
Glossary of Common

REAL ESTATE TERMS

ABSTRACT OF TITLE

A brief history of the title of a property. It should be a chronological history of recorded instruments that affect the title of the subject property. Some states allow the use of an abstract for title searches. After the conclusions of the title search, an opinion is issued by the attorney that can be used to obtain title insurance. However, the abstract does not guarantee the title. It can only reveal what is of public record. It will not protect against fraud or forgery as title insurance does.

AMORTIZATION

Loan amortization is the process of paying off a debt or mortgage. This is usually done in monthly payments. Of the payment, there is a portion for interest, and a portion for principal. This exists for all amortized loans, whether it is a graduated payment mortgage, adjustable graduated mortgage, or level payment mortgage.

AMOUNT FINANCED

The base amount of the loan. Does not include closing costs, discount points, or mortgage insurance premiums. This amount is associated with a disclosure statement used in compliance with the Truth in Lending Act.

APPRAISAL

Estimated value for a home or property for a specific purpose on a given date. Appraisals can be verbal or written.

APPRAISER

A person who estimated value on a professional level. ASA, MAI, SRA, SRPA, AND SREA are some professional designations.

APPRECIATION

An increase in the value of property. The exact opposite of depreciation.

ARREARS

Interest on home mortgages is paid in arrears. Rent is normally paid in advance. A good example is a rent payment made June 1 is for the month of June; a payment made June 1 on a mortgage is the interest for May.

ARTESIAN WELL

A deep well where water rises to the surface by natural pressure.

AS-IS

Property sold in its present condition with no warranties made about the plumbing, heating, electrical, or other physical plant attributes, or the possibility of infestation by termites.

ASSESSMENT

The fair market value of a particular property for tax purposes.

BALLOON MORTGAGE

A loan where the regular monthly payments do not amortize the loan. At an agreed period in the future, the loan is due and payable in full.

BASIS POINTS

A term used in expressing a relationship to interest rates. One basis point is equal to 100th of one percent. The difference between 10.25% and 10.50% is 25 basis points.

BI-WEEKLY MORTGAGE

A mortgage with 26 bi-weekly payments through the year versus 12 monthly payments. Usually allows a borrower to repay interest faster and amortize the loan more quickly.

BOARD OF REALTORS

The State, National and Local Association of Realtors have boards.

BOTTOM LAND

Low land which is situated near a body of water.

BREACH OF CONTRACT

Failure to perform a specific item or items within a contract. The party that did not violate the contract is able to sue for damages, or to force the other party to perform under terms of the contract.

BUILDING CODE

A system of standards for constructing and modifying buildings in an area established by federal, stated, county or city governments.

BUILDING PERMIT

A permit issued to provide permission to build, in writing. Most often issued by a local government.

BUSINESS DAY

Monday through Friday, excluding holidays. Same as a working day.

BUYER'S MARKET

When demand for housing is lower than normal. Dictated by market conditions.

CAPITAL GAIN

Taxable profit from the purchase and subsequent sale (at a profit) of an asset.

CERTIFICATE OF INSURANCE

Proof that insurance is in force. This type of certificate indicates the type of insurance, the amount of coverage, the date of coverage, and the in-force and expiration dates.

CERTIFICATE OF TITLE

Prepaid by a licensed abstractor, attorney, or title company, it is a written opinion on the status of the title to real property based on public records. This type of certificate does not guarantee the title, but simply gives an opinion of the title. The only document that guarantees title is title insurance.

CERTIFIED CHECK

Guaranteed check issued by a bank. This type of check cannot be revoked by a stop payment. In real estate transactions, a

certified check is normally required to close the transaction.

CLEAR TITLE

Title that is free of any clouds, is marketable and is free of any liens, claims, defects, or encumbrances. The only exception is when both parties agree on any liens, claims or defects, or encumbrances.

CLOSED-END MORTGAGE

A mortgage amount that is fixed and cannot be increased.

CLOSING

The process of actually transferring a title. Closing can be handled by an attorney, escrow company, lender, broker, or occasionally by the parties themselves, depending on state law.

CLOSING COSTS

Typically, all costs associated with closing. Can include, but is not limited to: mortgage origination fee, credit report fee, appraisal fee, recording fees, home inspection fee, mortgage tax, title search expense, BA funding fee, cost of termite report, survey, sales commissions, mortgage insurance premiums.

COMPARABLES

A method of determining market value. Sale of similar or comparable property can be the basis for determining the value of a property.

CONFORMING

Used in secondary marketing, indicates conventional mortgages that adhere to standards set forth by FHLMC and FNMA, If the loan amount is too large, or underwriting guidelines used are unacceptable to FHLMC and FNMA, the loan is termed non-conventional.

CONVENTIONAL LOAN

Mortgages not associated with the VA or FHA are called conventional because they adhere to conventional standards within legal limits by mutual consent of the lender and borrower.

CO-SIGNER

Someone who lends his/her credit and character to another individual for the purpose of obtaining credit. The co-signer is signer on the loan application and note, but not on the deed of trust or mortgage. The co-signer shares in the liability for the loan, but not the ownership.

COUNTER OFFER

A change and re-submission of the original offer to buy or sell a property, made in response to the original offer.

CREDIT REPORT

A written report that serves to help the lender decide the credit worthiness of potential borrowers.

DEED

An instrument used to transfer ownership of a property from one person or entity to another. Ownership begins with the recording of the deed for the purchaser, and ownership terminates with recording the deed for the seller.

DISCLOSURE

Lenders are required by the Truth In Lending Act to inform borrowers what the true cost of borrowing the money is, the closing costs, and special conditions of a mortgage.

DISCOUNT POINTS

A discount expressed as a point or a percentage. A discount of 3 points would be 3% of the loan amount.

DOWN PAYMENT

The difference between the cost to acquire a property and the loan amount.

EARNEST MONEY

Cash deposit that accompanies a sales contract, showing good faith to abide by their terms of the contract. Earnest money can be forfeited by the buyer, if he or she does not abide by the conditions of the purchase agreement. At closing, earnest money is usually credited toward the down payment.

EQUITY

The value of a property, less encumbrances. A \$100,000 property with a \$75,000 mortgage is said to have \$25,000 in equity.

ESCROW ACCOUNT

A deposit with an impartial third party. Escrow accounts can be used to hold money until successful compliance of an agreement such as a contract of sale is executed. The dominant use of the term escrow account is to define an account used to pay insurance and taxes. The account is funded by the owner/borrower.

FAIR CREDIT REPORTING ACT (FCRA)

Designed to regulate the consumer credit reporting industry, ensure accurate, fair, and timely reporting of consumer credit information, and impose disclosure obligations on users of consumer credit reports.

FAIR HOUSING ACT

A law dictating that when selling or leasing residential property, it is unlawful to discriminate based on color, race, sex, creed or national origin.

FIRST MORTGAGE

The primary "original" mortgage, taking precedents over all prior loans, making those loans "junior" to the first mortgage. The property security, which is collateral for this primary mortgage, is evidence of the full appraised value at the precise time the loan is made.

FORECLOSURE

Legal action taken by a creditor or mortgagee to force the sale of property to satisfy a debt secured by the property. Judicial foreclosure, non-judicial foreclosure, and strict foreclosure are three types of foreclosure.

GIFT LETTER

If some or all of a downpayment is in the form of a gift from a relative, most lenders require a gift letter to verify the source of the funds. Each lender has different requirements as to what must be in the gift letter, and limitations of the specifics of the gift.

GOOD FAITH ESTIMATE

An estimate of the settlement charges the borrower will incur at closing. This written documentation is required by the Real Estate Settlement Procedures Act (RESPA).

HAZARD INSURANCE

Insurance covering physical damage to property. Guidelines for hazard insurance are established by each lending institution for the minimum coverage required.

HOME EQUITY LOAN

A second mortgage based on the equity the owner possesses in a home. Can be used to improve the property, or other uses.

HOUSING CODE

Municipal legislative ordinance that regulates heating, plumbing, occupancy standards, roofing and other standards for occupied structures.

IMPOUND See "Escrow"

INSPECTION CERTIFICATE

Lenders often require a certificate to insure the collateral used for a loan is the same as indicated in a loan application.

INSURANCE

For a residential property, insurance normally covers four types of coverage; damage to the property, known as hazard insurance; losses resulting from a foreclosure, known as private mortgage insurance; PMI to cover the mortgage in the event of the mortgagor; and to cover the mortgagor in the event of disability.

JOINT AND SEVERAL LIABILITY

A lender can sue one or all of the borrowers to force satisfactory performance. An obligation from all or one of the borrowers to the lender.

LATENT DEFECT

A defect that is hidden or concealed. It is not easily seen or discoverable by the purchase or inspector, but known by the sellers.

LEASE PURCHASE

Sellers and Purchasers can enter into agreements to purchase property with the rent payments going towards the sales price, most often towards the down payment. Most lenders provide guidelines for this type of plan. If the rent paid is less than fair market rent, the lender can view the transaction as the seller giving the buyer the down payment via reduced rent.

LEVEL PAYMENT MORTGAGE ORIGINATOR

A constant payment of a fixed amount each month until the debt is paid. By constant payment, it is meant to be a fixed rate mortgage versus an adjustable rate of graduated payment mortgage.

LIEN

Claims made against the property of another as security for the money owed. Liens can be general or specific, and can be statutory or equitable.

LITIGATION

Legal action, including all proceedings therein, a lawsuit.

LOAN AGREEMENT

The written agreement to repay a loan. If it is secured by a mortgage, it is a note describing how the payments will be made and any other actions will be performed.

LOAN COMMITMENT

A document from a lender agreeing to lend a specific amount of money for a specific purpose over a specific amount of time.

LTV (LOAN TO VALUE RATIO)

Percentage amount borrowed in the acquisition or refinancing of property. If a property is worth \$100,000, and the loan is for \$80,000, then the loan-to-value ratio is 80%.

MARKET VALUE

The price at which, barring distress, a purchaser is willing to pay and the seller is willing to sell.

NEGATIVE AMORTIZATION

Results in mortgage loan balance actually increasing instead of decreasing. The monthly payments do not pay the full interest due for the month, and the remaining interest rolls over and is added to the principal.

OPEN END MORTGAGE

When mortgagor and mortgagee agree, future advances of principal can be arranged. The borrower will receive a limit of the total outstanding balance. Similar to a line of credit.

PERSONAL PROPERTY

Items such as cash, jewelry, furniture and securities that are not classified as real property or real estate.

PITI

Principal, Interest, Taxes and Insurance.

PMI See "Private Mortgage Insurance"

POWER OF ATTORNEY

Written permission for one person or party to act on the behalf of another person or party.

PREPAYMENT

An advanced payment on a Loan. Loans can either permit such payments without penalty, or there may be a penalty for such prepayments.

PRINCIPAL

In mortgage terms, the loan balance. Can also indicate a party to a transaction, or the principal can hire an agent to represent him in either a purchase or sale.

PRIVATE MORTGAGE INSURANCE, OR PMI

Insurance against the default of a loan. Costs are dependent on amount of insurance required and guidelines in force at the time of the loan.

RATE CAPS

Used in adjustable rate mortgages (ARMs), these caps limit the increase or decrease in the interest rate of the mortgage. There can be caps for each period as well as the life of loan caps.

REFINANCE

To pay off an existing loan with a new one.

RELEASE OF LIABILITY

Releasing a mortgagor from personal liability for a mortgage loan.

SEASONED LOAN

FHA requires a loan to be outstanding for twelve months before it is seasoned. Other secondary marketers may have varying guidelines.

SECOND MORTGAGE

A real estate mortgage that is a second, or junior mortgage to the first, or senior mortgage.

SETTLEMENT

For real estate purposes, same as closing.

SOLVENT

A financial position of being able to meet one's current financial obligations.

SUBMORTGAGE

Using a mortgage as security for obtaining additional mortgages. As an asset, it can be used as collateral for a loan.

SURVEY

A drawing completed by a licensed surveyor who details the measurements of a land parcel as well as the improvements to the land. Surveys used for loan transactions will need to be performed no more than 90 days before the closing of the loan, and must be accompanied by a certificate.

TAX LIEN

Lien made by the federal or state government against property for unpaid taxes.

TITLE

Documentation to the rightful ownership. In real estate, refers to the rightful ownership of real property.

TITLE INSURANCE

Also called a lender's policy, protects a creditor against losses related to defects in title.

TRUST DEED See "Deed of Trust"

TRUTH IN LENDING ACT

A 1969 law requiring full disclosure in writing of any and all costs associated with the credit side of a purchase, including the Annual Percentage Rate, if applicable.

VA

Veterans Administration.

WRAP-AROUND MORTGAGE

A type of financial allowing a junior mortgage (new) to be treated as a prior or senior mortgage. The wraparound mortgage payment is a combination of all mortgage payments.

ZERO LOT LINES

A building or structure where at least one side rests directly on the lot's boundary line.

ZONING ORDINANCES

Local government's authorized rules regarding building codes and restrictions for property land usage.