

# Bonded Builders Warranty Group

## Homebuyers Mortgage Glossary

Your builder and Bonded Builders Warranty Group know that when you start shopping for a new home, and a new home mortgage, you may encounter some words and terms that are not familiar. This glossary will help you be a better-informed shopper.

**Adjustable Rate Mortgage (ARM)** A loan whose interest rate is adjusted to financial market movements.

**Adjustment Interval** The period of time between changes in the interest rate for an adjustable-rate mortgage. Typical adjustment intervals are one, three, and five years.

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

**Annual Percentage Rate (APR)** Annual cost of credit over the life of a loan, including interest, service charges, points, loan fees, mortgage insurance and other items.

**Appraisal** Evaluation to determine a property's current market price.

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

**Assumption** Allows a 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.

**Binder** A receipt for a deposit to secure the right to purchase a home at agreed terms by a buyer and seller.

**Biweekly Mortgage** A type of fixed-rate mortgage with payments for half the usual monthly amount scheduled every two weeks. Because the mortgagor makes the equivalent of 13 months of payments every year, the loan term is shortened from 30 years to 18 or 19 years.

**Buydown** A subsidy (usually paid by a builder or developer) to reduce monthly payments on a mortgage.

**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 buyer (settlement).

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

**Conditions, Covenants, and Restrictions (CC and Rs)** The standards that define how a property may be used and the protections 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).

**Convertibility** The ability to change loan from an adjustable rate schedule to a fixed rate schedule.

**Credit Rating** A report ordered by a lender from a credit agency to determine a borrower's credit habits.

**Default** Breach of mortgage contract (not making the required payments).

**Density** The number of homes built on a particular acre of land. Allowable densities are determined by local jurisdictions.

**Debt-to-Income Ratio** The ratio, expressed as a percentage, which results when a borrower's monthly payment obligation on long-term debts is divided by his or her net effective income (FHA/VA loans) or gross monthly income (conventional loans).

**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 of 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 company may be granted an easement to install pipes or wires. An owner may voluntarily grant an easement, or can be ordered to grant one by a local jurisdiction.

**Equity** The difference between the value of a home and what is owed on it.

**Escrow** The handling of funds or documents by a third party on behalf of the buyer and/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** Mortgage with a payment schedule established at closing for the life of the loan. The payment and interest rate are not necessarily level.

**Graduated Payment Mortgage (GPM)** A fixed rate, fixed-schedule loan. It starts with lower payments than a level payment loan; payments rise annually over the first 5 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** A state agency that offers below market-rate home financing for low- and moderate-income households.

**Index** The interest rate or adjustment 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 automatically inherits the entire property.

**Level Payment Mortgage** A mortgage with identical, monthly payments over the life of the loan.

**Loan Origination Fee** The fee charged by a lender to prepare all the documents associated with a mortgage.

**Loan-to-Value Ratio** The relationship between the amount of the mortgage loan and the appraised value of the property expressed as a percentage.

**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, detailing the loan amount, length of time and conditions.

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

**Mortgagee** The lender who makes a mortgage loan.

**Mortgage Insurance** An insurance policy the borrower buys to protect the lender from non-payment of the 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 home insured, pay all taxes, and keep the property in good condition.

**Mortgage Origination Fee** A charge for work involved in preparing and servicing a mortgage application (usually one percent of the loan amount).

**Negative Amortization** An increase in the outstanding amount when a monthly payment does not cover the monthly interest rate.

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

**PITI Principal, Interest, Taxes and Insurance** (the four major components of monthly housing payments).

**Point** A one-time charge assessed by the lender at closing to increase the interest yield on a mortgage loan. Generally, it is one percent of the mortgage amount.

**Prepayment** Payment of a debt prior to maturity.

**Principal** The amount borrowed, excluding any other charges.

**Property Survey** A survey to determine the boundaries of your property. The cost depends on the complexity of the survey.

**Recording Fee** A charge for recording the transfer of a property, paid to a city, county, or other appropriate branch of government.

**Real Estate Settlement Procedure Act (RESPA)** A federal law requiring lenders to provide home buyers with information about settlement costs.

**Sales Contract** A contract between a buyer and seller which would explain, in detail, exactly what the purchase includes, what guarantees there are, when the buyer can move in, what the closing costs are, and what recourse the parties have if the contract is not fulfilled or if the buyer cannot get a mortgage commitment at the agreed-upon terms.

**Shared Appreciation Mortgage** A loan in which partners agree to share specified portions of the downpayment, monthly payment and appreciation.

**Tenancy in Common** A form of ownership in which the tenants own separate but equal parts. To inherit the property, a surviving tenant would either have to be mentioned in the will or, in the absence of a will, be eligible through state inheritance laws.

**Title Evidence** (usually in the form of a certificate of deed) of a person's legal right to ownership of a property.

**Title Insurance** An insurance policy which insures against errors in the title search, essentially guaranteeing the buyer's and lender's financial interest in the property.

**Transfer Taxes** Taxes levied on the transfer of property or on real estate loans by state and/or local jurisdictions.

**Underwriting** The process of deciding whether to make a loan. The decision is based on credit, employment, assets and other factors.

**Veterans Administration (VA)** A federal agency that insures mortgage loans with very liberal downpayment requirements for honorably discharged veterans and their surviving spouses.

**Walk-through** A final inspection of a home before settlement to search for problems that need to be corrected before ownership changes hands.

**Warranty** A promise, either written or implied, that the material and workmanship of a product is defect free or will meet a specified level of performance over a specified period of time. Written warranties on new homes are either backed by warranty companies or by the builders themselves.

**Zoning Regulations** established by local governments regarding the location, height and use for any given piece of property within a specific area.



*Protecting the American Dream*

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