GUIDES

5 home buying terms you need to know

Adjustable-Rate Mortgage (ARM)

An ARM differs from a fixed mortgage as it has only a set amount of years that the rate is fixed (such as 3, 5 or 7 years) and then will generally adjust every year following up to a certain predetermined cap. Terms vary between each product.

Example product:

The number of years with a fixed rate

5/1 ARM

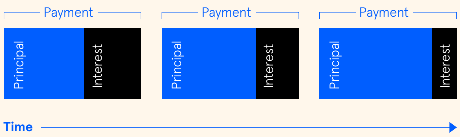
How often the rate adjusts after 5 years

Amortization

Amortization is a gradual process of paying off a loan. Since these payments include both an interest and principal payment, your loan balance will be reduced with each payment you make. As you make each payment, your principal portion of the payment increases while your interest portion decreases. Try this <u>amortization calculator</u> to estimate your monthly loan repayments.

Principal:
The portion that reduces your loan balance.

Interest:
What the bank charges you to use their money.



Earnest Money Deposit (EMD)

Earnest money is a deposit you pay to the seller of real property to show your good faith and intentions of getting a mortgage to buy the property. Depending on circumstances, you may or may not be able to get this money back if you decide not to complete the purchase. Generally what is expected from the seller is 3% of the purchase price amount.

Contingencies

It means you've made an offer on a home, but for the deal to go through you have specified certain criteria that have to be met. These contingencies, typically fall under three major categories: financing, inspection, and appraisal.

Closing Costs

These are costs outside a property's sales price that must be paid to cover the cost of the transaction. Closing costs vary from location to location, and an estimate is usually disclosed to you when or before you submit your mortgage loan application. Some closing costs include: loan origination fee, discount points, insurance fees, survey fees, and attorney's fees.