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"Licensed Loan Originator"

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## Real Estate & Mortgage Terms Defined

**Actual Cash Value:** An amount equal to the replacement value of damaged property minus depreciation.

**Adjustable-Rate Mortgage (ARM):** Also known as a variable-rate loan, usually offers a lower initial rate than fixed-rate loans. The interest rate can change at specified time periods based on changes in an interest rate index that reflects current finance market conditions, such as the LIBOR index or the Treasury index. The ARM promissory note states maximum and minimum rates. When the interest rate on an ARM increases, the monthly payments will increase and when the interest rate on an ARM decreases, the monthly payments will be lower.

**Adjustment Period:** The time between interest rate adjustment dates for an ARM. They are usually the initial period between the time the ARM is originated and the first interest rate change date, and subsequent adjustment periods between each interest rate change after the first interest rate change.

**Amortization:** A term used to describe the process of paying off a loan over a predetermined period of time at a specific interest rate. The amortization of a loan includes payment of interest and a portion of the outstanding principal balance during each payment cycle.

**Amortization Schedule:** Provided by mortgage lenders, the schedule shows how over the term of your mortgage the principal portion of the mortgage payment increases and the interest portion of the mortgage payment decreases.

**Annual Percentage Rate (APR):** The cost of credit expressed as a yearly rate. The APR includes the interest rate, points, broker fees and certain other credit charges that the borrower is required to pay.

**Application Fee:** The fee that a mortgage lender charges to apply for a mortgage to cover processing costs.

**Appraisal:** A professional analysis, including references to sales of comparable properties, used to estimate the value of the property.

**Appraiser:** A professional who conducts an analysis of the property, including references to sales of comparable properties in order to develop an estimate of the value of the property. The appraiser's report is called an "appraisal."

**Appreciation:** An increase in the market value of a home due to changing market conditions and/or home improvements.

**Arbitration:** A process where disputes are settled by referring them to an impartial third party (arbitrator) chosen by the disputing parties who agree in advance to abide by the decision of the arbitrator. There is a hearing where both parties have an opportunity to be heard, after which the arbitrator issues the decision.

**Asbestos:** A toxic material that was once used to make insulation and fireproofing material in houses. Because some forms of asbestos have been linked to certain lung diseases, it is no longer used in new homes. However, some older homes may still have asbestos in these materials.

**Assets:** Everything of value an individual owns.

**Assumption:** A homebuyer's agreement to take on the primary liability for paying an existing mortgage from a home seller.

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**Balloon Mortgage:** A mortgage with monthly payments based on a 30-year amortization schedule and the unpaid principal balance due in a lump sum payment at the end of a specific period (usually 5 or 7 years) earlier than 30 years. The mortgage contains an option to reset the interest rate to the current market rate and to extend the maturity date provided certain conditions are satisfied.

**Bankruptcy:** Legally declared unable to pay your debts as they become due. Bankruptcy can severely impact your ability to borrow money.

**Capacity:** Your ability to make your mortgage payments on time. This depends on your income and income stability, your assets and reserves, and the amount of your income each month that is available after you have paid for your housing costs, debts and other obligations.

**Closing (Closing Date):** When the real estate transaction between buyer and seller is completed. The buyer signs the mortgage documents and the closing costs are paid. Also known as the settlement date.

**Closing Agent:** A person that coordinates closing-related activities, such as recording the closing documents and disbursing funds.

**Closing Costs:** The costs to complete the real estate transaction. These costs are in addition to the price of the home and are paid at closing. They include points, taxes, title insurance, financing costs and items that must be prepaid or escrowed and other costs. Ask a lender or real estate professional for a complete list of closing cost items.

**Collateral:** Property which is pledged as security for a debt. In the case of a mortgage, the collateral would be the land, the house, and other buildings and improvements.

**Commitment Letter:** A letter from your lender that states the amount of the mortgage, the number of years to repay the mortgage (the term), the interest rate, the loan origination fee, the annual percentage rate and the monthly charges.

**Concession:** Something yielded or conceded in negotiating a transaction.

**Condominium:** A unit in a multiunit building. The owner of a condominium unit owns the unit itself and has the right, along with other owners, to use the common areas but does not own the common elements such as the exterior walls, floors and ceilings or the structural systems outside of the unit; these are owned by the condominium association. There are usually condominium association fees for maintenance for building and property upkeep, taxes and insurance on the common areas and reserves for improvements.

**Counter-offer:** An offer made in return by the person who rejects the previous offer.

**Credit:** The ability of a person to borrow money, or obtain goods with payments over time, as a consequence of the favorable opinion held by a lender as to the person's financial situation and reliability.

**Credit Bureau:** A company that gathers information on consumers who use credit and sells that information in the form of a credit report to credit lenders.

**Credit History:** A credit history is a record of credit use. It is comprised of a list of individual consumer debts and an indication as to whether or not these debts were paid back in a timely fashion or "as agreed." Credit institutions have developed a complex recording system of documenting your credit history. This is called a credit report.

**Credit Report:** A document used by the credit industry to examine an individual's use of credit. It provides information on money that individuals have borrowed from credit institutions and a history of payments.



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**Credit Score:** A computer-generated number that summarizes an individual's credit profile and predicts the likelihood that a borrower will repay future obligations.

**Creditworthy:** Your ability to qualify for credit and repay debts.

**Debt:** A sum of money owed from one person or institution to another person or institution.

**Debt-to-Income Ratio:** The percentage of gross monthly income that goes toward paying for your monthly housing expense, installment debts, alimony, child support, car payments, and payments on revolving or open-ended accounts such as credit cards.

**Deed:** The legal documents conveying title to a property

**Deed of Trust:** A legal document in which the borrower conveys the title to a 3rd party (trustee) to hold as security for the lender. When the loan is paid in full the trustee re-conveys the deed to the borrower. If the borrower defaults on the loan the trustee will sell the property and pay the lender the mortgage debt.

**Default:** Failure to perform a legal obligation; a default includes failure to pay on a financial obligation, but may also be a failure to perform some action or service that is nonmonetary.

**Deposit:** The amount of money you put down on a house to hold it.

**Depreciation:** A decline in the value of a house due to changing market conditions, decline of a neighborhood or lack of upkeep on a home.

**Down Payment:** A portion of the price of a home, usually between 3.5% - 20%, not borrowed and paid up front.

**Earnest Money Deposit:** The deposit you make to show that you are committed to buying the home. The deposit will not be refunded to you after the seller accepts your offer, unless one of the sales contract contingencies is not satisfied.

**Equity:** The value in your home above the total amount of the liens against your home. If you owe \$100,000 on your house but it is worth \$130,000, you have \$30,000 of equity.

**Escrow:** The holding of money or documents by a neutral third party prior to closing. It can also be an account held by the lender (or servicer) into whom a homeowner pays money for taxes and insurance.

**Fixed-Rate Mortgage:** A mortgage with an interest rate that does not change during the entire term of the loan.

**Foreclosure:** A legal action that terminates all ownership rights in a home when the homebuyer fails to make the mortgage payments or is otherwise in default under the terms of the mortgage.

**Gift Letter:** A letter that a family member writes verifying that he/she has given you a certain amount of money as a gift and that you do not have to repay it. You can use this money towards a portion of your down payment through some mortgage products.

**Good-Faith Estimate:** A written statement itemizing the approximate costs and fees for the mortgage.

**Gross Monthly Income:** The income you earn in a month before taxes and other deductions. Under certain circumstances, it may also include rental income, self-employed income, income from alimony, child support, public assistance payments, and retirement benefits.

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**Home Inspection:** A professional inspection of a home to review the condition of the property. The inspection should include an evaluation of the plumbing, heating and cooling systems, roof, wiring, foundation and pest infestation.

**Homeowner's Insurance:** A policy that protects you and the lender from fire or flood, which damages the structure of the house; a liability, such as an injury to a visitor to your home; or damage to your personal property, such as your furniture, clothes or appliances.

**Housing Expense Ratio:** The percentage of your gross monthly income that goes toward paying for your housing expenses.

**HUD-1 settlement statement:** A final listing of the costs of the mortgage transaction. It provides the sales price, and down payment, as well as the total settlement costs required from the buyer and seller.

**Index:** The published index of interest rates on a publicly traded debt security used to calculate the interest rate for an ARM. The index is usually an average of the interest rates on a particular type of security such as the LIBOR.

**Individual Retirement Account (IRA):** Tax-deferred plans that can help build a retirement nest egg.

**Inflation:** An increase in the general level of prices.

**Inquiry:** A request for a copy of your credit report. An inquiry occurs every time you fill out a credit application and/or request more credit. Too many inquiries on a credit report can lower your credit score.

**Interest:** The cost you pay to borrow money. It is the payment you make to a lender for the money it has lent to you. Interest is usually expressed as a percentage of the amount borrowed.

**Keogh Funds:** A tax-deferred retirement-savings plan for small business owners or self-employed individuals who have earned income from their trade or business. Contributions to the Keogh plan are tax deductible.

**Liabilities:** Your debts and other monetary obligations.

**Licensed Loan Originator:** Licensed Mortgage Professional who has completed 20 hours of training and then passed: National testing and State testing then a Federal background check. They are listed on a national site for consumer access and to check status.

**Lien:** A claim or charge on property for payment of some debt. With respect to a mortgage, it is the right of the lender to take the title to your property if you do not make the payments due on the mortgage.

**Loan Origination Fees:** The fee paid to your mortgage lender for processing the mortgage application. This fee is usually in the form of points. One point equals 1% of the mortgage amount.

**Lock-in rate:** A written agreement guaranteeing a specific interest rate when your mortgage closes.

**Low-Down-Payment Feature:** A feature of a mortgage, usually a fixed-rate mortgage that helps you purchase a home with as little as a 3.5% down payment.

**Margin:** The amount (expressed as a percentage) added to the index for an ARM to establish the interest rate on each adjustment date.

**Market Value:** The current value of your home based on what a willing purchaser would pay. The value determined by an appraisal is sometimes used to determine market value.

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**Mortgage:** A loan secured by a lien on your home. In some states the term mortgage is also used to describe the document you sign to show that you have granted the lender a lien on your home; other states use a deed of trust document instead of a mortgage. It may also be used to indicate the amount of money you borrow, with interest, to purchase your house. The amount of your mortgage is usually the purchase price of the home minus your down payment.

**Mortgage Broker:** An independent finance professional that specializes in bringing together borrowers and lender to facilitate real estate mortgages.

**Mortgage Insurance (MI or PMI):** Insurance needed for mortgages with low down payments (usually less than 20% of the price of the home).

**Mortgage Lender:** The lender providing funds for a mortgage. Lenders also manage the credit and financial information review, the property and the loan application process through closing.

**Mortgage Rate:** The cost or the interest rate you pay to borrow the money to buy your house.

**Mutual Funds:** A fund that pools the money of its investors to buy a variety of securities.

**Net Monthly Income:** Your take-home pay after taxes. It is the amount of money that you actually receive in your paycheck.

**Offer:** A formal bid from the homebuyer to the home seller to purchase a home.

**Open House:** When the seller's real estate agent opens the seller's house to the public. You do not need a real estate agent to attend an open house.

**Points:** 1% of the amount of the mortgage loan. For example, if a loan is made for \$50,000, one point equals \$500.

**Pre-approval Letter:** A letter from a mortgage lender indicating that you qualify for a mortgage of a specific amount. It also shows a home seller that you are a serious buyer.

**Predatory Lending:** Abusive lending practices that include making a mortgage loan to an individual who does not have the income to repay it or repeatedly refinancing a loan, charging high points and fees each time and "packing" credit insurance on to a loan.

**Pre-qualification letter:** A letter from a mortgage lender that states that you are pre-qualified to buy a home but does not commit the lender to a particular mortgage amount.

**Principal:** The amount of money borrowed to buy your house or the amount of the loan that has not yet been paid back to the lender. This does not include the interest you will pay to borrow that money. The principal balance (sometimes called the outstanding or unpaid principal balance) is the amount owed on the loan at any given time. It is the original loan amount minus the total repayments of principal you have made to date.

**Private Mortgage Insurance:** see Mortgage Insurance

**Property Appreciation:** see Appreciation

**Radon:** A toxic gas found in the soil beneath a house that can contribute to cancer and other illnesses.

**Rate Cap:** The limit on the amount that the interest rate on an ARM can increase or decrease during any one adjustment period.

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**Ratified Sales Contract:** A contract that shows both you and the seller of the house has agreed to your offer. This offer may include sales contingencies, such as obtaining a mortgage of a certain type and rate, getting acceptable inspections, making repairs, closing by a certain date, and the like.

**Real Estate Professional:** An individual who provides services in buying and selling homes. The real estate professional is paid a percentage of the home sale price by the seller. Unless you have specifically contracted with a buyer's agent, the real estate professional represents the interest of the property seller. Real estate professionals may be able to suggest local lenders or mortgage brokers, but are generally not involved in the lending process.

**Refinance:** Obtaining a new mortgage with all or some portion of the proceeds used to pay off the original mortgage.

**Registered Mortgage Originator:** Background check by their employers and listed on a national site for consumer access and to check status.

**Replacement Cost:** The cost to replace damaged personal property without a deduction for depreciation.

**Securities:** A financial form that shows the holder owns a share or shares of a company (stock) or has loaned money to a company or government organization (bond).

**Title:** The right to, and the ownership of, land by the owner. Title is sometimes used to mean the evidence or proof of ownership of land; although another term used for that is "deed."

**Title Insurance:** Insurance that protects lenders and homeowners against loss of their interest in the property because of legal problems with the title.

**Truth-in-Lending Act (TILA):** Federal law which requires disclosure of a truth in lending statement for consumer loans. The statement includes a summary of the total cost of credit such as the APR and other specifics of the loan.

**Underwriting:** The process a lender uses to determine loan approval. It involves evaluating the property and the borrower's credit and ability to pay the mortgage.

**Uniform Residential Loan Application:** A standard mortgage application that your lender will ask you to complete. The form request your income, assets, liabilities and a description of the property you plan to buy, among other things.

**Warranties:** Written guarantees of the quality of a product and the promise to repair or replace defective parts free of charge.



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