

Familiarize yourself with home shopping terms

When shopping for a new house, you may encounter some terms that are unfamiliar to you. The following glossary is provided by the Builders Association of Southeastern Michigan.

Adjustable rate mortgage (ARM): A loan whose interest rate is adjusted according to movements in the financial market.

Amortization: A payment plan by which a loan is reduced through monthly payments of principal and interest.

Annual percentage rate (APR): The annual cost of credit over the life of a loan, including interest, service charges, points, loan fees, mortgage insurance and other (it includes the required payments).

Appraisal: An evaluation to determine what a piece of property would sell for in the current marketplace.

Appreciation: The increase in the value of a property.

Assessment: A tax levied on a property or a value placed on the worth of a property by a taxing authority.

Assumption: A transaction allowing the buyer to assume responsibility for an existing loan instead of getting a new loan.

Balloon: A loan that has a series of monthly payments with the remaining balance due in a large lump sum payment at the end.

Blinder: A receipt for a deposit paid to secure the right to buy a house at terms agreed upon by the buyer and seller.

Byproduct: A subsidy (usually paid by a builder or developer) to reduce the monthly payments on a mortgage loan.

Cap: A limit to the amount an interest rate or a monthly payment can increase for an adjustable rate loan either during an adjustment period or over the life of the loan.

Certificate of occupancy: A document from an official agency stating that the property meets the requirements of local codes, ordinances and regulations.

Closing: A meeting to sign documents that transfer property from a seller to a buyer (also referred to as settlement).

Closing costs: Charges paid at settlement for obtaining a mortgage loan and transferring a real estate title.

Conditions, Covenants and Restrictions (CC and R): The standards that define how a property may be used on the protection the developer makes for the benefit of all owners in a subdivision.

Conventional loan: A mortgage loan not insured by a government agency (such as FHA or VA).

Convertible: The ability to change a loan from an adjustable rate schedule to a fixed rate schedule.

Credit rating: A report ordered by a lender from a credit bureau to determine if the borrower is a good credit risk.

Default: A breach of a mortgage contract (i.e., not making the required payments).

Density: The numbers of houses built on a particular acre of land. Allowable densities are determined by local jurisdictions.

Down payment: The difference between the sales price and the mortgage amount. A down payment is usually paid at closing.

Due-on-sale: A clause in a mortgage contract requiring the borrower to pay the entire outstanding balance upon sale or transfer for the property.

Earnest money: A sum paid to the seller to show that a potential purchaser is serious about buying.

Easement: The right-of-way granted to a person or company authorizing access to the owner's land. For example, a utility may be granted an easement to install pipes or wires. An owner may voluntarily grant an easement or it can be ordered to grant one by a local jurisdiction.

Equity: The difference between the value of a house and what is owed on it.

Escrow: The handling of money or documents by a third party on behalf of the buyer or seller.

Federal Housing Administration (FHA): A federal agency that insures mortgages with lower down payment requirements than conventional loans.

Fixed rate mortgage: A mortgage with an interest rate that remains constant over the life of the loan.

Fixed schedule mortgage: A mortgage with a payment schedule that is established at closing for the life of the loan. The payment and interest rate are not necessarily level.

Graduated payment mortgage: A fixed rate, fixed schedule loan that starts with lower payments than a level payment loan. The payments rise annually over the first five to 10 years and then remain constant for the remainder of the loan. GPMs involve negative amortization.

Growing equity mortgage (rapid payoff mortgage): A fixed-rate, fixed-schedule loan that starts with the same payments as a level payment loan. The payments rise annually, with the entire increase being used to reduce the outstanding balance. No negative amortization occurs, and the increase in payments may enable the borrower to pay off a 30-year loan in 15 to 20 years or less.

Hazard insurance: Protection against damage caused by fire, windstorm, or other common hazards. Many lenders require borrowers to carry it in an amount at least equal to the mortgage.

Housing Finance Agency (HFA): A state agency that offers below-market-rate financing for low- and moderate-income households.

Index: The interest rate or adjustment a standard that determines the changes in monthly payments for an adjustable rate loan.

Infrastructure: The public facilities and services needed to support residential development, including highways, bridges, schools and sewer and water systems.

Interest: The cost paid to a lender for borrowed money.

Joint tenancy: A form of ownership in which the tenants own a property equally. If one dies, the other would automatically inherit the entire property.

Level payment mortgage: A mortgage with identical, monthly payments over the life of the loan.

Mortgage broker: A broker who represents numerous lenders and helps consumers find affordable mortgages. The broker charges a fee only if the consumer finds a loan.

Mortgage commitment: A formal written communication by a lender, agreeing to make a mortgage loan on a specific property, specifying the loan amount, length of time and conditions.

Mortgage company: A company that borrows money from a bank, lends it to consumers to buy houses, then sells the loans to investors.

Mortgagee: The lender who makes a mortgage loan.

Mortgage loan: A contract in which the borrower's property is pledged as collateral. It is repaid in installments. The mortgagor (buyer) promises to repay principal and interest, keep the house insured, pay all taxes, and keep the property in good condition.

Mortgage origination fee: Charge for the work involved in preparing and servicing a mortgage application (usually 1 percent of the loan amount).

Negative amortization: An increase in the outstanding amount when a monthly payment does not cover the monthly interest due.

Note: A formal document showing the existence of a debt and stating the terms of repayment.

PITI: Principal, Interest, Tax and Insurance — the four major components of monthly housing payments.

Prepaid interest: Interest paid in advance at the time a mortgage is made.

Prepayment penalty: A charge levied on a borrower for paying off a mortgage before the scheduled term.

Rate lock: An agreement by a lender to hold a specific interest rate for a certain period of time.

Realtor: A person who is licensed to sell real estate.

Reserve fund: A fund set aside to cover unexpected expenses.

Settlement: The final closing of a real estate transaction.

Short sale: A sale of a property for less than the amount owed on the mortgage.

Stipulation: A written agreement between parties to a lawsuit.

Subcontractor: A contractor hired by another contractor.

Takeout mortgage: A mortgage that can be replaced by another mortgage.

Title insurance: Insurance that protects against claims on the title of a property.

Title search: A search of public records to determine the ownership of a property.

Trust deed: A document that transfers property to a trustee for the benefit of a lender.

Unconventional mortgage: A mortgage that does not fit the standard categories.

Variable rate mortgage: A mortgage with an interest rate that can change.

Waiver of title: A document that releases a lender from liability.

Warranty deed: A deed that guarantees the title of a property.

Yield spread premium: A fee paid to a lender for a lower interest rate.

Zeroed-out mortgage: A mortgage with a zero down payment.

Zoning: A set of laws that regulate the use of land.

Zoning map: A map that shows the zoning of a property.

Zoning ordinance: A law that regulates the use of land.

Zoning variance: A request for a change in zoning.

Zoning waiver: A document that waives zoning requirements.

Zoning violation: A failure to comply with zoning requirements.

Zoning violation notice: A notice of a zoning violation.

Zoning violation order: An order to stop a zoning violation.

Zoning violation fine: A fine for a zoning violation.

Zoning violation hearing: A hearing on a zoning violation.

Zoning violation appeal: An appeal of a zoning violation.

Zoning violation review: A review of a zoning violation.

Zoning violation record: A record of a zoning violation.

Zoning violation report: A report on a zoning violation.

Zoning violation study: A study on zoning violations.

Zoning violation survey: A survey on zoning violations.

Zoning violation analysis: An analysis of zoning violations.

Zoning violation plan: A plan to address zoning violations.

Zoning violation strategy: A strategy to address zoning violations.

Zoning violation solution: A solution to zoning violations.

Zoning violation prevention: Prevention of zoning violations.

Zoning violation avoidance: Avoidance of zoning violations.

Zoning violation mitigation: Mitigation of zoning violations.

Zoning violation remediation: Remediation of zoning violations.

Zoning violation correction: Correction of zoning violations.

Zoning violation resolution: Resolution of zoning violations.

Zoning violation settlement: Settlement of zoning violations.

Zoning violation agreement: An agreement on zoning violations.

Zoning violation contract: A contract on zoning violations.

Zoning violation deed: A deed on zoning violations.

Zoning violation mortgage: A mortgage on zoning violations.

Zoning violation loan: A loan on zoning violations.

Zoning violation trust: A trust on zoning violations.

Zoning violation will: A will on zoning violations.

Zoning violation power of attorney: A power of attorney on zoning violations.

Zoning violation proxy: A proxy on zoning violations.

Zoning violation assignment: An assignment on zoning violations.

Zoning violation subordination: A subordination on zoning violations.

Zoning violation release: A release on zoning violations.

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Zoning violation consent: A consent on zoning violations.

Zoning violation approval: An approval on zoning violations.

Zoning violation denial: A denial on zoning violations.

Zoning violation rejection: A rejection on zoning violations.

Zoning violation withdrawal: A withdrawal on zoning violations.

Zoning violation resignation: A resignation on zoning violations.

Zoning violation termination: A termination on zoning violations.

Zoning violation expiration: An expiration on zoning violations.

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Zoning violation rescission: A rescission on zoning violations.

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Zoning violation nullification: A nullification on zoning violations.

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