Some **Words and Terms** You May Want to Know

Our glossary can help you navigate all the new terminology you'll encounter as a first-time homebuyer.

Appraisal: An analysis performed by a qualified individual to determine the estimated value of a home.

Assessment: The process of placing a value on property for the strict purpose of taxation.

Closing: A meeting of the parties involved in a real estate transaction to finalize the process. In the case of a purchase, a closing usually involves the seller, the buyer, the real estate broker, and the lender.

Commitment Letter: A written offer from a lender to provide financing to a borrower. The commitment letter states the terms under which the lender agrees to provide financing to the borrower.

Credit Report: A record of an individual's current and past debt repayment patterns. This helps the lender determine whether a borrower has a history of repaying debts in a timely manner.

Deed: The written instrument that conveys a property from the seller to the buyer. The deed is recorded at the local courthouse, making the transfer of ownership public record.

Down Payment: The portion of the purchase price the borrower will pay upfront rather than include in the mortgage amount.

Equity: The difference between the property's value and the amount that is owed on mortgages.

Escrow: Generally, an escrow account refers to the funds a mortgagor pays to the lender for their real estate taxes and hazard insurance.

Home Inspection: A complete and detailed inspection that evaluates the mechanical and structural condition of a property. A complete and satisfactory home inspection is often required by the homebuyer.

Loan to Value Ratio (LTV): To determine the loan to value ratio, divide the loan amount by the home's value. The LTV ratio is used to determine what loan types the borrower qualifies for as well as the cost and fees associated with obtaining the loan.

Lock: Written agreement in which a lender guarantees a specific interest rate if a loan closes within a set period of time.

Mortgage: The legal document used by a borrower to pledge their property as security in order to obtain a loan.

P&I: The monthly principal and interest payment required when repaying a mortgage.

Points: Fees collected by the lender in exchange for a lower interest rate. Each point is equal to 1% of the loan amount.

Pre-approval: Process for applying for a mortgage loan that involves a full credit and financial analysis. Assets, income and credit history are verified and specific loan terms and program are applied for. Pre-approvals are typically applied for before a property is identified and is more in depth than a pre-qualification (see below).

Pre-qualification: Preliminary process to determine how much a potential homebuyer may be eligible to borrow and what programs are available. This process may include a review of the consumer's credit report and a discussion of what is typically required to proceed with a full mortgage application.

Principal: The actual balance, excluding interest, of a mortgage. Also refers to the amount of the monthly mortgage payment that will be applied to the actual balance.

Private Mortgage Insurance (PMI): Insurance provided by a private company to protect the lender against losses if a loan defaults. The cost of the insurance is usually paid by the borrower and is most often required if the loan amount is more than 80% of the home's value.

Property Taxes: Taxes based on the assessed value of the home for community services such as schools; sometimes paid as a part of the monthly mortgage payment.

Title: A legal written instrument evidencing a person's lawful possession of a property.

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