

Glossary of Real Estate Terms

Abstract of Title

A summary of the public records relating to the ownership of a particular piece of land. It represents a short legal history of an individual piece of property, and traces the ownership of that property from the time of the first recorded transfer to present.

Acceptance

Consent to an offer to enter into contract.

Adjustable-rate mortgage (ARM)

A mortgage that allows the interest rate to be changed periodically.

Agency

A legal relationship in which an owner-principal engages a broker-agent in the sale of property or a buyer-principal engages a broker-agent in the purchase of property.

American Society of Home Inspectors (ASHI)

A professional trade association that provides training and education in home inspections. Members must meet qualification requirements to join.

Amortization

The gradual repayment of a mortgage by periodic installments.

Amortized Loan

A loan that is completely paid off, interest and principal, by a series of regular payments that are equal or nearly equal. Also called a Level Payments Loan.

Annual percentage rate (APR)

The total finance charge (interest, loan fees, points) expressed as a percentage of the mortgage amount.

Appraisal

An evaluation of a piece of property to determine its value.

Appreciation

An increase in value of real estate.

Assumption of Mortgage

The taking of title to property by a grantee, wherein he or she assumes liability for payment of an existing note secured by a mortgage or deed of trust against the property, becoming a co-guarantor for the payment of a mortgage or deed of trust note.

Asbestos

A mineral fiber used in some building materials such as flooring, siding, insulation and roofing. It is presently banned for most uses in real property.



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Assessed value

The valuation placed on property by a public tax assessor as the basis of property taxes.

Assumption of mortgage

An agreement whereby the buyer assumes responsibility for a mortgage owed by the seller.

Balloon mortgage

A mortgage where the amount financed is not fully amortized over the period of the loan. When the loan becomes due, a large sum or “balloon” payment is required to satisfy the mortgage.

Bridge loan

A short-term mortgage made until a longer-term loan can be made; it's sometimes used when a person needs money to build or purchase a home before the present one has been sold.

Broker

A person licensed by a state real estate commission to act independently in conducting a real estate brokerage business. Although requirements vary from state to state, an individual must usually have at least one year of experience in the industry and pass an examination to earn a broker's license.

Building codes

State and local laws that regulate the construction of new property and the rehabilitation of existing property.

Cap

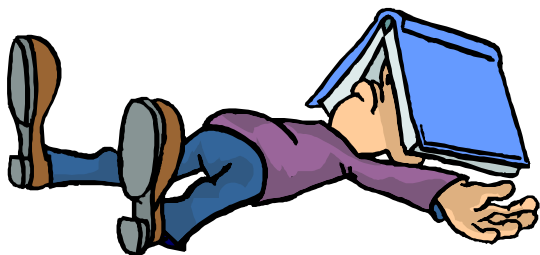
The maximum amount an interest rate or monthly payment can change, either at adjustment time or over the life of the mortgage.

Capital Gains

The taxable profit derived from the sale of a capital asset. It is the difference between the sale price and the basis of the property, after making appropriate adjustments for closing costs, fixing-up expenses, capital improvements, allowable depreciation, etc.

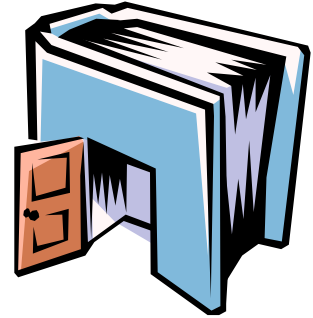
Closing

The final step in the sale and transfer of ownership of a property. The title is transferred from the seller to the buyer; the buyer signs the mortgage and pays costs of settlement; any money due the seller and purchaser are paid.



Closing costs

Fees and expenses, not including the price of the home, payable by the seller and the buyer at the closing (e.g., brokerage commissions, title insurance premiums, and inspection, appraisal, recording, and attorney's fees).



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Closing Statement

A financial statement rendered to the buyer and seller at the time transfer of ownership, giving an account of all funds received or expended.

Cloud on the title

Any condition which affects the clear title to real property.

Commercial bank

A financial institution authorized to provide a variety of financial services, including consumer and business loans (generally short-term), checking services, credit cards, and savings accounts.

Comparables

Properties similar in size and character to the one being bought or sold.

Condominium

Ownership of a unit only, rather than of the entire building with the land.

Consideration

Anything of value to induce another to enter into a contract (i.e. money, services, a promise).

Contingency

A condition that must be satisfied before a contract is binding.

Contract

An agreement to do or not to do a certain thing

Contract for Deed

A contract ordinarily used in connection with the sale of a property in cases where the seller does not wish to convey title until all or a certain part of the purchase price is paid by the buyer.

Contract of Title

A summary or digest of the conveyances, transfers, and any other facts relied on as evidence of title, together with any other elements or records which may affect the marketability of the title.

Conventional Mortgage

A mortgage securing a loan made by investors without governmental underwriting, i.e., not FHA-insured or VA-guaranteed.

Counter Offer

A seller's rejection of an offer made by a buyer accompanied by an agreement to sell the property to the potential buyer on terms differing from the original offer.

CRV

Certificate of Reasonable Value. A document of appraisal issued by the VA establishing their opinion of the maximum value.



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Deed

The written instrument which, when properly executed and delivered, conveys title.

Deed (quit claim)

A deed that transfers only that title or right to a property that the holder of that title has at the time of the transfer. It does not warrant or guarantee a clear title.

Department of Housing and Urban Development (HUD)

A U.S. Government agency established to implement certain federal housing and community development programs.



Disclosure laws

State and federal regulations which require sellers to disclose such conditions as whether a house is located in a flood plain or whether there are known defects in or affecting the property.

Discount Points

Additional charges made by a lender at the time a loan is made. Points are measured as a percent of the loan, with each point equal to one percent. These additional interest charges are paid at the time a loan is closed to increase the rate of return to the lender so as to approximate the market level.

Earnest money

A portion of a down payment given to the seller by a potential buyer indicating the buyer's intent to complete the purchase of the property.

Easement

Created by grant or agreement for a specific purpose, an easement is the right, privilege or interest which one party has in the land of another.

Encroachment

A condition that limits the interest in a title to property such as a mortgage, deed restrictions, easements, unpaid taxes, etc.

Equity

The value of real estate over and above the liens against it. It is obtained by subtracting the total liens from the value.

Equity mortgage

A mortgage based on the borrowers' equity in their home rather than on their credit worthiness.

Exchange

The trading of equity in a piece of property for equity in another property.

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Escrow

The deposit of instruments and funds with instructions to a neutral party (Escrow Agent) to carry out the provisions of an agreement or contract. When everything is deposited to enable carrying out of instructions, it is called a complete or perfect escrow.

Fannie Mae

The nickname of the Federal National Mortgage Association (FNMA), a tax-paying corporation created by Congress to support the secondary mortgages insured by FHA or guaranteed by VA, as well as conventional home mortgages.

Federal Housing Administration (FHA)

An agency within the Department of Housing and Urban Development (HUD) that administers loan guarantee programs and loan insurance programs to make more housing available.

FHA Loan

A loan which has been insured by the federal government guaranteeing its payment in case of default by the owner.

Firm Commitment

A lender's agreement to make a loan to a specific borrower on a specific property. An FHA or PMI agreement to insure a loan on a specific property, with a designated purchaser

Fixed rate mortgage

A loan that fixes the interest rate at a prescribed rate for the duration of the loan.

FMHA Loan

A loan insured by the federal government similar to FHA loans, usually used for residential properties in rural areas.

Foreclosure

Procedure whereby property pledged as security for a debt is sold to pay the debt in the event of default.

Freddie Mac

Nickname for Federal Home Loan Mortgage Corp. (FHLMC), a federally controlled and operated corporation to support the secondary mortgage market. It purchases and sells residential conventional home mortgages.

Graduated-payment mortgage

A mortgage that starts with low monthly payments and increases at a predetermined rate.

Growing-equity mortgage

A mortgage loan in which the monthly payments increase by a specific amount each year, with the "Overpayments" applied to the principal.



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Installment debts: Long-term debts that usually extend for more than one month.

Investor

The holder of a mortgage or the permanent lender for whom the mortgage banker services the loan. Any person or institution that invests in mortgages.

Joint Tenancy

Joint ownership by two or more persons with right of survivorship; all joint tenants own equal interest and have equal rights in the property.

Land Contract

A contract ordinarily used in connection with the sale of property in cases where the seller does not wish to convey title until all or a certain part of the purchase price is paid by the buyer.

Lease Purchase Agreement

The buyer makes a deposit for the future purchase of property with the right to lease the property in the interim.

Lien

An encumbrance on the property which usually names the property as security for the payment of a debt or discharge of an obligation. Examples: Judgments, taxes, mortgages, deeds of trust, etc.

Loan Commitment

A written promise by a lender to make a loan under certain terms and conditions. These include interest rate, length of the loan, lender fees, annual percentage rate, mortgage and hazard insurance and other special requirements.

Loan to Value Ratio

The relationship between the amount of a home mortgage and the total value of the property. Lenders may limit their maximum mortgage to 80-95 percent of value.

Lock-in-rate

A commitment made by lenders on a mortgage loan to "lock in" a civilian rate pending mortgage approval. Lock-in periods vary.

Marketable Title

Merchantable title, free and clear of objectionable liens or encumbrances

Market value

The highest price a buyer will pay for a property and the lowest price the seller will accept.

Mortgage

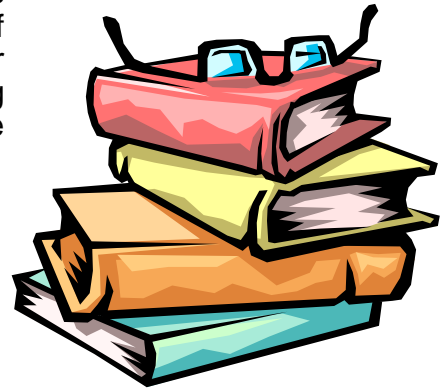
One type of document used to make property the security for the payment of a loan.



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Mortgage/Deed of Trust

An instrument recognized by law by which property is pledged as security or collateral for debt without transfer of title or possession, to secure the payment of a debt or obligation to the lender. Title transfers to the lender during the foreclosure process which occurs in the event that the debtor defaults on the loan obligation to the lender.



Mortgage broker

An individual or company that obtains mortgages for others by finding lending institutions, insurance companies, or private sources to lend the money; may also make collections and handle disbursements.

Mortgage Insurance Premium (MIP)

The consideration paid by a mortgagor for mortgage insurance either to FHA or a private mortgage insurance (PMI) company. On an FHA loan, the payment is one-half of one percent annually on the declining balance of the mortgage. It is a part of the regular monthly payment and is used by FHA to meet operating expenses and provide loss reserves.

Mortgagee

The lender of money or the receiver of the mortgage document.

Mortgagor

The borrower of money or the giver of the mortgage document.

Negative amortization

An increase in the outstanding balance of a mortgage resulting from the failure of periodic debt service payments to cover required interest charges on the loan.

Note

A written promise to pay a certain amount of money with or without specific terms.

Origination Fee

A fee or charge for the work involved in the evaluation, preparation, and submission of a proposed mortgage loan. Origination fees are paid by the borrower to the lender.



Personal Property

Any property which is not real property. For instance, money, savings accounts, appliances, cars, boats, etc.

Point

One percent of the loan amount.

Prepayment Penalty

The fee paid to the mortgagee for paying the mortgage before it becomes due. Also known as prepayment fee or reinvestment fee.

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Prepayment Privilege

The right given a purchaser to pay all or part of a debt prior to its maturity. The mortgagee cannot be compelled to accept any payment other than those originally agreed to.

Private Mortgage Insurance (PMI)

Insurance written by a private company protecting the mortgage lender against loss occasioned by a mortgage default.

Privately Insured Mortgage

A conventional mortgage loan on which a private mortgage insurance company protects the lender against loss.

Promissory Note

Following a loan commitment from the lender, the borrower signs a note promising to repay the loan under stipulated terms. The promissory note establishes personal liability for its repayment.

Purchase Agreement

An agreement between a buyer and seller for the purchase of real estate.

Real Property

Any land and whatever by nature or artificial annexation is a part of it.

Radon

A colorless, odorless gas formed by the breakdown of uranium in subsoils. It can enter a house through cracks in the foundation or in water and is considered to be a health hazard.

REALTOR[®] and REALTOR[®]-Associate

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Rent with Option

A contract which gives one the right to lease property at a certain sum with the option to purchase it at a future date.



Savings and loan association (S&Ls)

Depository institutions that specialize in originating, servicing, and holding mortgage loans, primarily on owner-occupied residential property.

Savings bank

A financial institution organized to hold individual depositors' funds in interest-bearing accounts and to make long-term investments, such as home mortgage loans.



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Second Mortgage/Second Trust

Also known as a Junior Mortgage or Junior Lien. An additional loan imposed on property with a first mortgage, generally at a higher interest rate and shorter terms than a "first" mortgage.

Severalty ownership

Ownership by one person only. Sole ownership.

Shared equity mortgage

A home loan in which an investor is granted a share of the equity, thereby allowing the investor to participate in the proceeds from resale.

Special Assessment

A legal charge against real estate by a public authority to pay the costs of public improvements such as street lights, sidewalks, street improvements, etc.

Straight Loan

A loan with periodic payments of interest only; the principal sum is due in one lump sum upon maturity. ☐

Subdivision

A parcel of land that has been divided into smaller parts.

Survey

The process by which a parcel of land is measured and its area ascertained

Tenancy in Common

Ownership by two or more persons who hold undivided interest, without the right of survivorship. Interests need not be equal.

Term of Mortgage

The period during which a mortgage must be paid off.

Title

Often used interchangeably with the word ownership. It indicates the accumulation of all rights in a property.



Title defect

An outstanding claim or encumbrance on property that affects marketability.

Title Insurance

An insurance policy which protects the insured (purchaser or lender) against loss arising from defects in title.

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Trust Account

An account separate and apart and physically segregated from a broker's own funds, in which the broker is required by law to deposit all funds collected for clients.

Veterans Administration (VA)

A government agency that provides services for eligible veterans of the armed forces. Among other programs, it guarantees mortgage loans made by private lenders to veterans.

Warranty Deed

A deed used to convey real property which contains warranties of title and quiet possession, and the grantor agrees to defend the premises against lawful claims of third persons.

Variance

A special suspension of zoning laws to allow the use of property in a manner not in accord with existing laws.

Zoning restrictions

Local municipal ordinances that classify property according to specific uses such a single family, residential, commercial, industrial, multi-family, etc.

