



Home Tips®



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Q & A

Home Buyer's Vocabulary?

We are in the process of purchasing a new home and we are not familiar with some of the terms. Could you list a vocabulary of the most common terms?

The potential home buyer will find this Vocabulary helpful for understanding words and terms used in real estate transactions. There are, however, some factors that may affect these definitions:

Acceleration Clause: Condition in a mortgage that may require the balance of the loan to become due immediately, if regular mortgage payments are not made or for breach of other conditions of the mortgage.

Agreement of Sale: Known by various names, such as contract of purchase, purchase agreement, or sales agreement according to location or jurisdiction. A contract in which a seller agrees to sell and a buyer agrees to buy, under certain specific terms and conditions spelled out in writing and signed by both parties.

Amortization: A payment plan which enables the borrower to reduce his debt gradually through monthly payments of principal.

Appraisal: An expert judgment or estimate of the quality or value of real estate as of a given date.

Assumption of Mortgage: An obligation undertaken by the purchaser of property to be personally liable for payment of an existing mortgage. In an assumption, the purchaser is substituted for the original mortgagor in the mortgage instrument and the original mortgagor is to be released from further liability in the assumption, the mortgagee's consent is usually required.

The original mortgagor should always obtain a written release from further liability if he desires to be fully released under the assumption. Failure to obtain such a release renders the original mortgagor liable if the person assuming the mortgage fails to make the monthly payments

Certificate of Title: A certificate issued by a title company or a written opinion rendered by an attorney that the seller has good marketable and insurable title to the property which he is offering for sale. A certificate of title offers no protection against any hidden defects in the title which an examination of the records could not reveal. The issuer of a certificate of title is liable only for damages due to negligence. The

protection offered a homeowner under a certificate of title is not as great as that offered in a title insurance policy.

Closing Costs: The numerous expenses which buyers and sellers normally incur to complete a transaction in the transfer of ownership of real estate. These costs are in addition to price of the property and are items prepaid at the closing day.

Closing Day: The day on which the formalities of a real estate sale are concluded. The certificate of title, abstract, and deed are generally prepared for the closing by an attorney and this cost charged to the buyer. The buyer signs the mortgage, and closing costs are paid. The final closing merely confirms the original agreement reached in the agreement of sale.

Commission: Money paid to a real estate agent or broker by the seller as compensation for finding a buyer and completing the sale. Usually it is a percentage of the sale price: 6 to 7 percent on houses, 10 percent on land.

Conventional Mortgage: A mortgage loan not insured by HUD or guaranteed by the Veterans' Administration. It is subject to conditions established by the lending institution and State statutes. The mortgage rates may vary with different institutions and between States. (States have various interest limits.)

Deed: A formal written instrument by which title to real property is transferred from one owner to another. The deed should contain an accurate description of the property being conveyed, should be signed and witnessed according to the laws of the State where the property is located, and should be delivered to the purchaser at closing day. There are two parties to a deed: the grantor and the grantee. (See also deed of trust, general warranty deed, quitclaim deed, and special warranty deed.)

Depreciation: Decline in value of a house due to wear and tear, adverse changes in the neighborhood, or any other reason.

Downpayment: The amount of money to be paid by the purchaser to the seller upon the signing of the agreement of sale. The agreement of sale will refer to the downpayment amount and will acknowledge receipt of the downpayment. Downpayment is the difference between the sales price and maximum mortgage amount. The downpayment may not be refundable if the purchaser fails to buy the property without good cause. If the purchaser wants the downpayment to be refundable, he should insert a clause in the agreement of sale specifying the conditions under which the deposit will be refunded, if the agreement does not already contain such clause. If the seller cannot deliver good title, the agreement of sale usually requires the seller to return the downpayment and to pay interest and expenses incurred by the purchaser.

