Demystifying Real Estate Terminology For Homebuyers

First-time home buyers can have a tough time sorting through real estate terms spewed by real estate agents, lenders, real estate attorneys and other real estate professionals.

Here's a brief alphabetical glossary of some basic real estate terms first-time home buyers need to know:

Amortization: The repayment of a mortgage in small equal periodic installments of principal and interest, as determined by a payment plan to pay off the loan over a certain amount of time.

Appraisal: An appraiser's assessment of a property's value. A home sale is contingent upon an appraisal for at least the amount of the loan the buyer wants to secure.

Closing Costs: One-time costs associated with buying a home, disclosed before closing, but due at closing. The costs can include fees for an attorney, recording, inspections, appraisals, title service costs, even pre-paid homeowner's insurance and taxes.

Contingency: Contractual conditions that must be met before a home sale closes. They can protect the buyer or the seller and can include a satisfactory home inspection, secured financing, adequate appraisal, etc.

Credit Report: A report card of your creditworthiness. Go to AnnualCreditReport.com to get one free credit report, every year, from each of the three credit reporting agencies: TransUnion, Experian, and Equifax. That's three free once a year.

Credit Score: A numerical rendition of your credit report that plays a significant role in a mortgage approval, the cost of the loan and other terms of the loan. Get your credit score direct from the three credit reporting agencies.

Down Payment: Cash the homebuyer brings to the deal. A down payment reduces the amount financed by the amount of the down payment and brings equity to the deal. Many lenders require at least 20 percent (20%) down to reduce its risk, but various loan programs require as little down at 3.5 percent (3.5%) down.

Earnest Money: A deposit of good faith money, typically included with the offer to buy a house. Earnest money can become part of the down payment.

Escrow Account: A lender-held account into which the buyer makes monthly deposits beyond the monthly principal and interest payment. The monthly payments are used to pay the homeowners property taxes and homeowner's insurance; otherwise the homeowner is saddled with large lump sum tax and insurance payments once or twice a year.

Mortgage: A loan from a bank, mortgage lender, credit union or other lender to finance the purchase of a home. Mortgages vary and can include *fixed- and adjustable rate mortgages*, *conventional loans*, *larger jumbo loans* and *loans backed by the federal government*.

<u>Points</u>: Sometimes referred to as "discount points" these costs reduce the interest rate and are paid at closing or up front when used. One point is one percent (1%) of the mortgage amount.

<u>Pre-approval</u>: An official document and the process by which a homebuyer obtains proof he or she has been approved for a mortgage, pending the home appraisal and other financial contingencies. During the process, the lender verifies the buyer's credit score, income, debts, employment and other factors that go into a mortgage application. A pre-approval letter says the buyer has been approved for a certain mortgage, again pending contingencies.

<u>Title</u>: A public records document that proves ownership of the property. A title also includes any claims against that ownership. During a home purchase, the buyer conducts a title search to verify the seller is the owner and if the title contains any judgments or liens against it.