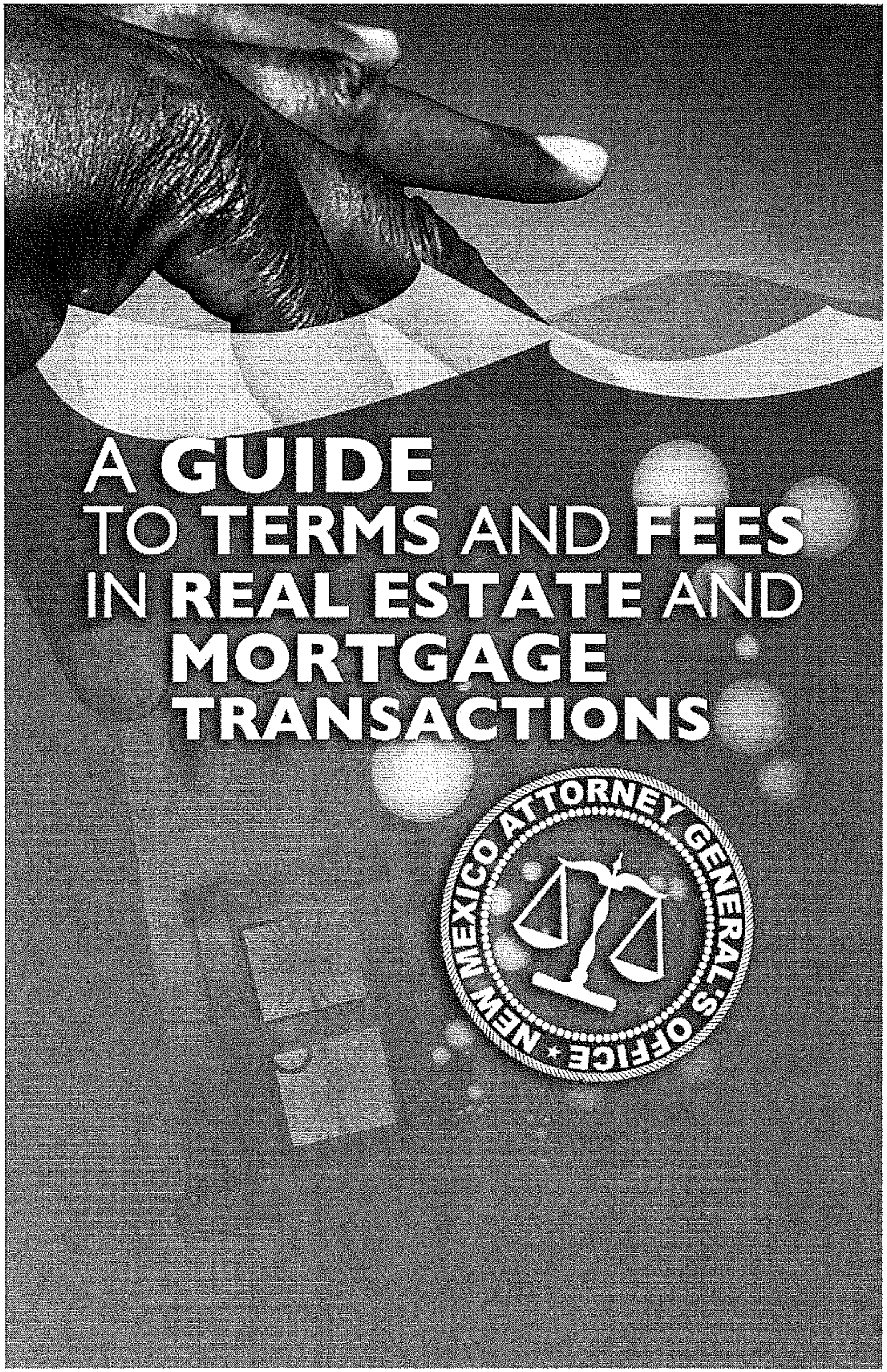
A GUIDE
TO TERMS AND FEES
IN REAL ESTATE AND
MORTGAGE
TRANSACTIONS
NEW MEXICO ATTORNEY GENERAL'S OFFICE

# A GUIDE TO TERMS AND FEES IN REAL ESTATE AND MORTGAGE TRANSACTIONS

Buying a home can be exciting...but overwhelming. Real estate and mortgage transactions involve many documents, specialized terms and a variety of fees. These terms and fees can be confusing and the volume and number of documents to review does not make the transaction any easier.

This summary provides definitions and information about the most common terms a consumer will come across in these transactions. Remember: If you do not know what a term means or what a fee is for – ASK. You always have the right to review documents before signing and you always should take the time to ask any question you may have.

## A

***Adjustable-Rate Mortgage (ARM):*** a mortgage loan that does not have a fixed interest rate. During the life of the loan the interest rate will change based on the index rate. Also referred to as adjustable mortgage loans (AMLs) or variable-rate mortgages (VRMs).

***Amortization:*** a payment plan that enables you to reduce your debt gradually through monthly payments. The payments may be principal and interest, or interest-only. The monthly amount is based on the schedule for the entire term or length of the loan.

***Amortization schedule:*** a table which shows how much of each payment will be applied toward principal and how much toward interest over the life of the loan. It also shows the gradual decrease of the loan balance until it reaches zero.

***Annual Percentage Rate (APR):*** a measure of the cost of credit expressed as a yearly rate. It includes interest as well as other charges. Because all lenders, by federal law, follow the same rules to ensure the accuracy of the annual percentage rate, it provides consumers with a good basis for comparing the cost of loans, including mortgage plans. APR is a higher rate than the simple interest of the mortgage.

***Application Fee***: a fee charged by lenders to process a loan application.

***Appraisal:*** a document from a professional that gives an estimate of a property's fair market value based on the sales of comparable homes in the area and the features of a property; an appraisal is generally required by a lender before loan approval to ensure that the mortgage loan amount is not more than the value of the property.

***Appraisal Fee:*** fee charged by an appraiser to estimate the market value of a property.

***Assessed value:*** typically the value placed on property for the purpose of taxation.

***Assignment:*** when the ownership of your mortgage is transferred from one company or individual to another, it is called an assignment.

# B

***Balloon Loan or Mortgage:*** a mortgage that typically offers low rates for an initial period of time (usually 5, 7, or 10) years; after that time period elapses, the unpaid balance is due in a lump sum payment at the end of the specified period of time or must be refinanced by the borrower.

***Balloon Payment:*** the final lump sum payment due at the end of a balloon mortgage.

***Broker:*** a licensed individual or firm that charges a fee to serve as the mediator between the buyer and seller. Mortgage brokers are individuals in the business of arranging funding or negotiating contracts for a client, but who does not loan the money. A real estate broker is someone who helps find a house.

***Broker commission:*** paid by seller to a real estate broker to compensate the broker involved in the sale for their services in marketing the property, usually computed as a percentage of the sale price, may be split with the buyer's real estate agent.

# C

***Cap:*** for an adjustable rate mortgage (ARM) a limitation on the amount the interest rate or mortgage payments may increase or decrease.

***Cash-Out Refinance:*** when a borrower refinances a mortgage at a higher principal amount to get additional money. Usually this occurs when the property has appreciated in value. For example, if a home has a current value of $100,000 and an outstanding mortgage of $60,000, the owner could refinance $80,000 and have additional $20,000 in cash.

***Certificate of Title:*** a document provided by a qualified source, such as a title company, that shows the property legally belongs to the current owner; before the title is transferred at closing, it should be clear and free of all liens or other claims.

***Clear Title:*** a property title that has no defects. Properties with clear titles are marketable for sale.

***Closing:*** the final step in property purchase where the title is transferred from the seller to the buyer. Closing occurs at a meeting between the buyer, seller, settlement agent, and other agents. At the closing the seller receives payment for the property. Also known as settlement.

***Closing Costs:*** fees for final property transfer not included in the price of the property. Typical closing costs include charges for the mortgage loan such as origination fees, discount points, appraisal fee, survey, title insurance, legal fees, real estate professional fees, prepayment of taxes and insurance, and real estate transfer taxes. A common estimate of a Buyer's closing costs is 2 to 4 percent of the purchase price of the home. A common estimate for Seller's closing costs is 3 to 9 percent.

Closing costs are separated into what are called "non-recurring closing costs" and "pre-paid items." Non-recurring closing costs are any items which are paid just once as a result of buying the property or obtaining a loan. "Pre-paids" are items which recur over time, such as property taxes and homeowners insurance. A lender makes an attempt to estimate the amount of non-recurring closing costs and prepaid items on the Good Faith Estimate which they must issue to the borrower within three days of receiving a home loan application.

***Closing Statement:*** See "HUD-1 Settlement Statement".

***Collateral:*** security in the form of money or property pledged for the payment of a loan. For example, on a home loan, the home is the collateral and can be taken away from the borrower if mortgage payments are not made.

***Commission:*** an amount, usually a percentage of the property sales price that is collected by a real estate professional as a fee for negotiating the transaction. Traditionally the home seller pays the commission. The amount of commission is determined by the real estate professional and the seller and can be as much as 6% of the sales price.

***Commitment Letter:*** a binding offer from lender that includes the amount of the mortgage, the interest rate and repayment terms.

***Contingency:*** a condition that must be met before a contract is legally binding.

***Conventional Loan or Mortgage:*** a private sector loan, one that is not guaranteed or insured by the U.S. government or one of its agencies (for example, FHA or VA).

***Convertible ARM:*** an adjustable-rate mortgage that provides the borrower the ability to convert to a fixed-rate within a specified time.

***Credit Life Insurance:*** a type of insurance that pays off a specific amount of debt or a specified credit account if the borrower dies while the policy is in force.

***Credit Repair Companies:*** private, for-profit businesses that claim to offer consumers credit and debt repayment difficulties assistance with their credit problems and a bad credit report. Many of these companies make representations that are false or misleading so consumers should be cautious about paying a fee upfront before any services are actually provided.

***Credit Report:*** information provided by a credit bureau that allows a lender or other business to examine your use of credit, including information about money borrowed and payment history.

***Credit Score:*** a numerical value that ranks a borrower's credit risk at a given point in time based on a statistical evaluation of information in the individual's credit history/ report that has been proven to be predictive of loan performance.

***Creditor:*** the lending institution providing a loan or credit.

# D

***Debtor:*** The person or entity that borrows money. The term debtor may be used interchangeably with the term borrower.

***Debt-to-Income Ratio:*** a comparison or ratio of gross income to housing and non-housing expenses (such as alimony, child support, car payments, installment debts and payments on credit cards); With the FHA, the-monthly mortgage payment should be no more than 29% of monthly gross income (before taxes) and the mortgage payment combined with non-housing debts should not exceed 41% of income.

***Deed:*** a document that legally transfers ownership of property from one person to another. The deed is recorded on public record with the property description and the owner's signature. Also known as the title.

***Deed-in-Lieu:*** to avoid foreclosure ("in lieu" of foreclosure), a deed is given to the lender to fulfill the obligation to repay the debt; this process does not allow the borrower to remain in the house but helps avoid the costs, time, and effort associated with foreclosure.

***Deed of Trust:*** a deed of trust is used by some lenders in place of a mortgage to transfer interest in land by a mortgagor-borrower to a mortgagee-lender and to secure the payment of the borrower's debt. Typically, the title is held by a third party (trustee) as security for the lender. Although a deed of trust serves the same purpose as a type of security, it differs from a mortgage and may provide fewer protections to the borrower in the event of default. Homeowners are cautioned to consult with a real estate attorney before agreeing to a deed of trust instead of a mortgage.

***Default:*** the failure to fulfill a legal obligation, such as the inability to make timely monthly mortgage payments. A default includes failure to pay on financial obligations, but also may be a failure to perform some action required by the contract. A loan is considered in default when payment has not been paid after 60 to 90 days. Once in default the lender can exercise legal rights defined in the contract to begin foreclosure proceedings

***Delinquency:*** failure of a borrower to make timely mortgage payments under a loan agreement. Generally after fifteen days a late fee may be assessed.

***Deposit:*** (Earnest Money): money put down by a potential buyer to show that they are serious about purchasing the home; it becomes part of the down payment if the offer is accepted, is returned if the offer is rejected, or is forfeited if the buyer pulls out of the deal. During the contingency period the money may be returned to the buyer if the contingencies are not met to the buyer's satisfaction.

***Discount Point:*** normally paid at closing and generally calculated to be equivalent to 1% of the total loan amount, discount points are paid to reduce the interest rate on a loan.

***Down Payment:*** the portion of a home's purchase price that is paid in cash and is not part of the mortgage loan. This amount varies based on the loan type, but is determined by taking the difference of the sale price and the actual mortgage loan amount. Mortgage insurance is required when a down payment less than 20 percent is made.

***Due on Sale Clause:*** a provision in a mortgage that allows the lender to demand repayment in full of the outstanding balance if the property securing the mortgage is sold.

# E

***Earnest Money (Deposit):*** money put down by a potential buyer to show that they are serious about purchasing the home; it becomes part of the down payment if the offer is accepted, is returned if the offer is rejected, or is forfeited if the buyer pulls out of the deal. During the contingency period the money may be returned to the buyer if the contingencies are not met to the buyer's satisfaction.

***Equity:*** an owner's financial interest in a property; calculated by subtracting the amount still owed on the mortgage loon(s)from the fair market value of the property.

***Escrow:*** funds held in an account to be used by the lender to pay for home insurance and property taxes. The funds may also be held by a third party until contractual conditions are met and then paid out.

***Escrow Account:*** a separate account into which the lender puts a portion of each monthly mortgage payment; an escrow account provides the funds needed for such expenses as property taxes, homeowners insurance, mortgage insurance, etc.

# F

***Fair Market Value:*** The price at which property would be transferred between a willing buyer and willing seller, each of whom has a reasonable knowledge of all pertinent facts and is not under any compulsion to buy or sell.

***FICO Score:*** FICO refers to a person's credit score based on credit history. Lenders and credit card companies use the number to decide if the person is likely to pay his or her bills. A credit score is evaluated using information from the three major credit bureaus and is usually between 300 and 850.

***First Mortgage:*** a mortgage that is the primary lien against a property.

***Fixed-Rate Mortgage:*** a mortgage with payments that remain the same throughout the life of the loan because the interest rate and other terms are fixed and do not change.

***Flood Insurance:*** insurance that protects homeowners against losses from a flood; if a home is located in a flood plain, the lender will require flood insurance before approving a loan.

***Forbearance:*** a lender may decide not to take legal action when a borrower is late in making a payment. Usually this occurs when a borrower sets up a plan that both sides agree will bring overdue mortgage payments up to date.

***Foreclosure:*** a legal process in which mortgaged property is sold to pay the loan of the defaulting borrower. Foreclosure laws are based on the statutes of each state.

***Fully amortized mortgage:*** a mortgage in which the monthly payments are designed to retire/pay off the loan obligation at the end of the mortgage term.

# G

***GSE:*** abbreviation for government sponsored enterprises: a collection of financial services corporations formed by the United States Congress to reduce interest rates for farmers and homeowners. Examples include Fannie Mae and Freddie Mac.

***Ginnie Mae:*** Government National Mortgage Association (GNMA); a government-owned corporation overseen by the U.S. Department of Housing and Urban Development, Ginnie Mae pools FHA-insured and VA-guaranteed loans to back securities for private investment; as With Fannie Mae and Freddie Mac, the investment income provides funding that may then be lent to eligible borrowers by lenders.

***Good Faith Estimate:*** an estimate of all closing fees including pre-paid and escrow items as well as lender charges; must be given to the borrower within three days after submission of a loan application.

***Government mortgage:*** a mortgage loan that is insured or guaranteed by a federal government entity such as the Federal Housing Administration (FHA), the U.S. Department of Veterans Affairs (VA), or the Rural Housing Service (RHS). Mortgages that are not government loans are classified as conventional loans.

***Gross monthly income:*** the income earned in a month before taxes and other deductions. It also may include other income received such as self-employed income, income from alimony, child support, public assistance or retirement benefits.

# H

***Hazard Insurance:*** protection against a specific loss, such as fire, wind etc., over a period of time that is secured by the payment of a regularly scheduled premium.

***Home Equity Line of Credit (HELOC):*** a mortgage loan, usually in second mortgage, allowing a borrower to obtain cash against the equity of a home, up to a predetermined amount.

***Home Equity Loan:*** a loan backed by the value of a home (real estate). If the borrower defaults or does not pay the loan, the lender has some rights to the property. The borrower can usually claim a home equity loan as a tax deduction.

***Home Inspection:*** an examination of the structure and mechanical systems to determine a home's quality, soundness and safety; makes the potential homebuyer aware of any repairs that may be needed. The homebuyer generally pays inspection fees.

***Homeowner's Warranty:*** offers protection for mechanical systems and attached appliances against unexpected repairs not covered by homeowner's insurance; coverage extends over a specific time period and does not cover the home's structure. Coverage period is often limited and the policy may include broad exclusions so caution is advised.

***Homeowner's Insurance:*** an insurance policy, also called hazard insurance, that combines protection against damage to a dwelling and its contents including fire, storms or other damages with protection against claims of negligence or inappropriate action that result in someone's injury or property damage. Most lenders require homeowners insurance and may escrow the cost. Flood insurance is generally not included in standard policies and must be purchased separately.

***Homeowner's Association:*** an organization of homeowners residing within a particular area whose principal purpose is to ensure the provision and maintenance of community facilities and services for the common benefit of the residents.

***Housing Counseling Agency:*** provides counseling and assistance to individuals on a variety of issues, including loan default, fair housing, and home buying.

***HUD1 Statement:*** also known as the "settlement sheet," or "closing statement" it itemizes all closing costs; must be given to the borrower at or before closing. Items that appear on the statement include real estate commissions, loan fees, points, and escrow amounts.

# I

***Impact fee:*** means a charge or assessment imposed by a municipality or county on new development in order to generate revenue for funding the costs of capital improvements or facility expansions for the new development.

***Inspection fee:*** charged by licensed home, pest or other inspectors. Some lenders require inspection prior to closing.

***Interest:*** the cost or fee you pay to borrow money. Interest is usually expressed as a percentage.

***Interest Rate:*** the amount of interest charged on a monthly loan payment, expressed as a percentage.

# J

***Junior mortgage:*** a loan that is subordinate to the primary loan or first-lien mortgage loan, such as a second or third mortgage.

# K...none

# L

***Late Payment Charges:*** the penalty the homeowner must pay when a mortgage payment is made after the due date grace period.

***Liability Insurance:*** insurance coverage that protects against claims alleging a property owner's negligence or action resulted in bodily injury or damage to another person. It is normally included in homeowner's insurance policies.

***Lien:*** a legal claim against property that must be satisfied when the property is sold. A claim of money against a property, wherein the value of the property is used as security in repayment of a debt. Examples include a mechanic's lien, which might be for the unpaid cost of building supplies, or a tax lien for unpaid property taxes. A lien is a defect on the title and needs to be settled before transfer of ownership. A lien release is a written report of the settlement of a lien and is recorded in the public record as evidence of payment.

***Loan Acceleration:*** an acceleration clause in a loan document is a statement in a mortgage that gives the lender the right to demand payment of the entire outstanding balance if a monthly payment is missed.

***Loan Origination:*** the process by which a loan is made, which may include taking a loan application, processing and underwriting the application, and closing on the loan.

***Loan Origination Fee:*** a charge by the lender to cover the administrative costs of making the mortgage. This charge is paid at the closing and varies with the lender and type of loan. A loan origination fee of 1 to 2 percent of the mortgage amount is common.

***Loan Servicer:*** the company that collects monthly mortgage payments and disperses property taxes and insurance payments. Loan servicers also monitor nonperforming loans, contact delinquent borrowers, and notify insurers and investors of potential problems. Loan servicers may be the lender or a specialized company that just handles loan servicing under contract with the lender or the investor who owns the loan.

***Loan to Value (LTV) Ratio:*** a percentage calculated by dividing the amount borrowed by the price or appraised value of the home to be purchased; the higher the LTV, the less cash a borrower is required to pay as down payment.

***Lock-In:*** since interest rates can change frequently, many lenders offer an interest rate lock-in that guarantees a specific interest rate if the loan is closed within a specific time.

***Loss Mitigation:*** a process to avoid foreclosure; the lender tries to help a borrower who has been unable to make loan payments and is in danger of defaulting on his or her loan

# M

***Maturity date:*** the date on which a mortgage loan is scheduled to be paid in full, as stated in the note.

***Modification:*** when a lender agrees to modify the terms of a mortgage without refinancing the loan.

***Mortgage:*** a loan using the home as collateral. A mortgage is a lien on the property that secures the promise to repay a loan. The mortgage gives the lender the right to collect payment on the loan and to foreclose if the loan obligations are not met.

***Mortgage Acceleration Clause:*** a clause allowing a lender, under certain circumstances, demand the entire balance of a loan is repaid in a lump sum. The acceleration clause is usually triggered if the home is sold, title to the property is changed, the loan is refinanced or the borrower defaults on a scheduled payment.

***Mortgage Life and Disability Insurance:*** term life insurance bought by borrowers to pay off a mortgage in the event of death or make monthly payments in the case of disability. The amount of coverage decreases as the principal balance declines. There are many different terms of coverage determining amounts of payments and when payments begin and end.

***Mortgage Insurance:*** a policy that protects lenders against some or most of the losses that can occur when a borrower defaults on a mortgage loan; mortgage insurance is required primarily for borrowers with a down payment of less than 20% of the home's purchase price. Insurance purchased by the buyer protects the lender in the event of default. The cost of mortgage insurance is usually added to the monthly payment.

***Mortgage Insurance Premium (MIP):*** a monthly payment -usually part of the mortgage payment - paid by a borrower for mortgage insurance.

***Mortgage Interest Deduction:*** the interest cost of a mortgage, which is a tax - deductible expense. The interest reduces the taxable income of taxpayers.

***Mortgage Modification:*** a loss mitigation option that allows a borrower to refinance and/or extend the term of the mortgage loan and thus reduce the monthly payments.

***Mortgage Note:*** a legal document obligating a borrower to repay a loan at a stated interest rate during a specified period; the agreement is secured by a mortgage that is recorded in the public records along with the deed.

***Mortgagee:*** the lender in a mortgage agreement.

***Mortgagor:*** the borrower in a mortgage agreement

# N

***Negative Amortization:*** amortization means that monthly payments are large enough to pay the interest and reduce the principal on your mortgage. Negative amortization occurs when the monthly payments do not cover all of the interest cost. The interest cost that isn't covered is added to the unpaid principal balance and is "deferred" – which is why it is called "deferred interest". This means that even after making many payments, you could owe more than you did at the beginning of the loan. Negative amortization can occur when an ARM has a payment cap that results in monthly payments not high enough to cover the interest due.

***Net Monthly income:*** take home pay after taxes deducted from gross income.

***No Cost Loan:*** there are many variations of a no cost loan. Generally, it is a loan that does not charge for items such as title insurance, escrow fees, settlement fees, appraisal, recording fees or notary fees. It may also offer no points. This lessens the need for upfront cash during the buying process however no cost loans have a higher interest rate.

***Non-liquid Asset:*** an asset that cannot easily be converted into cash.

***Note:*** a legal document obligating a borrower to repay a mortgage loan at a stated interest rate over a specified period of time.

***Notice of Default:*** a formal written notice to a borrower that there is a default on a loan and that legal action is possible.

# O

***Offer:*** indication by a potential buyer of a willingness to purchase a home at a specific price; generally put forth in writing.

***Original Principal Balance:*** the total principal owed on a mortgage prior to any payments being made.

***Origination:*** the process of preparing, submitting, and evaluating a loan application; generally includes a credit check, verification of employment, and a property appraisal.

***Origination Fee:*** the charge for originating a loan; is usually calculated in the form of points and paid at closing. One point equals one percent of the loan amount. On a conventional loan, the loan origination fee is the number of points a borrower pays.

***Owner Financing:*** a home purchase where the seller provides all or part of the financing, acting as a lender.

***Owner-occupied property:*** a property that serves as the borrower's primary residence.

***Owner's Policy:*** the insurance policy that protects the buyer from title defects.

***Ownership:*** ownership is documented by the deed to a property. The type or form of ownership is important if there is a change in the status of the owners or if the property changes ownership.

# P

***Partial payment:*** A payment that is less than the scheduled monthly payment on a mortgage loan.

***PITI:*** Principal, Interest, Taxes, and Insurance: the four elements of a monthly mortgage payment; payments of principal and interest go directly towards repaying the loan while the portion that covers taxes and insurance (homeowner's and mortgage, if applicable) goes into an escrow account to cover the fees when they are due.

***PMI:*** Private Mortgage Insurance; privately-owned companies that offer standard and special affordable mortgage insurance programs for qualified borrowers with down payments of less than 20% of a purchase price.

***Partial Payment:*** a payment that is less than the total amount owed on a monthly mortgage payment. Normally, lenders do not accept partial payments. The lender may make exceptions during times of difficulty. Contact your lender prior to the due date if a partial payment is needed.

***Planned Unit Development (PUD):*** a development that is planned, and constructed as one entity. Generally, there are common features in the homes or lots governed by covenants attached to the deed. Most planned developments have common land and facilities owned and managed by the owner's or neighborhood association. Homeowners usually are required to participate in the association via a payment of annual dues.

***Points:*** a point is equal to one percent of the principal amount of your mortgage. For example, if you get a mortgage for $95,000, one point means you pay $950 to the lender. Lenders frequently charge points in both fixed-rate and adjustable-rate mortgages in order to increase the yield on the mortgage and to cover loan closing costs. These points usually are collected at closing and may be paid by the borrower or the home seller, or may be split between them.

***Power of Attorney:*** a legal document that authorizes another person to act on your behalf. A power of attorney can grant complete authority or can be limited to certain acts or certain periods of time or both.

***Pre-Approval:*** a lender commits to lend to a potential borrower a fixed loan amount based on a completed loan application, credit reports, debt, savings and has been reviewed by an underwriter. The commitment remains as long as the borrower still meets the qualification requirements at the time of purchase. This does not guaranty a loan until the property has passed inspections underwriting guidelines.

***Predatory Lending:*** abusive lending practices that include a mortgage loan to someone who does not have the ability to repay. It also pertains to repeated refinancing of a loan charging high interest and fees each time.

***Prepayment:*** any amount paid to reduce the principal balance of a loan before the due date or payment in full of a mortgage. This can occur with the sale of the property, the pay off the loan in full, or a foreclosure. In each case, full payment occurs before the loan has been fully amortized.

***Prepayment Penalty:*** a provision in some loans that charge a fee to a borrower who pays off a loan before it is due.

***Prime Rate:*** the interest rate that banks charge to preferred customers. Changes in the prime rate are publicized in the business media. Prime rate can be used as the basis for adjustable rate mortgages (ARMs) or home equity lines of credit. The prime rate also affects the current interest rates being offered at a particular point in time on fixed mortgages. Changes in the prime rate do not affect the interest on a fixed mortgage.

***Principal:*** the amount of money borrowed to buy a house or the amount of the loan that has not been paid back to the lender. This does not include the interest paid to borrow that money. The principal balance is the amount owed on a loan at any given time. It is the original loan amount minus the total repayments of principal made.

***Principal, Interest, Taxes, and Insurance (PITI):*** the four elements of a monthly mortgage payment; payments of principal and interest go directly towards repaying the loan while the portion that covers taxes and insurance (homeowner's and mortgage, if applicable) goes into an escrow account to cover the fees when they are due.

***Private Mortgage Insurance (PMI):*** insurance purchased by a buyer to protect the lender in the event of default. The cost of mortgage insurance is usually added to the monthly payment.

***Promissory Note:*** a written promise to repay a specified amount over a specified period of time.

***Property Tax:*** a tax charged by local government and used to fund municipal services such as schools, police, or street maintenance. The amount of property tax is determined locally by a formula, usually based on a percent per $1,000 of assessed value of the property. Pro-rata property taxes – allocation of the portion of property taxes due by buyer and seller based on the date of sale and the date property taxes are due or paid (calculated by percentage of year each has ownership of property).

***Property Tax Deduction:*** the U.S. tax code allows homeowners to deduct the amount they have paid in property taxes from their total income.

***Public Improvement District: or (PID)***... is a defined geographical area established to provide specific improvements or maintenance within the area which is financed by tax assessments against the property owners within the public improvement district. In New Mexico, a municipality or county may form a public improvement upon the petition of the owners of the property for the purpose of, among other things, developer financing of infrastructure. Formation of a PID allows for issuance of bonds to fund development and maintenance costs. PID financing is based on levying property taxes on land within a PID, imposing special levies based on benefit to property, front footage, acreage, cost of improvements or other factors apart from assessed valuation, or by providing for use charges of improvements or revenue producing projects or facilities. PID taxes, levies, and charges may be pledged to pay debt service on bonds issued by a PID. PIDs may be authorized to finance various infrastructure and improvements, such as water and sewer systems, streets, gas and telecommunications systems, parks, public buildings, libraries, school facilities, equipment and related costs of operation and administration. Before you enter into an agreement to purchase land within a PID, it is important to make sure you understand the costs and benefits, projected tax levies and factors that might result in a tax increase and additional costs assessed against the property owner.

***Purchase Offer:*** a detailed, written document that makes an offer to purchase a property, and that may be amended several times in the process of negotiations. When signed by all parties involved in the sale, the purchase offer becomes a legally binding contract, sometimes called the Sales Contract.

***Purchase and Sale Agreement:*** a document that details the price and conditions for a transaction. Typically includes information about the property to be sold, sale price, down payment, earnest money deposit, financing, closing date, length of time the offer is valid and any special contingencies.

# Q

***Quitclaim Deed:*** a deed transferring ownership of a property but does not make any guarantee of clear title.

# R

***RESPA:*** Real Estate Settlement Procedures Act; a law protecting consumers from abuses during the residential real estate purchase and loan process by requiring lenders to disclose all settlement costs, practices, and relationships

***Recording Fees:*** charges for recording a deed with the appropriate government agency.

***Refinancing:*** paying off one loan by obtaining another; refinancing is generally done to secure better loan terms (like a lower interest rate).

***Reinstatement Period:*** a phase of the foreclosure process where the homeowner has an opportunity to stop the foreclosure by paying money that is owed to the lender.

***Rescission:*** the cancellation or annulment of a transaction or contract by operation of law or by mutual consent. Borrowers have a right to cancel certain mortgage refinance and home equity transactions within three business days after closing.

***Reverse Mortgage (HECM):*** the reverse mortgage is used by senior homeowners age 62 and older to convert the equity in their home into monthly streams of income and/or a line of credit to be repaid when they no longer occupy the home. A lending institution such as a mortgage lender, bank, credit union or savings and loan association funds the FHA insured loan, commonly known as HECM.

***Right of First Refusal:*** a provision in an agreement that requires the owner of a property to give one party an opportunity to purchase or lease a property before it is offered for sale or lease to others.

# S

***Sale Leaseback:*** when a seller deeds property to a buyer for a payment, and the buyer simultaneously leases the property back to the seller. Sale Leaseback agreements are often fraudulent and property owners are urged to be cautious before signing any documents that transfers ownership of their property.

***Second Mortgage:*** an additional mortgage on property. In case of a default the first mortgage must be paid before the second mortgage. Second loans are more risky for the lender and usually carry a higher interest rate.

***Secondary Mortgage Market:*** the buying and selling of mortgage loans. Investors purchase residential mortgages originated by lenders, which in turn provides the lenders with capital for additional lending.

***Secured Loan:*** a loan that is backed by property such as a house, car or other item.

***Security:*** the property that will be pledged as collateral for a loan.

***Serious Delinquency:*** a mortgage that is 90 days or more past due.

***Servicer:*** a business that collects mortgage payments from borrowers and manages the borrower's escrow accounts.

***Servicing:*** the collection of mortgage payments from borrowers and related responsibilities of a loan servicer.

***Settlement:*** another name for closing.

***Settlement Statement:*** a document required by the Real Estate Settlement Procedures Act (RESPA). It is an itemized statement of services and charges relating to the closing of a property transfer. The buyer has the right to examine the settlement statement 1 day before the closing. This is called the HUD 1 Settlement Statement.

***Special Tax Levy:*** means a levy imposed against real property (in addition to the municipality property taxes) within a public improvement district (PID) that may be apportioned according to direct or indirect benefits conferred upon affected real property as determined by the governing body or district board, as applicable.The terms of the special tax levy are set out in the documents establishing the PID.

***Sub-Prime Loan:*** an industry term used to describe loans with less stringent lending and underwriting terms and conditions. Due to the higher risk, sub-prime loans charge higher interest rates and fees. Typically, borrowers with FICO scores from 580 to 659 620 – 659 may be offered sub-prime loans.

***Survey:*** a property diagram that indicates legal boundaries, easements, encroachments, rights of way, improvement locations, etc. Surveys are conducted by licensed surveyors and are normally required by the lender in order to confirm that the property boundaries and features such as buildings, and easements are correctly described in the legal description of the property.

***Survey fee:*** fee charged for a survey of the lot and all structures on it.

# T

***Tax levy:*** a property tax levy is the tax liability imposed on property owners for owning real estate typically assessed by the municipality in which the property is located. Revenue generated is used to fund public programs and services in the community. The tax rate is a percentage (levy rate) which is then calculated against the assessed value of each owner's property ad valorem (according to value).

***Taxes and Insurance:*** Funds collected as part of the borrower's monthly payment and held in escrow for the payment of the borrower's state and local property taxes and insurance premiums.

***Title:*** a legal document establishing the right of ownership and is recorded to make it part of the public record. Also known as a Deed.

***Title Company:*** a company that specializes in examining and insuring titles to real estate.

***Title Defect:*** an outstanding claim on a property that limits the ability to sell the property. Also referred to as a cloud on the title.

***Title Insurance:*** insurance that protects the lender against any claims that arise from arguments about ownership of the property; also available for homebuyers. An insurance policy guaranteeing the accuracy of a title search protecting against errors. Most lenders require the buyer to purchase title insurance protecting the lender against loss in the event of a title defect. This charge is included in the closing costs. A policy that protects the buyer from title defects is known as an owner's policy and requires an additional charge.

***Title Search:*** a check of public records to be sure that the seller is the recognized owner of the real estate and that there are no unsettled liens or other claims against the property.

## U

***Underwriting:*** the process of analyzing a loan application to determine the amount of risk involved in making the loan; it includes a review of the potential borrower's credit history and a judgment of the property value.

***Up Front Charges:*** the fees charged to homeowners by the lender at the time of closing a mortgage loan. This includes points, broker's fees, insurance, and other charges.

## W

***Warranty Deed:*** a legal document that includes the guarantee the seller is the true owner of the property, has the right to sell the property and there are no claims against the property.