

Glossary of Closing Terms

- **Amortization Schedule:** A schedule showing the principal and interest payments throughout the life of the loan.
- **Appraisal Fee:** A fee charged by an appraiser to estimate the market value of a property required by the lender.
- **Attorney's Fee:** A fee charged 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 fee, discount points, appraisal fee, survey, title insurance, legal fees, real estate professional fees, prepayment of taxes and insurance, and real estate transfer fees. A common estimate of a buyer's closing costs is 2 – 4 percent of the purchase price of the home. A common estimate for seller's closing costs is 3 – 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 and generally calculated to be equivalent to 1 percent of the total loan amount; discount points are 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. If the offer is rejected, it is returned or forfeited if the buyer fails to perform.
- **Easements:** The legal rights that give someone other than the owner access for use the property for a specific purpose. Easements may affect the property use and are sometimes 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 property surveyor should note any encroachments on the lot survey done 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 the 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 before approving the loan.
- **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. (Also known as the GFE; this document is held by the lender.)
- **Hazard/Homeowners Insurance:** An insurance policy that combines protection against damage to a dwelling and its contents including fire, storms or other damages with protection claims of negligence or inappropriate action that results in someone's injury or property damage. Most lenders require homeowners insurance and may escrow the cost.
- **Homeowners Association Fee:** A maintenance fee applied to condominiums and planned developments; the amount charged to each unit owner to maintain the common area.

- **Home Warranty Fee:** A fee for optional home warranty covering appliances and house systems; usually requested within the contract.
- **Interest:** A rate charged for use of borrowing money.
- **Lender Required Service:** 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 account.
- **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 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.
- **Mortgagee's Title Policy:** Policy that protects the lender from future claims of ownership of the mortgaged policy.
- **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 needing 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:** A fee charged by the lender to process a loan for application submitted.
- **Recording Fees:** A fee charged by the County Clerk to record documents in the public records.
- **Repairs:** A negotiated cost attributed 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, right of ways, improvement locations, etc.
- **Tax Proration:** Tax amount from January 1st to the closing date that is due to buyer from seller.
- **Termite Inspection Fee:** A 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 title search protecting against errors and claims that may arise about ownership. 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 requires an additional charge.
- **Title Search:** A check of public records to be sure that the seller is recognized owner of the real estate and that there are no unsettled items or claims against the property.
- **Title Services Fee:** A 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.