

12 Real Estate Terms to Know

Buying or selling a home can be confusing. Knowing the definitions of the following terms will help you better understand what's going on.

- **Adjustable Rate Mortgage (ARM)** – can be also referred to as a Variable Rate Mortgage. A mortgage in which the interest rate is adjusted periodically based on a preselected schedule.
- **Buy-Down** – A method of lowering a buyer's monthly payments for a short period of time. The lender subsidizes the mortgage by lowering the interest rate for the first few years of the loan. At that point the interest rate will go up to an agreed upon rate.
- **Caps** – a limit the interest rate or monthly payments can adjust to with and Adjustable Rate Mortgage.
- **Debt-to-Income Ratio** – the percentage of your monthly debt versus your monthly income. This percentage is calculated by dividing a buyer's monthly long-term debts by a buyer's gross monthly income.
- **Underwriting** – The decision-making process of granting a loan to a potential home buyer.
- **PITI Payment** – Refers to a payment that includes the Principal, Interest, Taxes, and Insurance.
- **Origination Fee** – a fee charged by the lender for processing a loan application; usually calculated as a percentage of the loan.
- **Market Value** – The price a property could possibly bring in the real estate marketplace.
- **Mortgage Insurance** – insurance that protect lenders against loss if a buyer defaults on their loan. This is required when the loan-to-value ratio is greater than 80 percent.
- **Fixed Rate Mortgage** – a mortgage in which the interest remains the same throughout the life of the loan.
- **Earnest Money** – money given by a buyer to a seller as a deposit to purchase a property. Earnest money is subtracted from closing costs.
- **Closing** – Also referred to as settlement. The meeting in which the real estate transaction is completed and when the property and funds are exchanged between the Buyer(s) and Seller(s).

The terms above are used in 99.99% of all real estate transactions. Whether your Realtor®, Lender or closing attorney use these terms, you will now know what's going on.

The above information should be used as an informational tool only and makes no guarantees.