HOME BUYING AND FINANCING TERMS

Adjustable Rate Mortgage (ARM). A Mortgage on which the interest rate may be adjusted up or down based upon a change in a readily verifiable index. Rate adjustments may be implemented through changes in the payment amount, in the outstanding loan balance or in the term of the loan.

Agreement of Sale. Known by several names ("contract of purchase," "purchase and sale agreement", "binder") according to area. A contract in which a seller agrees to sell and a buyer agrees to buy, under certain specific terms and conditions reduced to writing and signed by all parties.

Amortization. Repayment of a loan through a predetermined schedule of payments of principal and interest. At the maturity of the loan, both principal and interest are completely paid.

Appreciation. An increase in the value of a property due to a rise in its market price, appraised value, or other measure of current value.

Appraisal. A written estimate of the value of real estate as of a given date always performed by an appraiser. Assessment The value placed on property for purposes of taxation; may also refer to a tax due for a specific purpose, such as a sewer assessment. This also refers to fees charged by a homeowner's association.

Balloon payment. The final payment on a loan, usually substantially larger than previous payment, because the payments were not large enough to fully amortize the loan.

Bill of sale. An instrument which transfers title to personal property.

Bridge loan. A short-term loan on one property that is applied toward the purchase of another property prior to the sale of the first property. Used when a buyer needs the proceeds of a sale before purchasing another property.

Buy-down. Funds paid or set aside at closing to supplement a buyer's monthly payment of interest of the loan. Buy-downs may be temporary (for a period of time) or permanent (for the life of the loan).

Cap. The limitation on the amount by which either interest rates or payments can change at any single adjustment interval (or over the term) of an adjustable rate mortgage loan.

Closing. The final step in the sale of a property, when the title is transferred from the seller to the buyer, the mortgage(s) are signed (if any) and the money due the seller is handed over.

Closing costs. Also known as settlement costs, they are the costs incurred in the purchase of a home and usually include (but are not limited to) a mortgage origination fee, underwriting fee, tax service and lender' title insurance (if applicable); recording fees, intangible tax on the amount of the mortgage (paid to the State of Georgia), and closing attorney's fee. Pre-paid items such as real estate taxes and homeowner's insurance (escrow account items) are not considered closing costs. Owner's title insurance is an optional cost for the buyer.

Closing statement. The computation of financial adjustments as of the day of closing to determine the net amount of money due to seller to complete purchase of the real estate. Also known as a "HUD I" or "HUD statement".

Conventional loan. A mortgage loan not insured by FHA or guaranteed by VA.

Credit rating. A rating made by a company (such as a credit bureau) based upon one's present financial condition and past credit history, as reported to them by one's creditors.

Deed to secure debt. A security instrument whereby real property is given as security for a debt.

Default. Failure to make loan payments on time, as agreed to in the note. If a payment is 30 days late, the loan is in default, and it may give the lender the right to start foreclosure proceedings. There are other terms and conditions in the loan agreements that if not met could also cause the loan to be in default.

Discount points. Also known simply as "points". Each point consists of 1% of the principal amount of the loan. These are fees (additional interest) charged by lenders to increase the yields of loans. Points are paid to lower the interest rate stated on the face of the mortgage agreements and are usually paid at the time of closing.

Due-on-sale clause. A clause that will, at the lender's option, accelerate the date on which the loan balance is due. Primarily used by lenders to restrict the loan from being assumed by, or transferred to, another party without their prior approval. If invoked by the lender, the entire. loan balance becomes due upon the sale or transfer of the property.

Earnest money. Monies paid by the buyer, as required in the sales contract to hind the property in the transaction. These funds are either held by the real estate broker in an escrow account or by the seller (normally not in an escrow account) and are considered "at risk" money, but are applied as part of the down payment required at closing.

Equity. The difference between a property's market value and the amount of all liens against the property. Refers to an owner's financial interest in a property.

Escrow. Money or document held, normally by a third party, until all the conditions of the escrow agreement or contract are met.

Escrow payment. The part of a borrower's monthly payment held by the lender to pay for items such as taxes, private mortgage insurance, hazard (homeowner's) insurance, flood insurance and other items when they become due. The amount of the escrow payment normally will Change over the life of the loan due to changes in tax rates, insurance costs, etc. Upon payoff of the loan, any funds held in these accounts must be returned to the borrower in a timely fashion.

FHA. Federal Housing Administration (a division of the Department of Housing and Urban Development - HUD) which insures home mortgage loans, at the borrower's expense, made by private lenders.

Finance charge. The total of all charges paid in order to obtain a loan. This includes such items as interest and loan origination fees.

Fixed-rate mortgage. A mortgage on which the interest remains at the same rate for the life of the loan.

Fixture. A permanent attachment to real property and conveys with the property, unless otherwise negotiated in the sales contract, at the time of closing.

Foreclosure. The legal process by which a lender forces payment of a loan that is in default by taking the property from the borrower/owner and selling it to pay off the debt on the property.

Hazard insurance. Commonly a part of a "homeowner's" insurance policy, it protects against damage caused to property by fire, windstorm or other common hazard. Required by most lenders to be carried in an amount at least equal to the mortgage and normally in an amount· equal to the value of the building(s) on the properly. Normally the value of the land is e»eluded, based on the premise that the land would not be destroyed.

Homeowner's insurance policy. This policy includes hazard insuranee, and covers the contents of the house in the case of theft or fire. It also covers the homeowner in case someone is injured on the property and brings suit. Additional riders can be placed on the policy, at an additional cost, to cover such things as art, jewelry, and other valuables not covered adequately in the base policy.

Index. An interest rate indicator used to determine changes in the mortgage interest rate of adjustable rate mortgages. Averaged rates on Treasury bills or Treasury securities over a specified period of time are often used.

Lien. A hold or claim which someone has on the property of another as security for a debt or charge; if the debt is not repaid as agreed, the property may be sold to payoff the lien.

Loan disclosure note. Document spelling out all the terms and conditions involved in obtaining and paying off a loan.

Margin. A fixed percentage or amount added to the index at each adjustment interval to determine the new interest rate on an adjustable rate mortgage loan. Index + Margin = Interest rate.

Market value. The highest price a buyer who is ready, willing and able (but not compelled) to buy, would pay, and the lowest price a seller who is ready, willing and able (but not compelled) to sell, would accept.

Mortgagee. A lender who holds a mortgage (deed to secure debt) as security for repayment of a debt.

Mortgagor. A borrower of money who gives a mortgage (deed to secure debt).

Negative amortization. An increase in the unpaid balance of a loan that occurs if loan payments are insufficient to cover the interest on the loan; the unpaid interest is added to the loan balance.

Origination fee. The fee that the lender charges the borrower to cover the cost of issuing a loan. It pays for processing the loan which includes collecting information about your credit worthiness and the property you are buying. This information is analyzed to determine whether you will be able to pay the loan back as agreed, and, whether the property provides sufficient collateral in case you fail to repay the loan. The information is also analyzed to determine if the risk associated with the above items is commiserate with the loan terms being applied for or if the down payment, rate of interest or other terms will need to be changed. It is in addition to the fees for appraisals, credit reports, inspections and loan document preparation.

PITI. Abbreviation for "principal, interest, taxes and insurance" - the elements that normally make up a mortgage payment when a lender requires an escrow account to pay taxes and insurance.

Prepaid items. An advance payment at the time of closing, for items such as taxes, hazard insurance and mortgage insurance which is held in an escrow account by the lender. In the case of hazard insurance, normally a one-year's policy is pre-paid to the insurance company.

Principal. The amount of money borrowed which most be paid back along with interest and other finance charges.

Private Mortgage Insurance (PMI). Insurance provided by a private company (other than the FHA) that protects the lender against loss caused by a borrower's default; the borrower, however, pays the premium for the insurance. This insurance usually is required on loans with high loan-to-value ratios.

Purchase money mortgage. A mortgage loan that is given to a buyer by a seller as part of the purchase price; i.e., the seller helps finance the purchaser. May be a first or second mortgage depending upon whether the property is subject to an existing mortgage. Falls under the category of "owner financing".

Recording fees. The charges to put on public record (at the county courthouse) legal documents such as deeds and mortgages.

Refinancing. The process of paying off one loan with the money (proceeds) from a new loan.

Seller's Property Disclosure Statement. Provided by the seller for all parties in a transaction, it states the seller's current actual knowledge of the condition of the property.

Title. The rights of ownership of a particular property, and the document which proves the ownership (commonly a deed).

Title insurance. Special insurance which protects lenders against loss of their interest in a property due to legal defects in the title and/or claims against the title of the property. An owner can protect their interest by purchasing separate owner's coverage that is optional and, if requested, paid at the closing.

Title search. An examination of public records to uncover any past or current facts regarding the ownership of a piece of property. A title search is intended to make sure the title is marketable (able to be sold) and free from defects.

Veterans Administration (VA). A federal agency that has a program that allows eligible veterans and military personnel to obtain residential mortgage loans with little or no down payment from private lending institutions. The VA guarantees the lender for a specified amount of the loan in the event of default by the borrower and requires certain actions and payment of specific items by the seller. There is an addendum to the standard sales contracts which addresses the VA requirements.