Making sense of all those home buying terms and acronyms

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ARM? GPM? PITI? You'd have to be a cryptologist to figure out some of the terms buyers encounter during the home-buying process.

Doing research on how to buy a house before beginning the process can greatly improve your experience and prepare you for the exciting course ahead. So if you're a first-time buyer — or haven't gone through the home-buying process in a while — here's a handy glossary of what all of these terms mean.

Adjustable Rate Mortgage (ARM). A loan whose interest rate is adjusted according to movements in the financial market.

Amortization. A payment plan by which a borrower reduces a debt gradually through monthly payments of principal and interest.

Annual Percentage Rate (APR). The annual cost off credit over the life of a loan, including interest, service charges, points, loan fees, mortgage insurance, and other items.

Appraisal. An evaluation to determine what a piece of property would sell for in the marketplace.

Appreciation. The increase in the value of a property.

Assessment. A tax levied on a property or a value placed on the worth of property by a taxing authority.

Assumption. A transaction allowing the buyer of a home to assume responsibility for an existing loan on the home instead of getting a new loan.

Balloon. A loan which has a series of monthly payments (often for 5 years or less) with the remaining balance due in a large lump sum payment at the end.

Buydown. A subsidy (usually paid by a builder or developer) to reduce the monthly payments on a mortgage loan.

Cap. A limit to the amount an interest rate or a monthly payment can increase for an adjustable rate loan either during an adjustment period or over the life of the loan.

Closing. A meeting to sign documents which transfer property from a seller to a buyer. (Also called settlement)

Closing Costs. Charges paid at settlement for obtaining a mortgage loan and transferring real estate title.

Conditions, Covenants, and Restrictions (CC and Rs). The standards that define how a property may be used and the protections the developer has made for the benefit of all owners in a subdivision.

Condominium. A home in a multi-unit complex; each purchaser owns an individual unit, and all the purchasers jointly own the common areas, such as the surrounding land, hallways, etc.

Conventional Loan. A mortgage loan not insured by a government agency (such as FHA or VA).

Convertibility. The ability to change a loan from an adjustable rate schedule to a fixed rate schedule.

Credit Rating. A report ordered by a lender from a credit bureau to determine if the borrower is a good credit risk.

Default. A breach of a mortgage contract (such as not making monthly payments).

Downpayment. The difference between the sales price and the mortgage amount on a home. The downpayment is usually paid at closing.

Due-on-Sale. A clause in a mortgage contract requiring the borrower to pay the entire outstanding balance upon sale or transfer of the property. A mortgage with a due-on-sale clause is not assumable.

Earnest Money. A sum paid to the seller to show that a potential purchaser is serious about buying.

Equity. The difference between the value of a home and what is owed on it.

Escrow. The handling of funds or documents by a third party on behalf of the buyer and/or seller.

Fixed Rate Mortgage. A mortgage whose interest rate remains constant over the life of the loan. The payments are not necessarily level. (See Graduated Payment Mortgage and Growing Equity Mortgage).

Fixed Schedule Mortgage. A mortgage whose payment schedule for the life of the loan is established at closing. The payments and interest rate are not necessarily level.

Graduated Payment Mortgage (GPM). A fixed-rate, fixed-schedule loan which starts with lower payments than a level payment loan; the payments rise annually over the first 5 to 10 years and then remain constant for the remainder of the loan. GPMs involve negative amortization.

Growing Equity Mortgage (Rapid Payoff Mortgage). A fixed-rate, fixed-schedule loan which starts with the same payments as a level payment loan; the payments rise annually, with the entire increase being used to reduce the outstanding balance. No negative amortization occurs, and the increase in payments may enable the borrower to pay off a 30-year loan in 15 to 20 years,

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or less.

Hazard Insurance. Protection against damage caused by fire, windstorm, or other common hazards. Many lenders require borrowers to carry it in an amount at least equal to the mortgage.

Index. The interest rate or adjustment standard which determines the changes in monthly payments for an adjustable rate loan.

Interest. The cost paid to a lender for the use of borrowed money.

Joint Tenancy. A form of ownership by which the tenants own a property equally. If one dies, the other would automatically inherit the entire property.

Level Payment Mortgage. A mortgage whose payments are identical for each month over the life of the loan.

Mortgage Broker. A broker who represents numerous lenders and helps consumers find affordable mortgages; the broker charges a fee only if the consumer finds a loan.

Mortgage Commitment. A formal written communication by a lender agreeing to make a mortgage loan on a specific property, specifying the loan amount, length of time and conditions.

Mortgage Company (Mortgage Banker). A company that borrows money from a bank, lends it to consumers who want to buy homes, then sells the loans to investors.

Mortgagee. The lender who makes a mortgage loan.

Mortgage Loan. A contract in which the borrower's property is pledged as collateral and which can be repaid in installments over a long period. The mortgagor (buyer) promises to repay principal and interest, to keep the home insured, to pay all taxes, and to keep the property in good condition.

Mortgage Origination Fee. A charge by a lender for the work involved in preparing and servicing a mortgage application (usually 1% of the loan amount).

Negative Amortization. An increase in the outstanding balance of a loan when a monthly payment is not large enough to cover all of the interest due.

Note. A formal document showing the existence of a debt and stating the terms of repayment.

PITI. Principal, interest, taxes, and insurance (the 4 major components of monthly housing payments).

Point. A charge of 1 percent of the mortgage amount. Points are a one-time charge assessed by the lender at closing to increase the interest yield on a mortgage loan.

Prepayment. Payment of all or part of a debt prior to its maturity.

Principal. The amount borrowed in a loan, excluding interest and other charges.

Rapid Payoff Mortgage. (See Growing Equity Mortgage).

Recording Fee. A charge for recording the transfer of a property, paid to a city, county, or other appropriate branch of government.

Real Estate Settlement Procedures Act (RESPA). A federal law requiring lenders to provide home buyers with information about known or estimated settlement costs. The act also regulates other aspects of settlement procedures.

Sales Contract. A contract between a buyer and seller which should explain, in detail, exactly what the purchase includes, what guarantees there are, when the buyer can move in, what the closing costs are, and what recourse the parties have if the contract is not fulfilled or if the buyer cannot get a mortgage commitment at the agreed-upon terms.

Shared Appreciation Mortgage. A loan in which partners agree to share specified portions of the downpayment, monthly payment, and appreciation.

Title. Evidence (usually in the form of a certificate or deed) of a person's legal right to ownership of a property.

Transfer Taxes. Taxes levied on the transfer of property or on real estate loans by state and/or local jurisdictions.

Walk-Through. A final inspection of a home before settlement to search for problems that need to be corrected before ownership changes hands.

Warranty. A promise, either written or implied, that the material and workmanship of a product is defect-free or will meet a specified level of performance over a specified period of time.

Written warranties on new homes are either backed by insurance companies or by the builders themselves.

Zoning. Regulations established by local governments regarding the location, height, and use for any given piece of property within a specific area.