

KEY TERMS TO KNOW

Adjustable Rate Mortgage (ARM)

A mortgage with an interest rate that changes over time in line with movements in the index. ARMs are also referred to as AMLs (Adjustable Mortgage Loans) or VRMs (Variable Rate Mortgages).

Adjustment Period

The length of time between interest rate changes on an ARM. For example, a loan with an adjustment period of one year is called a one-year ARM, which means that the interest rate can change once a year.

Amortization

Repayment of a loan in equal installments of principal and interest, rather than interest-only payments.

Annual Percentage Rate (APR)

The total finance charges (interest, loan, fees, points) expressed as a percentage of the loan amount.

Assumption of Mortgage

A buyer's agreement to assume liability under an existing note that is secured by a mortgage or deed of trust. The lender must approve the buyer in order to release the original borrower (usually the seller) from liability.



Balloon Payment

A lump sum principal payment due at the end of some mortgages or other long-term loans.

Cap

The limit on how much an interest rate or monthly payment can change, either of each adjustment or over the life of the mortgage.

Certificate of Reasonable Value (CRV)

A document that establishes the maximum value and loan amount for a VA guaranteed mortgage.

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Closing Statement

The financial disclosure statement that accounts for all of the funds received and expected at the closing, including deposits for taxes, hazard insurance, and mortgage insurance.

Condominium

A form of real estate ownership where the owner receives title to a particular unit and has proportionate interest in certain common areas. The unit itself is typically a separately owned space whose interior surfaces (walls, floors, and ceilings) serve as its boundaries.

Contingency

A condition that must be satisfied before a contract is binding. For example, a sales agreement may be contingent upon the buyer obtaining financing.

Conversion Clause

A provision in some ARMs that enables you to change an ARM to a fixed-rate loan, usually after the first adjustment period. The new fixed rate is generally set at the prevailing interest rate for fixed-rate mortgages. This conversion feature may cost extra.

Cooperative

A form of multiple ownership in which a corporation or business trust entity holds title to a property and grants occupancy rights to shareholders by means of proprietary leases or similar arrangements.

Earnest Money / Escrow Deposit

The portion of the down payment delivered to the seller or escrow agent by the purchaser with a written offer as evidence of good faith.

Escrow

A procedure in which a third party acts as a stakeholder for both the buyer and the seller, carrying out both parties' instructions and assuming responsibility for handling all paperwork and distribution of funds.

FHA Loan

A loan insured by the Insuring Office of the Department of House and Urban Development; the Federal Housing Administration.

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Federal National Mortgage Association (FNMA)

Popularly known as Fannie Mae. A privately owned corporation created by Congress to support the secondary mortgage market. It purchases and sells residential mortgages insured by the FHA or guaranteed by the VA, as well as conventional home mortgages.

Fee Simple

An estate in which the owner has unrestricted power to dispose of the property as they wish, including leaving by will or inheritance.

Finance Charge

The total cost a borrower must pay, directly or indirectly, to obtain credit.

New Development

If you visit new construction communities on your own, please remember to register your agent. This will provide you with support from both the realtor and the developer through the building process.

Open House

A convenient way for listing agents to show a property. Typically Saturday and Sunday afternoons.