

CRACKING THE CODE:

Understanding Homebuying Terms



INTRODUCTION

The homebuying process can be complicated, especially for first-time buyers. Knowing the various real estate terms will enhance your ability to navigate the market, engage effectively in your transaction, and make informed decisions that protect your interests.



ADDENDUM TO CONTRACT

An addendum is an attachment to a real estate contract that includes terms not part of the original contract. All parties must agree to it before finalization.

ADJUSTABLE-RATE MORTGAGE (ARM)

An ARM is a loan with a variable interest rate. The initial rate is fixed for a specific period, after which it adjusts based on a schedule set by the lender. The rate is usually capped to limit how much it can increase. Once the introductory period ends, the buyer can elect to convert the loan to a fixed-rate mortgage.



APPRAISAL

An appraisal assesses a property's value at the time of selling. Lenders require an appraisal on a property to be sure the loan-to-value ratio is accurate that it is being sold for fair market value.



AS-IS

When a property is being sold "as-is," it means the seller is offering it in its current condition without any guarantees or expected improvements.

CLOSING COSTS

These are fees charged by banks and financial institutions for creating a mortgage loan. They generally amount to 3-6 percent of the mortgage. They can be paid as an out-of-pocket cost, rolled into a mortgage, or covered by a combination of both.



CLOSING STATEMENT/SETTLEMENT SHEET

This document outlines the final details of a real estate transaction and lists the costs associated with buying or selling a property.

COMPARATIVE MARKET ANALYSIS (CMA)

Used during the sales process, the CMA details the sales prices of similar homes in an area during a recent period. This helps the seller and their agent set a competitive sales price and gives buyers a barometer on a fair market price to offer.



CONTRACT CONTINGENCY

A contingency is a requirement that must be satisfied for a contract to be considered valid and legally binding. For instance, the seller can stipulate that they need to purchase their next home before selling their current one, while the buyer can necessitate the seller fulfill repairs flagged by the home inspection before closing. If the contingency is not met, the affected party can walk away without consequence.



CONTRACT OF SALE

This is a legal document that outlines the seller's agreement to transfer their homeownership to the buyer and the buyer's commitment to pay for it. It includes the sales price, closing costs, and any contingencies.

DEED

A deed establishes legal ownership of a property; when the property sells, the deed is then transferred to the new owner.



EQUITY

Home equity is the difference between how much a homeowner owes on their home and its current market value. As they make mortgage payments, they reduce their principal balance and build equity.



FEE SIMPLE

A type of homeownership, fee simple grants the owner the full rights to a property, including the land, allowing them to use, modify, sell, or will it however they desire. Most homeowners have fee simple ownership over their properties.

DOWN PAYMENT

The down payment is the buyer's cash payment at closing, representing their equity in the property. The amount can be as little as zero depending on the loan type, though it typically ranges from 3-20 percent of the purchase price.



EARNEST MONEY

When a buyer wants to demonstrate their commitment to buying a home, they will often pay a "good faith deposit" that usually ranges from 1 to 10

percent of the sales price. This money is held in an escrow account managed by a third party and is then applied to the down payment at closing. If the sale falls through, the earnest money may be refunded to the buyer, depending on the terms of the sales contract.



ESCROW ACCOUNT

Lenders use escrow accounts to hold funds for property taxes and insurance expenses. They require a minimum balance, and funds are disbursed as needed.

LENDER

A mortgage lender refers to any financial institution or mortgage bank responsible for assessing home loan applications, disbursing a loan, and managing it. These lenders follow specific criteria to evaluate a borrower's creditworthiness and capacity to repay the loan. They establish the terms, interest rate, repayment schedule, and other crucial elements of the mortgage.



LOAN COMMITMENT

A loan commitment is a written promise from a lender to lend a set amount of money to a borrower at a specific interest rate and for a specified period of time.



PREAPPROVAL

Buyers must submit a formal mortgage application to initiate the mortgage process, enabling the lender to do a comprehensive review of the buyer's creditworthiness and loan amount eligibility. Once they determine that the buyer is capable of repaying the loan, a preapproval letter will be issued, which the buyer can then use when making offers on homes.



PREQUALIFICATION



Although getting prequalified does not hold as much value as getting preapproved, many buyers seek prequalification to

get a ballpark idea of how much they can borrow.

SELLER'S DISCLOSURE

In residential property sales, sellers must disclose issues that may materially affect the property's value but are not readily observable. It assists buyers in evaluating the property's condition.



TITLE INSURANCE

This insurance is a safety net that protects lenders and buyers from unexpected financial losses related to a property's ownership history. Most mortgage lenders require borrowers to purchase title insurance as a loan condition.

