

# GLOSSARY OF TERMS

**Appraisal:** An expert estimate of the value of a property. Used by the lender to ensure that the loan they are issuing is not for more than the property is worth. An appraised value is NOT the same as a Tax Assessed Value or Market Value.

**Appraisal Gap:** This term refers to the difference between the appraised value of a property and the agreed-upon sale price in a transaction. For example, if a home is under contract to be sold for \$300,000 but is appraised at only \$280,000, there's a \$20,000 appraisal gap. This gap can pose problems for financing, as lenders will generally only provide a loan based on the appraised value. The buyer may need to cover the gap with additional funds, or the buyer and seller may need to renegotiate the sale price.

**Amortization:** The process of paying off a loan through scheduled, periodic payments.

**Broker:** A person who acts as an intermediary between buyers and sellers of property or services. In real estate, brokers are licensed to manage their own real estate businesses and can also employ real estate agents.

**Closing:** The final step in a real estate transaction where ownership is transferred.

**Closing Costs:** Expenses, over and above the price of the property, incurred by buyers and sellers when transferring ownership. These costs vary between transactions, but typically include transfer taxes, attorney costs, deed preparation, commission and title insurance.

**Conventional Loan:** This is a type of mortgage loan that is not insured or guaranteed by the federal government, as opposed to FHA, VA, or USDA loans, which are government-backed. Conventional loans are typically offered by private lenders like banks, credit unions, and mortgage companies. These loans are generally considered to be the strongest loan in a competitive setting.

**Debt-to-Income Ratio:** A ratio that compares an individual's debt payments to their income.

**Down Payment:** The initial upfront amount you pay towards the purchase of a home as a condition of your loan. NOT the same as the Earnest Money Deposit.

**Due Diligence:** The process of evaluating a property before making a purchase. Due diligence is the Buyer's responsibility.

**Earnest Money Deposit:** A deposit made to a seller showing the Buyer's intent to purchase a property. The deposit will be returned to the Buyer at closing, or if another contingency of the contract is correctly met.

**Escalation Clause:** An escalation clause is a provision added to a purchase offer for a home that allows the Buyer's offer price to increase in the event that the seller receives another offer that is higher than the Buyer's initial bid. The clause typically specifies the maximum amount by which the buyer is willing to increase their offer and may also include other conditions under which the clause is invoked. The purpose is to make the offer more competitive, reducing the risk of losing the property to another buyer offering a higher price.

**Equity:** The difference between the home's market value and the homeowner's mortgage balance.

**FHA Loan:** A loan insured by the Federal Housing Administration. Common among First Time Home Buyers. Offers a minimum down payment of 3.5%.

**Foreclosure:** This is the legal process by which a lender takes possession of a property after the borrower fails to make required mortgage payments. Foreclosure laws and procedures can vary widely by state, but they generally allow the lender to sell the property to recoup their losses.

**Home Inspection:** An evaluation of the condition of a property by a trained professional.

**Homeowners Association (HOA):** An organization that sets rules and regulations for community properties.

**Interest Rate:** The amount charged, as a percentage of principal, by a lender to a borrower.

**Inspection Contingency:** A clause that allows the buyer to have the home inspected and potentially renegotiate or withdraw an offer.

**Loan Estimate:** An estimate of all closing fees provided by the lender after applying for a loan.

**Loan Officer:** A loan officer is a representative of a bank, credit union, or other financial institution who helps customers apply for loans, including mortgages. They serve as the liaison between the borrower and the lending institution during the loan application process. They are essentially the Realtor for your loan.

**Loan-to-Value (LTV):** The ratio between the loan amount and the value of the property.

**Mortgage:** A loan specifically used to purchase real estate.

**Mortgage Broker:** An individual or firm that connects borrowers with lenders.

**Mortgage Insurance:** Insurance that compensates lenders if a borrower defaults.

**Pre-Approval:** A lender's conditional agreement to grant a mortgage before the Buyer has chosen a home.

**Principal:** The original amount of a loan, before interest.

**Private Mortgage Insurance (PMI):** This is a type of mortgage insurance that many lenders require when a homebuyer makes a down payment that's less than 20% of the home's purchase price. PMI protects the lender in the event that the borrower defaults on the mortgage. It is a monthly cost that will be added to your loan payment.

**Rate Lock:** A guarantee from a lender for a specific interest rate for a set period of time.

**Refinancing:** Replacing an existing loan with a new one under different terms.

**Short Sale:** The sale of a home for less than the outstanding mortgage. Must be approved by the lender or bank holding the mortgage.

**State Transfer Taxes:** These are one-time taxes imposed by some states (and sometimes municipalities) on the transfer of real estate property from one owner to another. The tax rate and who is responsible for paying it (buyer, seller, or both) can vary by jurisdiction. It is usually calculated as a percentage of either the sale price or the property's assessed value. Also known as "stamp tax" or "deed transfer tax," this fee is often a part of the closing costs. In New Hampshire, Maine and Massachusetts, this cost is split between the Buyer and Seller, unless otherwise agreed.

**Survey:** A drawing or map showing the precise measurements, boundaries, and area of a property.

**Title:** The legal document proving ownership of a property.

**Title Insurance:** Insurance that protects the holder from loss sustained by defects in a property's title.

**Title Search:** A check of public records to ensure that the seller is the legal owner of a property and that there are no liens or other claims.

**Underwriting:** The process a lender uses to determine if the risk of offering a mortgage loan to a specific borrower is acceptable.

**VA Loan:** A mortgage loan program established by the United States Department of Veterans Affairs to help veterans and active military service members secure a home loan.

**Zoning Laws:** Laws that define how property in specific geographic zones can be used.