BUYING A HOME: FACTORS TO CONSIDER & PITFALLS TO AVOID

KEY TERMS & FACTS

ACTIVE LISTING	A property listed for sale on the real estate market. Offers may have been made, but not accepted.
ADJUSTABLE-RATE MORTGAGE (ARM)	A type of mortgage where the interest rate applied to the principal balance fluctuates throughout the duration of the loan. The interest rate is based on a benchmark or index (plus an additional spread called an ARM margin).
ANNUAL PERCENTAGE RATE (APR)	The cost of borrowing money used mostly in reference to loans and/or credit card balances. Represents the actual yearly cost of funds over the term of the loan, including fees and transactions costs, but excludes the cost of compounding.
APPRAISAL	A valuation of a property performed by an authorized person used for taxation and to determine the purchase price of a property. If a property does not "appraise" at its listed value, it may mean a deal does not go through.
CLOSING COSTS	Expenses and fees related to buying or selling a home. Closing costs include, but are not limited to: taxes, title insurance, appraisal fees, lender fee, and more. First-time home buyers may be subject to additional expenses.
CLOSING DISCLOSURE*	Summary or final statement of closing costs and loan terms. A buyer must receive it three business days before closing on a property. **Used to be known as the HUD-1 Form.*
COMMISSION	The rate charged by your real estate agent for his or her services. Typical commissions are 3% for the buying agent and 3% to the selling agent (6% total), but may be negotiable. Buyer does not pay the commission – it comes entirely from the seller.
CONTINGENCY	Conditions that must be met before a closing, such as financing, the appraisal process, or the buyer's ability to sell their current home.
DEBT-TO-INCOME RATIO (DTI)	The ratio of a borrower's gross (pre-tax) monthly income over debts (car payments, student loans, credit card bills, etc.).
DOWN PAYMENT	The amount of money a buyer initially gives the bank or "puts down" at closing. Traditionally, the minimum is 20% of the total home purchase, however, banks can loan at their discretion. Credit rating will affect how a buyer is required to put down.
EARNEST MONEY DEPOSIT	A partial payment made to the seller demonstrating a buyer's intent and commitment to the deal. Earnest money is held in escrow. It is either returned if the buyer and seller do not reach an agreement or is applied to closing costs if they do.
EFFECTIVE DATE	The date when all parties sign a contract and its terms become enforceable.
EQUITY	The portion of the home owned, excluding the mortgage balance. (Value of the home minus the outstanding mortgage amount).
ESCROW/ESCROW AGENT	During the point in time when a buyer and seller are in the process of completing the transaction any funds are in escrow. Funds are held by a 3rd party (the Title Company or Escrow Agent) who holds the funds until closing. A legal agreement is signed by both parties outlining the terms and conditions of the escrow.
FIXED-RATE MORTGAGE	A mortgage loan with an interest rate locked in for the entire term of the loan. Most common are 15-year and 30-year.

FOR SALE BY OWNER (FSBO)	Notation used when a real estate agent is NOT involved.
LISTING	A property for sale that is listed by a listing service. An FSBO is not a “listing”.
LOAN-TO-VALUE (LTV)	The ratio of money borrowed (mortgage amount) to the appraised value of the home. The LTV is a key factor that lenders consider when evaluation an application.
MULTIPLE LISTING SERVICE (MLS)	A local or regional service where properties for sale are compiled. An MLS can only be accessed by real estate brokers and agents.
OPTION PERIOD	A specified number of days set forth in a real estate contract which allows the buyer to terminate the contract for any reason for a specified price without risking the earnest money deposit.
PENDING	The point in time where an offer has been accepted and a contract signed, but the sale has not yet closed. Occurs during escrow.
POINTS	A one-time fee paid to a lender that equals 1% of the loan amount to reduce the interest rate of the loan.
PRE-APPROVED	Where a buyer completes an official mortgage application and supplies a lender with the necessary documentation to perform an extensive financial background check and credit rating. A lender can then pre-approve a mortgage up to a specified amount.
PRE-QUALIFIED	Where a buyer supplies a lender with an overall financial picture of income, assets, and debt. The lender reviews the documentation and provides an estimate of how much the buyer can expect to borrow. Keep in mind that pre-qualification does NOT include an analysis of a credit report or a detailed look at what the buyer can afford. It is based solely on the information given to the lender.
PRINCIPAL, INTEREST, TAXES AND INSURANCE (PITI)	The major costs of homeownership included in calculating monthly mortgage payments.
PRIVATE MORTGAGE INSURANCE (PMI)	Insurance that protects a lender against a loss if the borrower defaults on the loan. PMI is required for loans made where less than 20% was used for the down payment.
RATE LOCK	An agreement between the borrower and lender where the borrower locks in the interest rate on a mortgage for a specific period of time.
TITLE INSURANCE	Insurance that protects the buyer or lender from title defects, liens or competing claims of ownership that may come to light after closing.
UNDER CONTRACT	The point in time where a buyer’s offer has been accepted, but contingencies have not yet been met.

Sources: WashingonPost.com; Realtor.com; Nolo.com; Redfin; Houston Trust Company personnel; Martha Turner Sotheby’s International Realty personnel

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