Homeownership Definitions

Mortgage - A loan used to buy real estate. One must make monthly payments on a mortgage, and there is a set term before full payment is due, often 15, 20, or 30 years. If one defaults on a mortgage, the bank who lent the homebuyer funds may take possession of the real estate and sell it to recover its investment.

Default- The failure to make payments on a debt. One may default on any debt, such as a mortgage or a bond. Default is a very serious matter and may entitle the lender or bondholder to take possession of one's assets in order to recover the amount lost in principal and interest payments on the debt.

Lender - A lender is an individual, a public or private group, or a financial institution that makes funds available to a person or business with the expectation that the funds will be repaid. Repayment includes the payment of any interest or fees.

Principal - The amount of money that one borrows. For example, if one borrows $100,000, the principal amount is $100,000. Interest is calculated over the principal and over unpaid interest that accumulates.

Interest - The price paid for borrowing money. It is expressed as a percentage rate over a period of time. Some mortgages have fixed interest rates, while others have variable interest rates.

Lock-in your Interest Rate - The moment when your interest rate becomes stable and won't change even if mortgage interest rates go up. If interest rates decrease, as long as it's more than 30 days before closing, your lender will work with you to get the lower interest rate.

Pre-qualification - The act or process of determining the approximate amount a borrower will be able to borrow before he/she actually applies for a loan. Prequalification looks at the borrower's current income and debt to make this determination. Prequalification is most common with mortgages. Because the borrower has not applied for the loan, it is not a guarantee of approval, but is rather an estimation.

Pre-approval - A commitment by a mortgage lender to provide a loan with a certain monthly payment to a borrower. A lender offers pre-approvals in hopes that the borrower to whom it is offered will use that lender in securing a mortgage. It should be noted that, while the monthly

payment is fixed, the interest rate and therefore the total amount available to be borrowed are not. This can limit the potential borrower's options as he/she seeks to buy real estate.
Credit Score - A measure of an individual's creditworthiness. Credit scoring involves the quantification of a variety of factors in an individual's background, including a history of default, the current amount of debt, and the length of time that the individual has made purchases on credit. Banks and other financial institutions may use a credit score to determine whether or not an individual is likely to default on a loan, mortgage, or other debt. The FICO score is the most common credit score in the United States.

Soft Credit Pull - When you or another party looks up your credit score with the credit bureau. A soft credit pull can occur during the pre-qualification process.

Hard Credit Pull - A more in-depth look at a potential borrower's credit history when they are applying for a loan. Hard inquiries can temporarily impact your credit scores for a couple of months. A lender will do a hard credit pull once you have an application in process for a loan.

First-time Homebuyer - Individuals who have had no ownership in a principal residence during the last 3-year period or meet one of the following conditions:

1. Single parents or individuals who have only owned a property with a former spouse while married and were displaced.
2. Individuals who have only owned a principal residence not permanently affixed to a permanent foundation.
3. Individuals who have only owned property that was not in compliance with state, local or model building codes and which cannot be brought into compliance for less than the cost of constructing a permanent structure.

First-generation homebuyer: An individual who falls into either of the following categories:

A. An Individual whose parents or legal guardians are still living and to the best of their knowledge have no current ownership in fee simple interest in a principal residence in any State, excluding ownership of heir property.
B. who, if no parents or legal guardians are living upon acquisition of the eligible home, to the best of the individual's knowledge, their parents or legal guardians did not have any fee simple ownership interest in a principal residence in any State at the time of their death, excluding ownership of heir property; and
C. An individual who has at any time been placed in foster care or institutional care whose spouse or domestic partner has not, during the 3-year period ending upon acquisition of the eligible home to be acquired using such assistance, had any ownership interest in a principal residence in any State, excluding ownership of heir property, whether such individuals are co-borrowers on the loan or not.

If an individual is applying with a spouse or domestic partner they must be a first-time homebuyer (see definition above).

Section 8 Housing Voucher - The housing choice voucher program provides financial assistance to very low-income families to afford decent, safe, and sanitary housing. Housing choice vouchers are administered locally by Public Housing Agencies (PHAs). Section 8 Voucher holders can use their voucher for Homeownership if they've had their voucher for three years.

IDA (Individual Development Account) - a savings account where a certain amount of funds are matched with more money in order to help the owner of the account meet a goal. One of the goals is homeownership. If you're selected in Kor's Program you'll be enrolled in an IDA to help cover closing costs.

Closing Costs - Costs associated with the completion of a sale of real estate. Closing costs are not usually included in the sale price of the property. Some examples of closing costs are appraisal fees, deed-recording fees, and applicable taxes. Your lender can give you an estimate of closing costs.

Purchase Sale Agreement (PSA) - A real estate purchase sales agreement spells out the agreed-upon terms under which a buyer and seller agree to engage in a real estate transaction. The completion and signing of a purchase agreement effectively places both the buyer and seller (as well as the property in question) "under contract."

Earnest Money - Money paid to escrow by a buyer to demonstrate the buyer's good faith after the purchase sale agreement has been signed. If the deal falls through, the deposit is usually forfeited except at points predetermined in the Purchase Sale Agreement.

Appraisal - The act of estimating the value of a property by a person licensed to do so. An appraisal may take into account the quality of the property, values of surrounding properties, and market conditions in the area. Lenders require an appraisal before administering the mortgage in order to ensure the value of the home is equal or higher than the amount they are lending.

Escrow - An escrow account is a contractual arrangement in which a neutral third party, known as an escrow agent, receives and disburses funds for transacting parties (i.e., you and the seller). Typically, a selling agent opens an escrow account through a title company once you and the seller agree on a home price and sign a purchase agreement. When you're buying a home, this escrow account serves two main purposes:

1. To hold earnest money while you're in escrow
2. To handle and disburse the funds until all escrow conditions are met and escrow is closed

Escrow Agent - A third party who agrees to hold funds or assets in escrow. The escrow agent provides this service to two parties in a transaction until certain conditions are filled. The escrow agent holds the assets until the transaction is finalized and then gives them to the appropriate party.

Escrow Account - Over the course of your loan a portion of your monthly payments goes into an escrow account managed by the bank that oversees your loan. This escrow account is used to pay everything except your principal and interest. Escrow accounts cover your Homeowner's insurance and property taxes for the year. Your lender pays those items for you so you don't have to worry about it.

Estimated Escrow - An estimate of what your annual costs will be for Homeowners Insurance and Property taxes. When your lender prepares the initial closing disclosure they estimate these costs if they don't have your final homeowner's insurance policy yet.

Title company - The title company and escrow agents are part of the same company. The title company makes sure a property title is legitimate, so that the buyer may be confident that once he buys a property, he is the rightful owner of the property. During the title search, the title company also looks for any outstanding mortgages, liens, judgments or unpaid taxes associated with the property, as well as any restrictions, easements, leases or other issues that might impact ownership.

Title Insurance - Once the title is found to be valid, the title company will likely issue a title insurance policy, which protects lenders or owners against claims or legal fees that may arise from disputes over the ownership of the property.

Certificate of Occupancy - Your certificate of occupancy (CO) is the document issued by a local building department or zoning department. It states that the residential property or home is appropriate for occupancy. To be considered suitable, it must be compliant with the building code applying to that area. This indicates that it adheres to all safety standards.

Home Inspection - An inspection done by a qualified professional that assesses the property's condition, including its heating and cooling systems, plumbing, electrical work, water, and sewage, as well as some fire and safety issues. In addition, the home inspector will look for evidence of insect, water, fire damage, or any other issue that may affect the property's value.

Closing Disclosure - The Closing Disclosure is a five-page form that describes the critical aspects of your mortgage loan, including purchase price, loan fees, interest rate, estimated real estate taxes, insurance, closing costs and other expenses. The closing disclosure must be received at least 3 days before your closing date. It's important that you review it thoroughly – in fact, it's one of the most important steps you can take while buying a house.

For additional Homeownership Terms that may be missing from this glossary visit this site:
https://www.incharge.org/housing/homebuyer-education/homeownership-guide/glossary-of-terms/