

Term Definitions

Adjustable Rate Mortgage (ARM) - *interest rates on this type of mortgage are periodically adjusted up or down depending on a specified financial index.*

Amortization - *a method of equalizing the monthly mortgage payments over the life of the loan, even though the proportion of principal to interest changes over time. In the early part of the loan, the principal repayment is very low, while the interest payment is very high. At the end of the loan, the relationship is reversed.*

Annual Percentage Rate - *the actual finance charge for a loan, including points and fees, in addition to the stated interest rate.*

Appraisal - *an expert opinion of the value or worth of a property.*

Assessed Value - *the value placed on property by a municipality for purposes of levying taxes. It may differ widely from appraised or market value.*

Balloon Payment - *a large principal payment due all at once at the end of some loan terms.*

Cap - *a limit on how much the interest rate can change in an adjustable rate mortgage.*

Certificate of Title - *a document, signed by a title examiner, stating that a seller to buyer and documents are recorded.*

Closing - *the deed to property is legally transferred from seller to buyer and documents are recorded.*

Closing Costs - *see "Settlement" or refer to "Settlement - who pays what?" in this guide.*

Commission - *a fee (usually a percentage of the total transaction) paid to an agent or broker for services performed.*

Comparative Market Analysis (CMA) - *a survey of attributes and selling process of comparable homes on the market or recently sold; used to help determine a correct pricing strategy for a seller's property.*

Contingency - *a condition in a contract that must be met for the contract to be binding.*

Contract - *a binding legal agreement between two or more parties that outlines the conditions for the exchange of value (for example: money exchanged for title to property).*

Deed - a legal document that formally conveys ownership of the property from seller to buyer.

Down Payment - a percentage of the purchase price that the buyer must pay in cash and may not borrow from a lender.

Equity - the value of the property actually owned by the homeowner: purchase price, plus appreciation, plus improvements, less mortgage and liens.

Escrow - a fund or account held by a third-party custodian until conditions of a contract are met.

Fixed Rate Mortgage - interest rates on this type of mortgage remain the same over the life of the loan. Compare to "adjustable rate mortgage."

Fixture - a recognizable entity (such as a kitchen cabinet, drape or light fixture) that is permanently attached to property and belongs to the property when it is sold.

Hazard Insurance - compensates for property damage from specified hazards such as fire and wind.

Interest - the cost of borrowing money, usually expressed as a percentage rate.

Lien - a security claim on property until a debt is satisfied.

Listing Contact - an agreement whereby an owner engages a real estate company for a specified period of time to sell property, for which, upon sale, the agent receives commission.

Market Value - the price that is established by present economic conditions, location and general trends.

Market Price - the actual price at which property is sold.

Mortgage - security claim by a lender against property until the debt is paid.

Multiple Listing Service (MLS) - a system that provides to its members detailed information about properties for sale.

Origination Fee - an application fee(s) for processing a proposed mortgage loan.

PITI - principle, interest, taxes and insurance, forming the basis for monthly mortgage payments.

Point - *one percent of the loan principle. It's charged in addition to interest and fees.*

Prepayment Penalty - *a fee paid by a borrower who pays off the loan before it is due.*

Principle- *one of the parties to a contract; or the amount of money borrowed, for which interest is charged.*

Probate- *divide or assess proportionately.*

Purchase & Sale Agreement-

see "Contract," or refer to "Purchase and sale agreement" in this guide.

Settlement- *all financial transactions required to make the contract final. See "Settlement - who pays what" in this guide.*

Title- *a document that indicates ownership of a specific property.*

Title Search- *detailed examination of the entire document history of a property title to make sure that there are no legal encumbrances.*