

Putting You in the Driver's Seat

When it comes to buying a home in the country, knowledge helps you feel secure throughout each step of the home buying process. We've put together a list of the terms and definitions that will make it easier for you to understand the home buying process.

Abstract — summarized history of the legal title to property, shows changes of title, records of liens and encumbrances.

Assumable Mortgage — a loan that can be transferred from the existing owner to the new owner.

Accrued Interest — the amount of interest due since the last payment.

Adjustable-Rate Mortgage Loan (ARM) — a mortgage in which the interest rate changes periodically according to a predetermined index.

Agreement of Sale (Purchase Contract, Purchase Agreement, Sales Agreement) — a written document by which a Buyer agrees to buy and a Seller agrees to sell a property.

Amortization — the payment of a debt in equal installments that results in the retirement of the debt.

Amortization Schedule — a list of each payment due on a mortgage loan, which shows the amount applied to the principal, the amount applied to interest, and the remaining principal balance.

Annual Percentage Rate (APR) — a percentage of the amount of the home loan that represents the total annual cost of the loan, including finance charges.

Application — the forms used and the process of asking for a home loan.

Appraisal — the report made by a qualified person, in which he gives his opinion as to the value of a property.

Appreciation — an increase in the value of real estate (property).

Balance Sheet — a statement of assets, liabilities and net worth.

Balloon Mortgage — a mortgage with monthly payments that are made for a certain period of time, at the end of which, the remaining balance is due.

Cap — a limit on the maximum that interest rates can rise on a variable-rate mortgage (ARM) during a specified period and over the life of the loan.

Closing Disclosure — Real Estate Settlement and Procedures Act is a law that requires the lender to disclose information to the borrower.

Closing/Settlement — the conclusion of the transfer of ownership on a property.

Closing Costs — charges paid at settlement to obtain a mortgage loan and transfer real estate title, usually in addition to the price of the home. Be sure your sales contract clearly states who-buyer or seller-will pay closing costs and what they will be.

Credit Report — a report carried out by a credit reporting agency and used by the lender to determine whether an applicant is eligible for credit.

Deed of Trust — in some states, the instrument used in place of a mortgage.



Depreciation — the loss of value in real estate (property).

Discount or Discount Points or Points — a single charge imposed by the lender to adjust the interest rate of the loan to the required yield.

Down Payment — the portion of the amount for the purchase of real estate that is given in cash and in advance by the borrower.

Earnest Money or Good Faith Deposit — a sum paid to a seller by a potential buyer to demonstrate that the buyer is serious. If a contract is executed, the earnest money is returned with deductions for processing charges, paperwork, etc. Make sure you know the terms of your contract.

Escrow — an item of value, money, or documents deposited with a third party to be delivered upon the fulfillment of a condition; i.e., the deposit of funds or documents with an attorney or escrow agent to be disbursed upon the closing of a sale of real estate.

First Mortgage — a mortgage having priority over all other liens.

Homeowner's (or Hazard) Insurance — an insurance policy whereby, for a premium, an insurer agrees to insure a property in case of a loss.

Interest — the cost paid by a borrower for use of money borrowed to purchase a home.

Judgment Lien — a judgment by the court and placed as a lien against a property.

Loan Estimate — outlines the costs of a loan and discloses the APR and other terms of the loan, including the finance charge, the amount financed, the payment amount, and the total payments required. The lender is required to present the final version at or prior to the closing meeting. Itemizes the charges to the buyer and the seller and shows how the money gets paid out.

Loan-To-Value Ratio — the relationship between the value of property and the loan amount.

Loss Payee Clause — the clause in an insurance policy indicating who is to be paid in the event of a loss.

Margin — the percentage a lender adds to the index rate to determine the new interest rate.

Maturity — the due date of a note.

Mortgage — a legal document that serves as a security for payment of a debt.

Mortgage Note — a written promise to repay a stated amount of money at a stated interest rate over a stated period of time.

Origination Fee — a fee charged by a lender to cover the cost of the process of making a mortgage loan.

PITI — the acronym for Principal, Interest, Taxes and Insurance, usually the four parts of your monthly mortgage payment.

Points — a point is a one-time assessment charge of one percent of the mortgage value. May be required by the lender, to increase the interest yield from the mortgage loan to a position competitive with the interest yield from other types of investment.

Principal — amount of money borrowed in mortgage loan, excluding interest or other charges.

Private Mortgage Insurance (PMI) — Insures the lender against loss caused by the borrower's failure to make the payments.

Refinance — process of paying off one loan with the proceeds from a new loan using the same property as security.

Subordination — the act of acknowledging that a lien will have a position after a mortgage loan. This is accomplished by recording a Subordination Agreement.

Tax Lien — a lien against a property for unpaid taxes.

Title — evidence (usually in the form of a certificate or "deed") of a person's legal right to ownership property.

Title Insurance — a policy which protects the lender in the event of a loss due to a defect in the Title. The owner's policy protects the owner in this same way.