

# COMMONLY USED TERMS

## ANNUAL HOUSEHOLD INCOME

Collective income from everyone in your household before taxes or other deductions are taken, investment income or dividends, Social Security benefits, alimony, and retirement fund withdrawals.

## APR

APR refers to the annual percentage rate, which is the interest rate you'll pay expressed as a yearly rate averaged over the full term of the loan. APR includes lender fees in the rate, so it's usually higher than your mortgage interest rate.

## APPRAISAL

A written justification of the price paid for a property, primarily based on an analysis of comparable sales of similar homes nearby.

## APPRAISED VALUE

An opinion of a property's fair market value, based on an appraiser's knowledge, experience, and analysis of the property. Since an appraisal is based primarily on comparable sales, and the most recent sale is the one on the property in question, the appraisal usually comes out at the purchase price.

## CLOSING COSTS

Generally 2 to 5 percent of the purchase price include lender fees, recording fees, transfer taxes, third-party fees such as title insurance, and prepaids and escrows such as homeowner's insurance, property taxes, and HOA fees.

## CLOSING DISCLOSURE

A document that provides an itemized listing of the funds that were paid or disbursed at closing.

## DEED

The legal document conveying title to a property.

## DOWN PAYMENT

A cash payment of a percentage of the sales price of the home that buyers pay at closing. Different lenders and loan programs require various down payment amounts such as 3 percent, 5 percent, or 20 percent of the purchase price.

## EARNEST MONEY DEPOSIT

Also known as an escrow deposit, earnest money is a dollar amount buyers put into an escrow account after a seller accepts their offer. Buyers do this to show the seller that they're entering a real estate transaction in good faith.

## ENCUMBRANCE

Anything that affects or limits the fee simple title to a property, such as mortgages, leases, easements, or restrictions.

## EQUITY

A homeowner's financial interest in a property. Equity is the difference between the fair market value of the property and the amount still owed on its mortgage and other liens.

## ESCROW

Putting something of value, like a deed or money, in the custody of a neutral third party until certain conditions are met.

**HOMEOWNERS ASSOCIATION FEE (HOA)**

A fee required when you buy a home located within a community with an HOA that typically pays for maintenance and improvements of common areas and may include the use of amenities.

**HOMEOWNER'S INSURANCE**

Insurance that provides you with property and liability protection for your property and family from damages from a natural disaster or accident. Lenders usually require borrowers to buy homeowner's insurance.

**HOME WARRANTY**

A contract between a homeowner and a home warranty company that provides for discounted repair and replacement service on a home's major components, such as the furnace, air conditioning, plumbing, and electrical systems.

**LENDER FEES**

Part of the closing costs of a home purchase and may include an application fee, attorney fees, and recording fees. The lender's underwriting or origination fee is usually 1 percent of the loan amount.

**LOAN TYPES**

Mortgages have different terms ranging from 10 to 30 years and are available with fixed or adjustable interest rates. Your lender can discuss down payment, insurance, credit requirements, and other specifics of various loan types.

**MONTHLY DEBT**

The minimum payment on credit card debt; auto, student, and personal loan payments; and alimony or child support. Rent or mortgage for a property that you will pay after your home purchase must also be included.

**MORTGAGE**

A loan from a bank, credit union, or other financial institution that relies on real estate for collateral. The bank provides money to buy the property, and the borrower agrees to monthly payments until the loan is fully repaid.

**MORTGAGE INSURANCE**

Insurance that protects the lender and repays part of the loan if the borrower defaults and the loan can't be fully repaid by a foreclosure sale. Usually required on loans with less than a 20 percent down payment.

**PROPERTY TAXES**

Typically imposed by local governments on real property including residential real estate. The tax rate can change annually, and the assessed value of your property is usually recalculated annually.

**PREPAIDS**

Prepays are expenses paid at the closing for bills that are not technically due yet, such as property taxes, homeowner's insurance, mortgage insurance, and HOA fees.

**THIRD-PARTY FEES**

Any closing costs charged by someone other than your lender, typically including fees for an appraisal, a property survey, a title search, owner's and lender's title insurance, and sometimes an attorney.