

# CLOSING COST TERMINOLOGY

## **APLD Certification**

Confirmation that a buyer's loan application has been entered into the Anti-Predatory Lending Database (APLD). The APLD was created to eliminate predatory lending practices by educating borrowers on the loans they are considering. All mortgage applications in Cook, Kane, Peoria and Will counties must be recorded in the APLD to determine if the borrower must obtain Housing Counseling before proceeding with a loan application.

## **Appraisal**

A written estimate of a home's market value. The report is prepared by a licensed appraiser and allows a buyer and his or her lender to see how the agreed upon purchase price compares to nearby similar and recent property sales. Most lenders require an appraisal to ensure that a home's value meets or exceeds the purchase price.

## **Attorney Fee**

The cost of services performed by the attorney representing a buyer in a home purchase.

## **Chain of Title**

A list of successive owners of a property, typically going back 24 months. This list allows the title company to confirm that the current property owner has legal title and may transfer the title free and clear to a buyer. However, this also allows the lender to check against potential fraud such as an inflated value or a transaction that's not at "arm's length."

## **Closing Protection Letter**

At the closing table the title company is responsible for disbursing funds to the buyer, the seller, the lender and any taxing authorities. A closing protection letter is an agreement from a title insurance underwriter to a lender that indemnifies the lender against actual losses caused by certain kinds of misconduct by the closing agent.

## **Policy Update**

A third title search performed after the closing to ensure that nothing has happened to the chain of title since the time of closing and to confirm the deed and mortgage properly appear on title.

## **Credit Report**

A lender's review of a borrower's credit history for purposes of determining creditworthiness.

## **Earnest Money (Escrow Deposit)**

A deposit made by a buyer to a seller at the time of contract for purposes of showing the buyer's good faith in a transaction.



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## Endorsements

A title endorsement is an addition or limitation of coverage that is attached to a title insurance policy. Endorsements provide coverage that tailors the policy to fit the needs of the buyer for a specific transaction.

## Escrow

A special account where monthly insurance and tax payments are held until they are paid out each year. The escrow amounts are typically included in a borrower's monthly mortgage payment. In some States escrow also refers to the company handling the sale/purchase transaction. In Illinois, this is the title company.

## Flood Certification

A document that states the flood zone status of a property. If the certificate states that the property is located in a flood zone, federal flood insurance is required.

## Home Inspection

A licensed home inspector's examination of a property's condition. Inspections typically include an assessment of a property's roof, foundation, heating and cooling systems, plumbing, electrical work, water and sewage, and some fire and safety issues.

## Homeowner's Insurance Policy

An insurance policy designed to protect a property against damages to the house itself or the possessions in the home. Some homeowner's insurance policies also provide coverage against accidents that occur on the property.

## Origination

An up-front fee charged by a lender to a borrower for making the mortgage loan. Origination services include taking and processing the loan application, underwriting the loan, funding the loan, and other administrative services.

## Radon Inspection

A test to determine a property's radon levels.

## Recording Fees

The property deed and mortgage documents must be recorded with the county in which the property is located.



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### Tax Credits

Credits from the seller to the buyer to cover the cost of taxes accrued by the seller that will become due after the buyer takes possession of the property.

### Tax Service

A service used by a lender throughout the life of the loan to confirm that a borrower pays his or her property taxes in a timely manner.

### Title Insurance

An insurance policy guaranteeing that the title to a parcel of real property is clear and properly in the name of the title owner, and that the owner has the right to deed the property (convey or sell) to another. Should a problem later arise with the title (such as an inaccurate description), the title insurance company will pay the damages to the new title holder or secured lender, or take steps to correct the problem. A Lender's Title Insurance Policy or Mortgage Insurance Policy protects the lender up to the amount borrowed from the bank and is usually purchased by the buyer. An Owner's Title Insurance Policy protects the buyer up to the purchase price of the home and is usually purchased by the seller.

### Transfer Taxes (Transfer Stamps)

State, county and/or municipality taxes charged at the time of a property's sale. Illinois transfer taxes are \$.50 per \$500 of the sale price and are typically paid for by the seller. County transfer taxes are \$.25 per \$500 of the sale price and are typically paid for by the seller. Municipality transfer taxes vary in amount, and the taxing authority dictates whether the tax is a buyer or seller cost.



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