A

Adjustable rate mortgage
Also known as ARM, an **adjustable rate mortgage** refers to a home loan where the interest rate will change after an introductory period.
For example, a homeowner will have a low, locked-in interest rate for five years, but after that introductory period, rates are periodically adjusted—which can result in an increase—based on an index (see entry).

Amortization
Amortization, or an amortization schedule, means spreading out a home loan into a series of fixed-amount payments, allowing a homeowner to pay off the entirety of the loan over a fixed period of time (most commonly over 30 years).

Appraisal
An appraisal takes place when a professional appraiser appointed by your lender inspects the house to determine its value. Appraisals are needed because every property is unique—they aren't cookie-cutter commodities with predetermined values.

If the appraised value is lower than the asking price, the lender may not give the buyer enough money to cover the purchase. Appraisal **contingencies** allow the buyer to renegotiate the price with the seller. Appraisals are usually required in residential real estate transactions.

B

Broker
These real estate professionals can work independently or have other agents working with (or under) them. See entry for real estate agent for more.

C

Closing
The very last step in a real estate transaction. At a closing, lawyers will help the sellers legally transfer the property to the buyers, and the buyers will receive the keys.

Credit score
A buyer's credit score is a key component in how lenders determine viability for a loan. Lower credit scores translate to lower interest rates, saving a buyer hundreds of thousands of dollars over the lifetime of a 30-year mortgage.

D

Down payment
At closing, a buyer will provide a down payment as part of the total purchase price. A down payment usually represents a round percentage of the total price, from as little as 3 percent to as high as 20 percent and above. If a buyer puts less than 20 percent down at closing, he or she will

need private mortgage insurance (see entry for PMI). Down payments are paid as cashier's checks or wire transfers at closing.

E

Earnest money

Similar to a security deposit, earnest money demonstrates the buyer's intent to purchase a property as the real estate transaction moves forward. Earnest money goes toward the total purchase price of the property, and if the deal falls through, buyers usually—though not always—are able to get their earnest money back. Earnest money is commonly calculated as one percent of the total purchase price.

Equity

Equity simply means an ownership right. Once you've put money down on a house, and as you continue to make mortgage payments, you have more and more equity in the property.

Escrow

Escrow has multiple meanings in real estate. It refers to a neutral, trustworthy third party who holds onto funds like earnest money (see entry) or deeds until closing is complete. It also refers to an account a new homeowner pays into to help cover property taxes, insurance, and other expenses that the lender will handle on your behalf. There's also the escrow period, where lenders review your candidacy for a loan.

F

Fixed-rate mortgage

Unlike an adjustable rate-mortgage, a **fixed-rate mortgage** will have the same interest rate over the course of the loan. The fixed-rate mortgage will likely be higher than the initial introductory rate of an ARM, but it's less risky for buyers.

G

Guarantor

A guarantor is someone who agrees to pay all debts for a buyer if that buyer defaults on his or her loan. Guarantors are similar to co-signers. Usually, a guarantor will be an immediate family member or close friend.

H

Home equity loan

People who take out home equity loans are borrowing against their home's value. You're using your home as security for the loan, which can be risky and can come with significant fees (and add to significant debt).

However, home equity loans are easy to qualify for when you own a home, have low interest rates, and can provide access to much larger loan sums. You can receive a home equity loan as a lump sum of cash or as a home equity line of credit, known as HELOC.

Home inspection

During a home inspection, a trained professional will look at every nook and cranny of a potential property before the buyer is locked into a binding agreement to purchase it. If the inspector finds problems, the buyer may renegotiate the terms of the purchase or choose to walk away if a property has too many expensive issues to address, such as foundational problems or plumbing and electrical issues.

Homeowner's insurance

Not only will **homeowner's insurance** protect your property in case of an accident or even a robbery, it's also almost always required if you've received a loan from a bank or mortgage company.

I

Index

An index is used to determine whether a rate will increase or decrease if buyer has an adjustable-rate mortgage (see entry).

Indexes are samplings of the stock market designed to give a clearer picture of the larger market. Your loan paperwork will tell you which index your mortgage is tied to, but common indexes for **adjustable rate mortgages** include Treasury yields set by the federal reserve and the 11th District Cost of Funds Index, known as COFI, which tracks the interest financial institutions are paying in **Arizona**, **California**, and **Nevada**.

Interest

Interest is payment from a borrower to a lender beyond the repayment amount. Interest is based on either a fixed rate or an adjustable rate, depending on the type of loan.

J

Joint mortgage

When you apply for a joint mortgage, your income plus your partner's income are seen as a combined number, giving you access to a larger budget and usually better interest rates.

This doesn't have to be a romantic partner—in fact, you can apply for a joint mortgage with up to three other people, a popular option for a larger investment property, for example. Joint mortgages do not mean a person will have joint ownership; he or she will have to arrange the title (see entry) accordingly to reflect ownership.

Jumbo loan

Jumbo loans are designed to finance luxury properties. They feature an even stricter underwriting process (see entry) to ensure the buyer won't default on the loan and have set limits to their amounts. In most parts of the U.S., jumbo loans are capped at about $453,000. In more expensive markets where properties have higher values (think **Los Angeles** or **San Francisco**), the limit is about $680,000.

K

203(K) loan

The K in this case refers to the 203(K) loan, also known as **the fixer-upper loan**. In a nutshell, this loan helps finance home renovations by providing the amount needed to purchase a property plus additional funds to make necessary repairs.

L

Loan Officer
Also known as a mortgage consultant, a **loan officer** works for a lender to assist with pre-approval and continuing documentation throughout the course of a real estate transaction.

Loan to value ratio
The loan to value ratio (LTV) is calculated as the mortgage amount divided by the appraised value of the property (see appraisal entry). This formula is used to help lenders determine whether they want to move forward with a mortgage. A high LTV ratio is usually riskier and may require the buyer to purchase private mortgage insurance, or PMI (see PMI entry).

M

Mortgage
Also known as a mortgage loan, this is the money a lender gives a borrower to purchase real estate. Mortgage payments (usually fixed, and usually monthly) are how a borrower repays the loan principal amount as well as interest and other fees.

Mortgage broker
A **mortgage broker** is a middleman designed to help you navigate different lenders and interest rates. Mortgage brokers work independently and facilitate communication between the buyer and the lender.

Mortgage origination
Mortgage origination refers to the successful distribution of a mortgage loan. You can read more about **origination** here.

N

Negotiation
Negotiation refers to the back and forth between a buyer and seller (usually through a real estate agent and listing agent) to get to a favorable offer price. A buyer might start with an offer that's too low; a seller's counter offer might be too high; and a follow-up counter offer might be just right. These offers and counteroffers are also known as negotiations.

O

Offer
An **offer** refers to how much money a buyer formally tells a seller he or she will pay for a property. Offers can be accepted or rejected and don't have to match the asking price.

P

PMI
Private mortgage insurance, or **PMI**, is a special type of insurance some lenders may require borrowers to carry in order to reduce lender risk on disbursing a loan. PMI is required if borrowers put less than 20 percent down on a property but eventually drops off once buyers have more equity (see entry) in the property.

Pre-approval
This refers to preliminary steps borrowers take with lenders to show their viability for a loan. Pre-approval also helps buyers (borrowers) illustrate to

sellers that they're serious about proceeding with a real estate transaction and can be a valuable tool in competitive markets.

Principal
Principal refers to the amount of a monthly mortgage payment (see entry for "amortization") designated solely to repaying toward the total amount borrowed on the loan. Principal is separate from interest (see entry), PMI (see entry), and other fees.

Q

Qualify
How high of a loan amount will you qualify for? This will depend on factors such as your income, credit score, whether or not you have any debt collections or a recent bankruptcy, the status and amount of your monthly payments, and more.

R

Real estate agent
An agent is a licensed real estate professional who works under a broker (see entry). Unlike a broker, an agent cannot work independently and will be part of a larger firm.

S

Showing
Potential buyers can view properties in person during a showing. Showings can be private with the buyer's real estate agent or can be a more casual drop-in via an open house event. In either case, there are some things **you should look out for** while touring a home.

T

Title
A title is documentation that serves as evidence of ownership in a property. **Co-owners** on a property can be included in different ways depending on the type of title—either joint tenancy or tenancy in common.

U

Underwriting
Underwriting refers to the process of a lending institution such as a bank deciding whether or not to bear the risk of lending a buyer the money. During underwriting, loan professionals will carefully comb through your financial picture to make sure you're a reputable candidate for a loan.

V

VA loan
A VA loan is a special type of loan available to military service members, veterans, and eligible surviving spouses. Because Veterans Affairs guarantees a portion of the loan, lenders are able to offer much more favorable rates and terms.

Variable interest rate
Unlike a fixed interest rate, a variable interest rate is subject to change as larger market interest rates change. See related entries for adjustable rate mortgage and index.

W **Warranty**
A home warranty is a yearly contract that covers the repair, or potential replacement of appliances inside the home. Similar to a health insurance plan, home warranties can have higher monthly payments with lower service calls (think of them as a copay) or lower monthly payments with higher fees for service calls.

X **X-year rule**
It might be the three-year rule, it might be the five-year rule. The X-year rule refers to the idea that the first few years of homeownership tend to be more expensive due to factors like closing (see entry) and potential private mortgage insurance (see PMI entry).

After a few years, homeownership tends to become more affordable and is a better deal than renting, according to the X-year rule. If you're planning on staying in a home for fewer than three to five years, you may be better off renting until you're ready to settle down.

Y **Yield**
Yield refers to the rate of return on a real estate investment. Yield isn't often discussed (or relevant) for residential real estate, but if you're purchasing an income property or a home with potential for an income property, such as a **casita**, yield refers to the annual income from the investment. Yields are an important facet of commercial real estate.

Z **Zoning**
Zoning can refer to the various designations a property may have. There's school zoning, for example, as well as **flood zoning**. A property's zoning can make it more or less alluring for a buyer.