# Homebuying Glossary

Escrow? Title insurance? Earnest money? The homebuying process is full of terms like these that we don’t use in everyday conversation. Use this glossary to get familiar with some of the most common words and phrases you’ll hear on your journey to homeownership.

<table>
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<th>A</th>
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<tr>
<td><strong>Adjustable Rate Mortgage (ARM)</strong></td>
<td><strong>Balloon Payment</strong></td>
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<td>A mortgage loan with an interest rate that can change at any time, usually in response to the market or Treasury Bill rates. These types of loans usually start off with a lower interest rate comparable to a fixed-rate mortgage.</td>
<td>A balloon payment is a larger-than-usual one-time payment at the end of the loan term. If you have a mortgage with a balloon payment, your payments may be lower in the years before the balloon payment comes due, but you could owe a big amount at the end of the loan.</td>
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<td><strong>Annual Percentage Rate (APR)</strong></td>
<td><strong>Bankruptcy</strong></td>
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<td>The APR includes the interest rate as well as other fees that will be included over the life of the loan (closing costs, fees, etc.) and shows your total annual cost of borrowing. As a result, the APR is higher than the simple interest of the mortgage. That’s why it’s always important when comparing lenders to look at the APRs quoted and not just the interest rate.</td>
<td>A legal proceeding in federal court in which a debtor seeks to restructure his or her obligations to creditors pursuant to the Bankruptcy Code. This generally affects the borrower’s personal liability for a mortgage debt, but not the lien securing the mortgage.</td>
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<td><strong>Appraiser</strong></td>
<td><strong>Bond</strong></td>
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<td>A person qualified by education, training, and experience to estimate the value of real and personal property.</td>
<td>A type of debt, similar to an IOU. When you buy a bond, you’re lending to the issuer, which may be a government, municipality, or corporation. The issuer promises to pay you a specified rate of interest during the life of the bond and to repay the principal—also known as the bond’s face value or par value—when the bond “matures,” or comes due after a set period.</td>
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<td><strong>Appreciation</strong></td>
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<td>An increase in value of property for any reason, except inflation.</td>
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Condo Fees
Amounts paid, usually monthly, by unit owners to meet daily operating costs as well as contributions to the required reserve fund. Condo fees are not included in your monthly mortgage payment and must be paid directly to the condo/homeowners association, usually through a professional management company. It is important to understand what is and is not included in the fees, as it varies from condo to condo.

Conventional Financing
In real estate, mortgage financing that is not insured or guaranteed by a government agency such as HUD/FHA, VA, or the Rural Housing Service.

Credit Bureau
An institution that for a fee provides historical credit records of individuals provided to them by creditors subscribing to their services.

Credit Report
A credit report is a statement that has information about your credit activity and current credit situation such as loan-paying history and the status of your credit accounts.

Credit Score
A credit score predicts how likely you are to pay back a loan on time. Companies use a mathematical formula—called a scoring model—to create your credit score from the information in your credit report. There are different scoring models, so you do not have just one credit score. Your scores depend on your credit history, the type of loan product, and even the day it was calculated.

Debt-to-Income Ratio (DTI)
Your debt-to-income ratio is all your monthly debt payments divided by your gross monthly income.
**Deed**
A legal document under which ownership of a property is conveyed.

**Department of Veterans Affairs (VA)**
The Department of Veterans Affairs runs programs benefiting veterans and members of their families. It offers education opportunities and rehabilitation services and provides compensation payments for disabilities or death related to military service, home loan guaranties, pensions, burials, and health care that includes the services of nursing homes, clinics, and medical centers.

**Depreciation**
A sum representing presumed loss in the value of a building or other real estate improvement, resulting from physical wear and economic obsolescence.

**Discount Point**
Amount payable to the lending institution by the borrower or seller to increase the lender’s effective yield. It may represent a payment for services rendered in issuing a loan or additional interest to the lender payable in advance. One point is equal to 1 percent of the loan.

**Down Payment**
The amount of cash a borrower may need to pay in order to buy a piece of property; equal to the purchase price minus the amount of any mortgage loans used to finance the purchase.

**Earnest Money**
You typically will need to pay what’s called “earnest money” which shows the seller you are serious about buying the home. Think of earnest money as a deposit you are providing the seller (usually around $500 - $1,000 or a certain percentage of the offer price) that will be applied to the purchase once the contract is finalized.

**eClosing**
An eClosing is the act of closing a mortgage loan electronically. This occurs through a secure digital environment where some or all of the closing documents are accessed and executed electronically. This can be a hybrid process in which certain key documents, such as the promissory note and security instrument, are printed to paper and wet-signed, while other documents are signed electronically. eClosings result in eMortgages only if the promissory note is signed electronically.

**eMortgage**
The term “eMortgage” generally refers to the use of electronic processes and signatures in the mortgage production process. Specifically, it refers to electronically signed closing documents paired with an original electronic promissory note (eNote) signed on an eClosing platform and registered with the MERS eRegistry® upon execution. The terms “electronic mortgage,” “electronic mortgage loan,” “eMortgage” and “eMortgage loan” have the same meaning.

**Equity**
Ownership interest in a property. This is the difference between the home’s market value and the outstanding balance of the mortgage loan (as well as any other liens on the property).

**Escrow**
An account (held by the mortgage company or mortgage servicing company) whereby a homeowner pays money toward taxes and insurance of a home.

**Escrow Account**
The actual account where the escrow funds are held in trust.
to meet daily operating costs as well as contributions to the required reserve fund. HOA fees are not included in your monthly mortgage payment and must be paid directly to the homeowners association, usually through a professional management company. It is important to understand what is and is not included in the fees, as this varies from association to association.

**Homeowners Insurance**
Covers a home’s structure and the personal belongings inside in the event of loss or theft; helps pay for repairs and replacement.

**Interest Rate**
A percentage of a sum borrowed that is charged by a lender or merchant for letting you use its money. A bank or credit union may also pay you an interest rate if you deposit money in certain types of accounts.

**Hazard Insurance**
Insurance coverage that pays for the loss or damage on a person’s home or property (due to fire, natural disasters, etc.). This is usually added as a supplement to homeowners insurance.

**Home Appraisal**
A written estimate or opinion of a property’s value prepared by a qualified appraiser.

**Home Purchase Price**
The final selling price of a home.

**Homeowners Association (HOA) Fee**
Amounts paid, usually monthly, by unit owners
Pre-qualification
With pre-qualification the lender provides the mortgage amount for which you may qualify. Pre-qualifying can help give you an idea of your financing amount (and the process is usually quick and free), but you won’t know if you actually qualify for a mortgage until you get pre-approved.

Principal
The amount a person borrows from a lender (also referred to as “amount financed”).

Promissory Note
A legally binding document stating that the borrower promises to repay the lender for the full loan amount plus interest.

Property Taxes
The amount individuals pay to their local city/municipality and sometimes county, based on the value of their property.

Pre-approval
Pre-approval is a bigger step than pre-qualification, but it is a better commitment from the lender. This involves completing a mortgage application and providing the lender with your income documentation and personal records. If you qualify for a mortgage, the lender will be able to provide the amount of financing and the potential interest rate (you might even be able to lock in the rate). You’ll be able to see an estimate of your monthly payment (before taxes and insurance because you haven’t found a property yet).

Secured Card
Credit card that typically requires a cash security deposit. The larger the security deposit, the higher the credit limit. Secured cards are often used to build credit history.
Title
The documented evidence that a person or organization has ownership of real property.

Title Company
An agency that works with all parties involved in a real estate transaction to research and insure the title of the home you’re buying, facilitate the loan closing, and ensure that the transfer of ownership is completed and recorded properly.

Title Insurance
Insurance through a title company to protect a property owner or lender from loss if title proves imperfect.

Title Search
A process whereby the title company retrieves and examines public records that document the history of a property to confirm its legal ownership.

Townhome
A townhouse, or townhome, is a house that has two or three levels and that is attached to a similar house by a shared wall.

Underwriting
In mortgage banking, the analysis of the risk involved in making a mortgage loan to determine whether the risk is acceptable to the lender. Underwriting involves the evaluation of the property as outlined in the appraisal report and of the borrower’s ability and willingness to repay the loan.

Unsecured Credit Card
A credit card with no security deposit required.