

Glossary of Real Estate Terms

Acceleration Clause

A mortgage clause which allows the lender to demand payment of the outstanding loan balance. It is commonly used in case of default under the loan.

Adjustable Rate Mortgage (ARM)

A mortgage in which the interest rate changes periodically, and which may increase or decrease depending on market fluctuations.

Amortization

The period of time a loan may be repaid over and which includes repayment of both a portion of the principal and the accrued interests for the payment period. An amortized loan provides for equal payments throughout the duration of the loan.

Amortization Schedule

Table showing a recap of all payments for the duration of the loan including how much is apportioned to the principal and to the interests accrued. It also indicates the gradual decrease of the loan balance until it reaches zero.

Annual Percentage Rate (APR)

Because of fees that lenders add to the loan, such as points, origination fees, application fees, etc., the interest rate advertised does not reflect the true annual cost of borrowing, expressed as a percentage. The government therefore obliges lenders to incorporate these fees into their calculation of the interest rate to reflect the true rate of interest generated by these added fees. It is part of the Truth in Lending federal law imposed on lenders.

Appraised Value

Arrived at by a certified appraiser and reflects an opinion of a property's fair market value. Appraisers generally use recent comparable sales to arrive at the appraised value in residential home sales.

Appraiser

An individual who has successfully completed the proper educational requirements and that has been qualified by a governmental authority to estimate the value of real property.

Appreciation

The increase in the value of real property due to market fluctuations, increase demand, short supply or other reasons.

Assessed Value: The valuation placed upon property by a public tax assessor as the basis for establishing real estate taxes.

Assumable Mortgage

Mortgage that can be taken over by the buyer when home ownership is transferred. In most cases, the buyer must qualify in order to assume the loan.

Balloon Mortgage

Mortgage loan that requires repayment of the principal balance at a specific date. Even if such a loan is amortized over a longer period of time, its principal balance must be repaid at the date indicated on the loan documents.

Bridge Loan

Temporary loan made to home buyers who are ready to close on their new home purchase but have not yet sold their existing home.

Certificate of Reasonable Value (CRV)

A VA issued document that establishes the maximum value and loan amount for a VA guaranteed mortgage.

Certificate of Title

A document signed by a title examiner or attorney stating that the seller has a good marketable and insurable title.

Clear Title

A title that is free of liens or encumbrances.

Closing Costs

Closing costs are costs associated with the purchase or sale of real property. They can include but are not limited to sales commissions, recording fees, courier fees, title search and insurance, tax or insurance pro-rations, tax stamps, loan fees, reserve accounts, etc.

Closing Statement

The instrument of financial adjustments between buyer and seller, as of the day of closing of a sale. It itemizes the closing costs defined above. Its purpose is to determine the net amount of money required by the buyer to close. It is also referred to as a HUD Statement.

Common Area Assessments

Periodical charges assessed to maintain common areas and property in a Homeowner Association, Planned Unit Development or Condominium Association.

Commission

Fee charged by a real estate broker for providing buyer or seller services. While real estate sale commissions are normally paid by the seller, it is not uncommon nowadays to have buyers pay a real estate broker a fee for locating property for them.

Comparable Sales

Refers to recent sales of comparable properties in a defined area. Comparable sales are most often used to determine the market value of a property.

Condominium

Form of real estate ownership whereas the owner holds title to a particular unit in a multi-unit building as well as a proportionate interest in common areas. Title conveyed is limited by the condominium unit's interior surfaces (walls, floors and ceilings) which serve as its boundaries.

Construction Loan

A short-term loan used for financing the cost of construction and in which the lender makes payments to the builder as the work progresses.

Contract Contingency

A condition that must be met to make the contract legally binding. A common example is a contingency to obtain mortgage approval.

Covenants, Conditions and Restrictions

A document attached to the deed that controls the use, requirements and restrictions of a property.

Conventional Mortgage

Refers to home loans that are not FHA or VA insured loans.

Convertible ARM

An adjustable-rate mortgage that allows the borrower to change to a fixed-rate mortgage within a specific time.

Deed

A legal document conveying title to a property.

Default

A borrower's failure to make a mortgage payment within a specified period of time.

Delinquency

A borrower's failure to make mortgage payments by the date when mortgage payments are due.

Documentary Stamps

State tax required by law when title passes from one owner to another.

Due-On-Sale Clause

A provision in a mortgage that allows the lender to demand repayment in full if the borrower sells the property that serves as security for the mortgage.

Earnest Money Deposit

A down payment submitted to the seller at time of offer to purchase real estate. It is offered as evidence of good faith. Also referred to as Earnest Money Deposit or Escrow deposit.

Easement

A right of way giving persons or entities other than the owner access to or over a property.

Eminent Domain

The right of a government to take private property for public use upon payment of its fair market value.

Encroachment

A permanent improvement that intrudes onto another's property.

Encumbrance

Limitations that affects title to a property, such as mortgages, leases, easements, or restrictions.

Equity

The difference between the fair market value of real estate and the amount still owed on its mortgage and other liens.

Examination of Title

A report produced by an attorney or title examiner for the purpose of determining whether the title is clear and free of all encumbrances. These reports are generated from examining the public records or an abstract of title.

FHA Mortgage

A mortgage that is insured by the Federal Housing Administration (FHA).

Fixed-rate Mortgage

A mortgage in which the interest rate remains the same for the entire duration of the loan.

Foreclosure

The legal process involving the forced sale of a property as a result of the borrower's default under the mortgage loan to be used for the repayment of the debt.

Graduated Payment Mortgage

A residential mortgage featuring lower monthly payments at the start which increases at a predetermined rate.

Grantee

The person to whom an interest in real property is conveyed.

Grantor

The person conveying an interest in real property.

Homeowners' Association

A nonprofit association that manages the common areas of a planned unit development or condominium project.

Home Inspection Report

A qualified inspector's report on a property's overall condition. The report usually includes an evaluation of both the structure and mechanical systems.

Home Warranty Plan

Home protection plan against failure of mechanical systems and appliances within the property. Provides for repairs and/or replacement of plumbing, electrical, heating systems and installed appliances.

Ingress and Egress

The right to access or depart from real property.

Intangible Tax

State or other local tax required by law and affixed to new loans or other real estate transactions.

Interest Cap

Limitations as to how much an Adjustable Rate Mortgage interest rate may increase within a period of time or for the duration of the loan.

Lease Option

An agreement that allows home buyers to lease a home with an option to buy. Options are normally given for a limited period of time. Additionally, each month's rent payment may contain an additional amount which can be applied toward the down payment on an agreed upon price.

Lien

A legal hold or claim on property recorded as security for a debt or charge.

Listing Contract

A contract between a homeowner and a licensed real estate broker in which the broker is employed to market the real estate property and try to find a qualified buyer within a given time. In return, the owner agrees to pay a fee if the real estate broker sells the property.

Loan Application

The form used by lenders for borrowers to apply for a mortgage loan.

Loan Commitment

A written promise by a lender to make a loan for a specified amount on specified terms.

Loan-To-Value Ratio

The relationship between the amount of the mortgage loan and the value of the property, expressed as a percentage.

Market Value

The highest price which a buyer, ready, willing and able but not compelled to buy, would pay, and the lowest price a seller, ready, willing and able but not compelled to sell, would accept, at a certain time and in a defined area.

Mortgage

A legal document which places a lien against real property. It is given by the borrower to the lender as security for money borrowed.

Mortgagee

Refers to the lender in a mortgage agreement.

Mortgage Insurance Premium (MIP)

An insurance premium paid by a borrower to a government agency such as FHA.

Mortgagor

Refers to the borrower in a mortgage agreement.

Negative Amortization

Negative amortization occurs when monthly payments fail to cover the interest cost. The interest that isn't covered is added to the unpaid principal balance, which means that even after several payments a borrower owes more than at the beginning of the loan. Negative amortization can occur in the case of a Graduated Payment Mortgage.

Origination Fee

A fee or charge by a lender for work involved in evaluating, preparing, and submitting a proposed mortgage loan.

PITI

Generally refers to monthly payments of principal, interest, taxes and insurance.

Planned Unit Development (PUD)

A zoning designation for property developed at the same or slightly greater overall density than conventional development, sometimes with improvements clustered between open, common areas. Uses may be residential, commercial or industrial.

Point

An amount equal to 1 percent of the principal amount of the loan that the lender assesses at closing to increase the yield on the mortgage.

Power of Attorney

A legal document that authorizes a person to act on another's behalf. A power of attorney may grant complete authority or be limited to certain acts and/or certain periods of time.

Pre-Approval

Used to describe that a borrower has applied and provided the necessary information to a lender for consideration for a mortgage loan. Lenders base their decision to approve on the information provided and fix a maximum amount of loan the borrower is approved for.

Pre-Qualification

Refers to a loan officer's opinion of the ability of a borrower to qualify for a loan, based on the information provided to the loan officer.

Prepayment Penalty

A fee set in advance in the mortgage loan instrument that is charged to a mortgagor who pays a loan before it is due. Prepayment penalties cannot be included in FHA or VA loans.

Private Mortgage Insurance (PMI)

Insurance provided by a private company protecting the lender against loss if the borrower defaults on the mortgage.

Promissory Note

A written document promising to repay a specified amount over a specified period of time.

Prorate

To allocate between seller and buyer their proportionate share of an obligation paid or due. Prorations in a real estate transaction can occur on real property taxes, insurance, condominium fee, etc.

Purchase Agreement

A written document in which the purchaser agrees to buy specific real estate and the seller agrees to sell under stated terms and conditions. It is also called a sales agreement or sales contract.

Purchase Money Mortgage

A property purchase transaction in which the property seller provides all or part of the financing.

Qualifying Ratios

Refers to a buyer's total debt costs, including PITI and any other debt they may have, as a percentage of the buyer's total monthly income. These ratios are used to determine whether a borrower can qualify for a mortgage.

Realtor

A real estate broker or associate member of the local Association of Realtors® and also affiliated with the National Association of Realtors®.

Right of First Refusal

A provision granted by the owner to a potential buyer requiring that the owner of a property give the potential buyer the first opportunity to purchase the property before he or she offers it for sale to others.

Survey

A map or plat made by a licensed surveyor showing the results of measuring the land with its elevations, improvements, boundaries, and its relationship to surrounding tracts of land. A survey is normally required by lenders whenever a new mortgage loan is applied for.

Title Insurance

An insurance policy that protects homeowners and lenders against loss of their interest in property due to defects in title.

Title Search or Examination

A check of the title records, generally at the local courthouse, to make sure the buyer is purchasing a house from the legal owner and there are no liens, overdue special assessments, or title defects.

VA Certificate of Eligibility

A document issued by the Veterans Administration that certifies a veteran's eligibility for a VA loan.