage loan.

LOAN-TO-VALUE RATIO

Is the mortgage amount divided by the lower of the purchase price or the appraised value of the property. A lender will use this ratio in determining the maximum mortgage loan that it will make.

MORTGAGE

A mortgage is a pledge of real estate collateral to secure a debt. Also, it is a legal document describing and defining the pledge. The mortgage may also include the terms of repayment of the debt.

MORTGAGE BROKER

A real estate professional who represents an array of banks seeking to issue mortgages. The mortgage broker meets with a customer, assists with the application, and facilitates the process with the bank.

PRE-APPROVAL

Is a process in which a conditional commitment is issued after a loan profile is underwritten with all standard documentation except a property appraisal and a title search.

PRE-QUALIFICATION

A pre-qualification is a process in which a loan officer calculates the housing-to-income ratio and the total debt-to-income ratio to determine an approximate maximum mortgage loan amount.

REAL ESTATE BROKER

A real estate broker is an individual employed on a fee or commission basis as an agent to bring buyers and sellers together and assist in negotiating real estate contracts between them.