Glossary of Real Estate Terms:

Amortization. Paying a debt through periodic payments, rather than all at once.

Appraisal. A professional estimate of value prepared by an appraiser. The bank requires this because if you fail to make your payments and they have to foreclose on your home and sell it, they want to make sure the house is worth more than the amount they're loaning to you.

ARM. An "adjustable rate mortgage" or ARM is a home loan with an interest rate that adjusts on a predetermined basis. Most ARMs begin with a fixed rate for a certain period of time and then adjust up or down according to the index on which it is based, after the fixed period expires. For example, if you have a 5/1 ARM, the interest rate is fixed for the first five years and then the rate adjusts once each year beginning in year 6.

Assumption. Buying a house by paying some cash and then taking over the seller's existing mortgage yourself, continuing to make the monthly payments to the bank. Saves you from having to qualify for your own loan, but fairly rare.

Borrower/Buyer. These terms are generally used interchangeably, though technically there's a difference. The buyer of course is the person buying a property, and the borrower is a person who gets a loan to buy a property. We use "buyer" when we're talking about the purchase, and "borrower" when we're talking about the loan. Note that not every buyer is a borrower, since some buyers pay cash.

Closing. The actual purchase transaction. You go to the office of the company handling the transaction (often a title company) and sign all the papers.

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Closing Costs. Various fees you pay related to the purchase, often around 2-5% of the purchase price.

Contract. The document in which the seller agrees to sell the house to you and you agree to buy it.

Conventional. Fancy word for "normal". A conventional loan is a loan not insured by any government program, and are the most common type of mortgage. The other kinds of loans are FHA and VA.

Debt Ratio. The ratio of your debt to your income. Banks use this to figure out how much money they're willing to loan you, which of course impacts what price home you're able to buy.

Deed. A document that transfers ownership of property from one person to another. You'll get a copy of this at closing.

Disclosure (Seller's Property Disclosure). Prior to closing, the seller is required to give you a form detailing all the physical problems with the house that they're aware of.

Down Payment. The portion of the sale price that you pay in cash. The rest is paid with the mortgage.

Earnest Money. A deposit you pay when you sign a contract with the seller to show that you're serious about buying and not just window-shopping. This amount is deducted from the sale price at closing and applied to your closing costs.

Equity. The amount of value you own in a property, after subtracting the outstanding loan. For example, if your house is worth $200,000, and there is $150,000 left on your mortgage, your equity is $50,000.

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Escrow. Taxes and insurance are generally due once a year, but your lender can build a little extra into your monthly payment for taxes and insurance, saving it on your behalf, and then forwarding the payments to the tax assessor and insurance agent once a year as your bills become due. You can opt-out of escrow and pay your taxes and insurance manually yourself if you prefer.

FHA Loan. A program in which the federal government insures the lender if you fail to pay and they have to foreclose and wind up losing money. The government doesn't make the loan, they just offer the guarantee to the banks. So "FHA Loan" doesn't refer to where the loan comes from, it refers to the flavor of loan. Houses have to be in good shape to qualify for FHA Loans (not "fixer-uppers"). The other kinds of loans are Conventional and VA.

FICO score. Your credit score.

Foreclosure. The lender taking ownership of a property because the buyer failed to make payments.

GFE / Good Faith Estimate. An estimate of closing costs that the lender is required to give you.

Home Inspection. A non-invasive, visual examination of the accessible areas of a residential property, performed for a fee, which is designed to identify defects within specific systems and components (as delineated by applicable standards) that are both observed and deemed material by the inspector. The scope of work for such inspection may be modified by the client and inspector prior to the inspection process to exclude certain items normally inspected and/or to expand the inspection to include items not normally inspected.

Home Inspection Report: Identifies, in written/electronic format, defects within specific systems and components (as delineated by applicable standards) that are both observed and deemed material by the inspector. Such inspection reports may include photos, and additional comments and recommendations.

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HUD. The HUD is actually the Department of Housing and Urban Development, which oversees mortgage lending practices. But when you hear the term "HUD" from your real estate agent, they're probably talking about the Settlement Statement, which is also called a HUD Statement since it's required by that agency.

Financing. A mortgage loan to buy a house.

Interest. The extra amount you pay to the bank for the privilege of borrowing money. This is the bank's profit on the loan.

Lender. The bank that makes the loan for you to buy a home.

Mortgage. The loan from a bank used to buy a home.

Mortgage Broker. A company which shops various lenders to get you a good deal on a mortgage. They charge a fee for doing so.

Origination Fee. A one-time fee charged by the lender for making the loan to you. Some banks don't charge an origination fee, and others will drop the fee in certain circumstances.

Owner/Seller. The person selling a property. These terms are used interchangeably, and there is no difference.

PMI / Private Mortgage Insurance. If your down payment is less than 20%, you'll have to buy Private Mortgage Insurance which protects the bank if you fail to make your payments, they have to foreclose, and they lose money. Talk to your Lender, as there are some options for how to pay for your mortgage insurance.

Points (Discount Points). Points are a fee charged by a lender in exchange for giving you a lower interest rate.

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Premium. The amount you pay for an insurance policy.

Prepayment. A portion of the loan principal paid early, to save on interest and end the loan faster. Most loans let you pay a little extra at any time without any penalty, but there's often a small penalty if you want to pay off the entire balance early and don't give your bank enough notice.

Principal. The outstanding balance on a loan. Also refers to the portion of a loan payment that pays down your debt (as opposed to interest, which is the bank's profit). For example, of an $900 mortgage payment, $200 might be for principal (reducing the outstanding balance of the loan), and $700 might be interest.

Property. In a real estate context, property is the land and/or any houses on it.

Property taxes. Taxes paid annually to state and local governments on property you own. Most borrowers use the bank's free escrow service to pay these taxes. In Eagle County, property taxes are paid in arrears. In other words, you pay the tax accumulated on the property during the previous calendar year.

Qualifying. The process of qualifying with a bank to lend money to you. You fill out an application, and if you're approved, then you've qualified.

Real Estate Agent. The person who represents a buyer or seller in a real estate sale. In Colorado, they are referred to as “Real Estate Broker”.

Realtor. A real estate agent/broker who's a member ofThe National Association of Realtors.

Seller Take Back. Partial financing provided by the seller. For example, on a $150,000 home, you might put $15,000 down, get a bank loan for $115,000, and get a seller take back for $20,000.

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Settlement Statement (aka "HUD"). The standard document with the details of the sales transaction, and the closing costs.

Term. The number of years a mortgage lasts. Usually 15 or 30.

Title Company. A company that handles a real estate transaction, and which verifies and insures title (ownership) of property.

VA Loan. Similar to FHA Loans, the federal government insures the lender if you fail to pay and they have to foreclose and wind up losing money. The government doesn't make the loan, they just offer the guarantee to the banks. "VA Loan" thus refers to the flavor of the loan, not where the loan comes from. It's possible to get a 0% down loan through the VA program. The other two kinds of loans are Conventional and FHA.

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