

## Terms and Acronyms

**Adjustable Rate Mortgage (ARM):** This is a hybrid mortgage. It is fixed for a specified time (1, 3, 5 or 10-year period) and then adjusts to the current interest rate. The change in the interest rate is tied to a financial index. Many indexes are available. The margin, which is added to the index to determine the new rate, remains stable throughout the life of the loan. Ask about annual and lifetime caps (maximum rate).

**Amortization:** The gradual repayment of a mortgage by periodic installments of interest and principal.

**Annual Percentage Rate (APR):** The total finance charge (interest, loan fees, points) expressed as a percentage of the loan amount.

**Appraisal:** An estimate of the value of a property.

**“As Is” Addendum:** An addendum to the purchase contract saying you are buying the home in its present condition and will not require the seller to perform any repairs. The seller is still required by California law to disclose anything that might have a bearing on the value.

**Balloon Mortgage:** A mortgage that has a substantial amount of principal due at the maturity date.

**Closing (Close of Escrow):** The final step in transferring ownership of a property from seller to buyer. The day the deed is transferred into your name and you get the keys. Official recording at County Recorder’s office of Transfer.

**Cloud on Title:** An outstanding lien, encumbrance, or mortgage that can prevent the seller from delivering clear title and the buyer from obtaining title insurance.

**Comparable (Comps):** Comparable homes similar in location, size, condition generally used for price analysis.

**Contingency:** A condition that must be satisfied before a contract is binding

**Debt-to-Income Ratio (DTI):** All your monthly debt payments divided by your gross monthly income.

**Deposit:** This is a good faith deposit, NOT the down payment. This check is deposited with the Escrow Company after the offer is accepted. This is fully refundable if the purchase contract is cancelled during the contingency period. This deposit is applied to your down payment.

**Disclosure Package:** Is assembled by the seller. It is copies of all reports, inspections, and other disclosures prepared by the seller for the buyer’s knowledge and approval.

**DOM:** Days on Market

**Earnest Money Deposit (EMD):** Same as Deposit.

**Escrow:** The placement of money or documents with a third party for safekeeping pending the fulfillment or performance of a specified act or condition.

**FICO Score:** Credit score that is taken from 3 major consumer credit bureaus: Equifax, TransUnion, and Experian.

**Fixed Rate Loan:** A loan which has an interest rate that remains constant throughout the life of the loan, usually available for 30 or 15 years, depending on the lender. The longer the time frame the higher the rate.

**Good Faith Deposit:** Same as Deposit.

**HOA:** Home Owners Association.

**HOA Docs:** The Governing, Financial, Rules and Regulation Documents of the HOA.

**Impound Account:** An account maintained by the lender to collect and pay on your behalf property insurance and tax payments. The lender divides the annual cost of each type of insurance into a monthly amount and adds it to your monthly mortgage payment.

**Inspection Contingency:** An opportunity for you to inspect the property for defects and needed repairs that allows you to cancel the contract or negotiate for the repairs. The standard time frame is currently 7-14 days. The shorter time is preferred by the seller.

**Lien:** A legal claim against a property. Generally buyers should have all liens removed prior to purchase.

**Loan Contingency:** An opportunity for you to obtain financing to purchase the home. It allows you to cancel the contract if you are unable to get a loan. This is the time for the appraiser and underwriters to thoroughly review your financials. The standard time frame is currently 10-15 days. Once again, the shorter time is preferred by the seller.

**Loan to Value Ratio (LTV):** The total mortgage loan amount divided by the total purchase price of the home or appraised value of the home.

**Maturity Date:** The date on which all outstanding principal amount of loan is due.

**Private Mortgage Insurance (PMI):** Insurance that protects the lender in case the borrower defaults on the mortgage. Paid to a third-party insurance company. Often required by the lender when a down payment is less than 20%.

**Points:** A dollar amount, expressed as a percentage of the mortgage amount, which is paid to a lender as a consideration for making the loan. A point is one percent of the amount of the mortgage loan.

**Principal:** The original sum borrowed in a loan.

**Principal, interest, taxes, and insurance payment (PITI):** A periodic (typically monthly) payment that includes the principal and interest payment plus a contribution to the escrow account set up by the lender to pay insurance premiums and property taxes on the mortgaged property.

**Property Taxes:** Property Tax is an annual tax but is paid twice a year. The tax varies by city but is approximately 1.1% of purchase price plus any other local bonds. Buyers will also receive a supplemental tax bill for the tax period that you owned the home before it was reassessed.

**Recording:** The official notice of change of ownership recorded in the County Recorders Office.

**Rent Back:** A period of time the seller can remain in the home after the close of escrow. The payment of this is negotiable but often the seller offers to pay the buyers PITI (principal, interest, taxes, insurance). To make the offer stronger many buyers allow seller to remain 2-4 weeks at no charge.

**Title:** A document that shows evidence of ownership.

**Title Insurance:** Protection for lenders and homeowners against financial loss resulting from legal defects in the title.

**Title or Escrow Company:** A neutral 3<sup>rd</sup> party to manage the transaction and financials.

**County and City Transfer Tax:** Most counties and several cities have a tax based on the sales price. It is very similar to sales tax. Costs are varied by county and city. San Mateo County transfer tax is \$1.10 per \$1,000. Generally, the seller will pay for the county transfer tax and city transfer tax varies by city.