

Closing Terms to Know

Closing on a home mortgage often involves a plethora of technical financial and legal terms that can leave the new homeowners dazed and confused.

Do some research before you arrive at the closing table (or close virtually), and don't be afraid to ask your real estate attorney to explain complicated concepts you don't understand.

Given that taking on a mortgage is the biggest financial commitment many consumers make during their lifetimes, it's important to have a handle on the jargon and fully understand the commitment. A good source of information about your loan is your closing disclosure form. At least three days before closing, you will receive this five-page form that provides final details about the loan, such as the term, monthly payments, fees and other costs. Here are some other common terms you will hear during closing and what you can learn from each term, according to the Consumer Financial Protection Bureau.

Adjustable rate mortgage (ARM): a type of loan for which



© ADOBE STOCK

REAL ESTATE 101

Be Prepared with a Checklist

What should you bring to closing? Which closing documents should you save? The Consumer Financial Protection Bureau has answers to all of your pre-, post- and day-of-closing questions in its mortgage closing checklist. Read the list at bit.ly/2Nvo7Wt.

the interest rate can change, usually tied to an index interest rate. Common index rates include the London Inter-bank Offered Rate (LIBOR) or the federal funds rate. These mortgages come with payments that are usually fixed for a certain term, and then the rate

adjusts based on the chosen index. This is written as 5/1 ARM or 10/1 ARM, with 5 and 10 denoting the initial term during which the rate is fixed, and the 1 representing the frequency of rate adjustments (typically one year). The rate is usually capped at a certain

limit. These terms are important to understand, because if you have chosen an ARM, even if your payment starts out at an affordable level for you, it could increase in the future and pose challenges for your monthly budget.

Amortization: the reduction

of an existing debt by making regular partial payments. Your closing papers will include an amortization table, showing how the principal balance decreases over time as you pay. The same paperwork will also tell you how much interest you will pay over the life of the loan, providing some clarity as to the scale of the financial step you are taking. Some mortgage loans are not fully amortized, meaning even after all the payments are made, there might still be a balance owed. Interest-only loans allow payments that only cover the interest on the loan and do not chip away at the principal balance.

Delinquent: being late on your mortgage payments. After you are delinquent for a certain period of time, which varies by state and by type of loan, a lender may begin foreclosure.

Foreclosure: the process by which the lender reclaims ownership of a property after the borrower defaults on the payments. Your lender is required to notify you before beginning foreclosure, and the process could be judicial (involving the court system) or non-judicial.

Title insurance: a policy purchased by both lender and buyer to protect them from previous claims against the property, such as mechanic's or tax liens placed for debts owed.



© ADOBE STOCK

Closing Terms to Know

Closing on a home mortgage often involves a plethora of technical financial and legal terms that can leave the new homeowners dazed and confused.

Do some research before you arrive at the closing table (or close virtually), and don't be afraid to ask your real estate attorney to explain complicated concepts you don't understand.

Given that taking on a mortgage is the biggest financial commitment many consumers make during their lifetimes, it's important to have a handle on the jargon and fully understand the commitment. A good source of

information about your loan is your closing disclosure form. At least three days before closing, you will receive this five-page form that provides final details about the loan, such as the term, monthly payments, fees and other costs. Here are some other common terms you will hear during closing and what you can learn from each term, according to the Consumer Financial Protection Bureau.

Adjustable rate mortgage (ARM): a type of loan for which the interest rate can change, usually tied to an index interest rate. Common index rates include the London Inter-bank Offered Rate (LIBOR) or the federal funds rate. These mortgages come with payments that are usually fixed for a certain term, and then the rate adjusts based on the chosen index. This is written as 5/1 ARM or 10/1 ARM, with 5 and 10 denoting the ini-

tial term during which the rate is fixed, and the 1 representing the frequency of rate adjustments (typically one year). The rate is usually capped at a certain limit. These terms are important to understand, because if you have chosen an ARM, even if your payment starts out at an affordable level for you, it could increase in the future and pose challenges for your monthly budget.

Amortization: the reduction of an existing debt by making regular partial payments. Your closing papers will include an amortization table, showing how the principal balance decreases over time as you pay. The same paperwork will also tell you how much interest you will pay over the life of the loan, providing some clarity as to the scale of the financial step you are taking. Some mortgage loans are not fully amortized, meaning even after all the

payments are made, there might still be a balance owed. Interest-only loans allow payments that only cover the interest on the loan and do not chip away at the principal balance.

Delinquent: being late on your mortgage payments. After you are delinquent for a certain period of time, which varies by state and by type of loan, a lender may begin foreclosure.

Foreclosure: the process by which the lender reclaims ownership of a property after the borrower defaults on the payments. Your lender is required to notify you before beginning foreclosure, and the process could be judicial (involving the court system) or non-judicial.

Title insurance: a policy purchased by both lender and buyer to protect them from previous claims against the property, such as mechanic's or tax liens placed for debts owed.

REAL ESTATE 101



Be Prepared with a Checklist

What should you bring to closing? Which closing documents should you save? The Consumer Financial Protection Bureau has answers to all of your pre-, post- and day-of-closing questions in its mortgage closing checklist. Read the list at bit.ly/2Nvo7Wt.

HOMEWISSE GLOSSARY

Promissory note: written promise to pay or repay a specified sum of money at a stated time, or on demand, to a named person. In addition to the payment of principal, a promissory note usually provides for the payment of interest.

SOURCE: Homeclosing101.org

AD SPACE