

CLOSING TERMS YOU SHOULD KNOW

APPRAISAL

An estimate of value of property resulting from analysis of facts about the property; an opinion of value.

ANNUAL PERCENTAGE RATE (APR)

The borrower's total loan costs, shown as a yearly rate. This is not their interest rate.

BENEFICIARY

The party who receives the benefit of an agreement, often the lender in real estate transactions.

CLOSING DISCLOSURE (CD)

Form that outlines all the costs of the transaction to help the borrower clearly understand their loan. Provided by the lender at least three (3) business days before closing.

CLOSING DATE

The date when all documents prepared by the lender and title company are signed by the buyer and seller.

COMPARABLE SALES "COMPS"

Sales of properties with similar characteristics to the subject property, used for comparison in the appraisal process. Often referred to as "comps."

CONSUMMATION

The point at which the borrower becomes legally obligated to the creditor for the loan, separate from when the borrower becomes obligated to the seller in a real estate transaction. The exact timing of this obligation depends on state law.

DEED OF TRUST

A legal document that represents the ownership of real property and is used to transfer that ownership interest from one party to another.

DEED RESTRICTIONS

Limitations in a written document, either within a deed or a stand alone document, that dictate how the real property may or may not be used.

EARNEST MONEY DEPOSIT

Down payment made by a purchaser of real property as evidence of good faith; a deposit or partial payment.

EASEMENT

A legal right that allows a person or entity to use a portion of another's property for a specific purpose, even though they do not own it.

EFFECTIVE DATE

The date a contract becomes legally binding between the buyer and seller. It marks the start from which all subsequent deadlines and obligations within the contract are calculated.

FUNDING DATE

The date the lender provides written authorization to the title company to disburse the loan proceeds.

HAZARD INSURANCE

Insurance that protects real estate from damage caused by fire, certain natural events, vandalism, and more, coverage depends on the policy. Buyers often include liability protection and extra coverage for belongings.

ESCROW ACCOUNT

An account set up by the lender to hold the borrower's funds for paying property taxes, mortgage insurance, and other required premiums. It helps ensure these bills are paid on time to protect the lender's investment.

LEGAL DESCRIPTION

A detailed, legally recognized description of a parcel of land that defines its exact location and boundaries. Used in deeds, public records, and legal documents to clearly and uniquely identify the property.

LIEN

A legal right or claim against a property by a creditor, used as security for a debt. For example, judgements, taxes, mortgages, deeds of trust.

LOAN ESTIMATE (LE)

A form given to the borrower within three business days of applying for a mortgage, outlining the loan's estimated costs, terms, and risks. It helps borrowers understand key features like the interest rate, monthly payments, and closing costs.

PITI

An acronym representing the four main components of a monthly mortgage payment:

1. **Principal** (amount of money borrowed)
2. **Interest** (cost of borrowing the principal)
3. **Taxes** (property taxes)
4. **Insurance** (homeowners insurance and, if applicable, private mortgage insurance or PMI)

POWER OF ATTORNEY

A legal document giving one person the authority to act for another in specific matters. It ends when the person who granted it passes away.

RECORDING

Filing documents affecting real property with the appropriate government agency as a matter of public record

SETTLEMENT STATEMENT

Document providing a detailed breakdown of costs involved in a real estate transaction