



**GLOSSARY OF**

**HOME BUYING TERMS**



# HOME BUYING TERMS TO PREPARE YOU FOR YOUR HOME PURCHASE JOURNEY

## APPRAISAL

An appraisal is a professional assessment of a property's value conducted by a licensed appraiser. It helps determine the fair market value of the property and is often required by lenders before approving a mortgage.

## CLOSING COSTS

Closing costs are fees and expenses associated with finalizing a real estate transaction. These costs typically include fees for title searches, loan origination, attorney services, property surveys, and insurance. Buyers are responsible for paying these costs, which are usually a percentage of the purchase price.

## CONTINGENCY

A contingency is a condition or requirement that must be met for the purchase agreement to be binding. Common contingencies include obtaining financing, satisfactory home inspection results, and the sale of the buyer's current home. If the contingency is not satisfied, the buyer may have the right to cancel the contract without penalty.

## DOWN PAYMENT

The down payment is the initial payment made by the buyer toward the purchase price of the property. It is typically expressed as a percentage of the total purchase price and is paid upfront at the closing. The remaining amount is financed through a mortgage.

## EQUITY

Equity is the value of a homeowner's interest in a property, calculated by subtracting any outstanding mortgage debt from the property's current market value. It represents the portion of the property's value that the homeowner truly owns.

## HOME INSPECTION

A home inspection is an examination of a property's condition by a professional home inspector. It assesses the overall structural integrity, mechanical systems, and potential issues that may affect the property's value or safety. The inspection report helps the buyer make an informed decision about the purchase.

## MORTGAGE

A mortgage is a loan provided by a lender to finance the purchase of a property. It is typically repaid over a specified term with interest. The property serves as collateral for the loan, and if the borrower fails to make payments, the lender may have the right to foreclose and take possession of the property.

## PRE-APPROVAL

Mortgage pre-approval is a process in which a lender evaluates a borrower's financial situation and creditworthiness to determine the maximum loan amount they qualify for. Pre-approval provides a clear idea of the budget for house hunting and demonstrates to sellers that the buyer is a serious and qualified candidate.

## TITLE

Title refers to legal ownership and rights to a property. A title search is conducted to ensure that there are no liens, claims, or other encumbrances on the property that could affect its transfer of ownership. Title insurance is typically obtained to protect against any future claims or defects in the title.

## UNDERWRITING

Underwriting is the process through which a lender assesses the risk associated with approving a mortgage loan. It involves reviewing the borrower's financial information, credit history, and property appraisal to determine if the loan meets the lender's criteria.

## AMORTIZATION

Amortization refers to the gradual repayment of a mortgage loan over time through regular payments that include both principal and interest. With each payment, the portion allocated to principal increases, while the portion allocated to interest decreases.



## CLOSING DISCLOSURE (CD)

The Closing Disclosure is a document provided to the borrower by the lender. It outlines the final terms of the loan, including the interest rate, monthly payment, closing costs, and any other fees associated with the mortgage.

## ESCROW ACCOUNT

An escrow account is a separate bank account held by the lender, where a portion of the borrower's monthly mortgage payment is deposited to cover expenses such as property taxes, homeowners insurance, and mortgage insurance premiums.

## HOMEOWNERS ASSOCIATION (HOA)

A homeowners association is an organization that manages and enforces rules and regulations for a community or neighborhood. If you purchase a property within an HOA, you may be required to pay regular fees and abide by certain restrictions and guidelines.

## LOAN ESTIMATE (LE)

The Loan Estimate is a document provided by the lender to the borrower within three business days of applying for a mortgage. It provides an estimate of the loan terms, interest rate, monthly payment, closing costs, and other details associated with the loan.

## POINTS

Points, also known as discount points, are fees paid to the lender at closing in exchange for a lower interest rate. Each point is typically equal to 1% of the loan amount. Paying points upfront can reduce the interest paid over the life of the loan.

## PRIVATE MORTGAGE INSURANCE (PMI)

Private Mortgage Insurance is insurance that protects the lender in case the borrower defaults on the mortgage. PMI is typically required for borrowers who make a down payment of less than 20% of the purchase price. The cost of PMI is added to the borrower's monthly mortgage payment.

## TITLE INSURANCE

Title insurance protects the buyer and lender against any future legal claims or disputes regarding ownership of the property. It provides coverage for potential title defects that may have been missed during the title search and protects the buyer's investment in the property.

