

CLOSING TERMS DEFINITIONS

Keep this quick reference handy as you go through your closing

Amortization Schedule: a schedule showing the principal and interest payments throughout the life of the loan.

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

Attorney's Fee: a charge by an independent attorney for acts of representation and/or preparation of documents.

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 a 2 to 4 percent of the purchase price of the home. A common estimate for Seller's closing cost is 3 to 9 percent.

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.

Credit Report: a report generated by the credit bureau that contains the borrower's credit history for the past seven years. Lenders use this information to determine if a loan will be granted.

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

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

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 fails to perform.

Easements: The legal rights that give someone other than the owner access to use property for a specific purpose. Easements may affect property use and are sometimes a part of the deed.

Encroachments: A structure that extends over the legal property line on to another individual's property or across a set back line, easement, or other limiting boundary. The surveyor should note any encroachment on the lot survey before property transfer.

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.

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 for the property.

Foreclosure: a legal process in which mortgaged property is sold to pay the loan of the defaulting borrower.

Good Faith Estimate: An estimate of all closing fees including pre-paid and escrow items as well as lender charges. (AKA the GFE, this document is issued by the lender)

Hazard/Homeowner's Insurance: an insurance policy 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.

Homeowner's Association Fee: fee applied to condominiums and planned developments; the amount charged to each unit owner to maintain common areas.

Home Warranty Fee: fee for optional home warranty covering appliances and house systems; usually requested within the contract.

Interest: a rate charged for the use of borrowing money.

Lender Required Reserve: an amount required by the lender to be collected at closing and placed in escrow. Borrower's insurance premiums, taxes, etc., are paid from this.

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 a security in repayment of a debt. 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.

Lender's Title Policy: policy that protects the lender from future claims to ownership of the mortgaged property.

Origination Fee: the charge for originating a loan; usually calculated in the form of points and paid at closing. **Owner's Title Policy:** an insurance policy that protects the buyer from title defects.

Payoff: the remaining amount of an existing loan needed to be paid in full on the property being sold.

Point: 1% of loan amount.

Prepayment Penalty: a penalty under a note, mortgage, or deed of trust, imposed when the loan is paid before it is due.

Private Mortgage Insurance: insurance against a loss by a lender (mortgagee) in the event of default by a borrower (mortgagor).

Processing Fee: fee charged by the lender to process a loan for application submittal.

Recording Fees: fee charged by County Clerk to record documents in public records.

Repairs: A negotiated cost for to the required restoration of anything that represents a risk to the health and safety of the occupants or the soundness of the property.

Settlement Statement: a document required by the Real Estate Settlement Procedures Act (RESPA). It itemizes all closing costs; must be given to the borrower at or before closing. This is called the HUD 1 Settlement Statement.

Survey: a property diagram that indicates legal boundaries, easements, encroachments, rights of way, improvement locations, etc.

Tax Proration: tax amount from January 1st to the closing date that is due to the buyer from the seller.

Termite Inspection Fee: fee paid for inspection of a property by a qualified professional showing property is free of active termites.

Title Insurance: An insurance policy guaranteeing the accuracy of a title search protecting against errors and claims that may arise. 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 comes at 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.

Title Services/Settlement Fee: fee charged by the title company to service the transaction, to escrow monies, and to cover documents. The amount varies with each company.

Underwriting Fee: a charge to the borrower by the lender for underwriting the loan on behalf of the investor. **VA Funding Fee:** an administrative fee charged by the Veterans Administration.

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

Wire/Funding Fee: an administrative fee charged by the lender for sending "good funds" to the title company.

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