

# GLOSSARY

These definitions are to acquaint the seller and home buyer with terms commonly used in real estate transactions. These terms are intended to be general and brief and are not complete and wholly accurate when applied to all possible uses of the term. Please consult Judi Hartwell your REALTOR® for more information or questions regarding these terms.

**Adjustable Rate Mortgage (ARM):** A mortgage with an interest rate that changes over time in line with movements in the Index.

**Adjustment Period:** The length of time between interest rate changes on an ARM. For example, a loan with an adjustment period of one year is called a one year ARM, which means that the interest rate can change once a year.

**Amortization:** Repayment of a loan in equal installments of principal and interest rather than interest only payments.

**Annual Percentage Rate (APR):** The total finance charge (interest, loan fees, points expressed as percentage of the loan amount).  
**Assumption of Mortgage:** A buyer's agreement to assume the liability under an existing note that is secured by a mortgage or deed of trust. The lender must approve the buyer in order to assume the loan.

**Beneficiary:** Lender.

**Cap:** The limit on how much an interest rate or monthly payment can change, either at each adjustment or over the life of the mortgage.

**CC&R's:** Covenants, Conditions and Restrictions. A document that controls the use, requirements and restrictions of a property.

**Certificate of Reasonable Value (CRV):** A document that establishes the maximum value and loan amount for a VA guaranteed loan.

**Closing Statement:** The financial disclosure statement that accounts for all of the funds received and expected at the closing, including deposits for taxes, hazard insurance and mortgage insurance.

**Contingency Clause:** A provision in some ARM's that allows the ARM to convert to a fixed rate loan. The new fixed rate is generally set at the prevailing interest rate for fixed rate mortgages. This conversion feature may cost extra.

**Due on Sale Clause:** An acceleration clause that requires full payment of a mortgage or deed of trust when the secured property changes ownership.

**Earnest Money:** The portion of the down payment delivered to the seller or escrow agent

by the purchaser with a written offer as evidence of good faith.

**Fannie Mae:** Once known as Federal National Mortgage Association (FNMA): A privately owned corporation created by Congress to support the secondary mortgage market. It purchases and sells residential mortgages insured by FHA or guaranteed by VA as well as conventional home mortgages.

**Fee Simple:** An estate in which the owner has unrestricted power to dispose of the property as he wishes including leaving by will or inheritance. It is the greatest interest a person can have in real estate.

**Finance Charge:** The total cost a borrower must pay, directly or indirectly, to obtain credit according to Regulation Z.

**Graduated Payment Mortgage:** A residential mortgage with monthly payments that start at a low level and increase at a predetermined rate.

**Home Inspection Report:** A qualified inspector's report on a property's overall condition. The report usually includes an evaluation of both the structure and mechanical systems.

**Home Warranty Plan:** Protection against failure of mechanical systems with the property. Usually includes plumbing, electrical, heating systems and installed appliances.

**Index:** A measure of interest rate changes in an ARM's interest rate over the term of the loan..

**Joint Tenancy:** An equal, undivided ownership of property by two or more persons. Upon death of any owner, the survivors take the decedent's interest in the property.

**Lien:** A legal hold or claim on property as security for a debt or charge.

**Loan Commitment:** A written promise to make a loan for a specified amount on specific terms.

**Loan to Value Ratio:** The relationship between the amount of the loan on the property expressed as a percentage of appraisal value.

**Margin:** The number of percentage points the lender adds to the index rate to calculate the ARM interest rate at each adjustment.

**Negative Amortization:** Occurs when monthly payments fail to cover the interest cost. The interest that isn't covered is added to the unpaid principal balance, which means that even after several payments you could owe more than you did at the beginning of the loan. Negative Amortization can occur when an ARM has a payment cap that results in monthly payment that aren't high enough to cover the interest.

**Origination Fee:** A fee or charge for establishing a new loan.

**PITI:** Principal, interest, taxes and insurance.

**Point:** An amount equal to 1% of the principal amount of the investment or note.

**Prepayment Penalty:** A fee charged to a mortgagor who pays a loan before it is due.

**Private Mortgage Insurance (PMI):** Insurance written by a private company protecting the lender against loss if the borrower defaults on the mortgage.

**Purchase Agreement:** A written document in which the purchaser agrees to buy certain real estate and the seller agrees to sell under stated terms and conditions. Also called a sales contract, earnest money contract or agreement for sale.

**REALTOR®:** A real estate broker or associate active in a local real estate board affiliated with the National Association of Realtors.

**Tenancy in Common:** A type of joint ownership of property by two or more persons with no rights of survivorship.

**Title Insurance Policy:** A policy that protects the buyer, mortgagee or other party against losses.

**VA Loan:** A loan that is guaranteed by the Veterans Administration and made by a private lender.