

# Real Estate Glossary

**Acceptance:** the date when both parties, seller and buyer, have agreed to and completed signing and/or initialing the contract.

**Adjustable Rate Mortgage:** a mortgage that permits the lender to adjust the mortgage's interest rate periodically on the basis of changes in a specified index. Interest rates may move up or down, as market conditions change.

**Amortized Loan:** a loan that is paid in equal installments during its term.

**Appraisal:** an estimate of real estate value, usually issued to standards of FHA, VA and FHMA. Recent comparable sales in the neighborhood is the most important factor in determining value

**Appreciation:** an increase in the value of a property due to changes in market conditions or other causes. The opposite of depreciation.

**Assumable Mortgage:** purchaser takes ownership to real estate encumbered by an existing mortgage and assumes responsibility as the guarantor for the unpaid balance of the mortgage.

**Bank Owned or Real Estate Owned (REO):** When a homeowner loses their home to foreclosure, their property reverts to the first lien holder, which is the first mortgage holder on the property. Mortgage company hires a listing agent to list the property in the local MLS area to find a buyer for the property. Most bank owned properties are sold As – Is where the bank/seller will not agree to make repairs to the property.

**Bill of Sale:** document used to transfer title (ownership) of PERSONAL property.

**Cloud on Title:** any condition that affects the clear title to real property.

**Consideration:** anything of value to induce another to enter into a contract, i.e., money, services, a promise.

**Deed:** a written instrument, which when properly executed and delivered, conveys title to real property.

**Discount Points:** a loan fee charged by a lender of FHA, VA or conventional loans to increase the yield on the investment. One point = 1% of the loan amount.

**Easement:** the right to use the land of another.

**Encumbrance:** anything that burdens (limits) the title to property, such as a lien, easement, or restriction of any kind.

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

**Escrow Payment:** that portion of a mortgagor's monthly payment held in trust by the lender to pay for taxes, hazard insurance and other items as they become due.

**Fannie Mae:** nickname for *Federal National Mortgage Corporation* (FNMA), a tax-paying corporation created by congress to support the secondary mortgages insured by FHA or guaranteed by VA, as well as conventional loans.

**Federal Housing Administration (FHA):** an agency of the *U.S. Department of Housing and Urban Development* (HUD). Its main activity is the insuring of residential mortgage loans made by private lenders. The FHA sets standards for construction and underwriting but does not lend money or plan or construct housing.

**FHA Insured Mortgage:** a mortgage under which the *Federal Housing Administration* insures loans made, according to its regulations.

**Fixed Rate Mortgage:** a loan that fixes the interest rate at a prescribed rate for the duration of the loan.

**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 Corporation* (FHLMC), a federally controlled and operated corporation to support the secondary mortgage market. It purchases and sells residential conventional home mortgages.

**Graduated Payment Mortgage:** any loan where the borrower pays a portion of the interest due each month during the first few years of the loan. The payment increases gradually during the first few years to the amount necessary to fully amortize the loan during its life.

**Lease Purchase Agreement:** buyer makes a deposit for future purchases of a property with the right to lease property in the interim.

**Lease with Option:** a contract, which gives one the right to lease property at a certain sum with the option to purchase at a future date.

**Loan to Value Ratio (LTV):** the ratio of the mortgage loan principal (amount borrowed) to the property's appraised value (selling price). Example – on a \$100,000 home, with a mortgage loan principal of \$80,000 the loan to value ratio is 80%.

**Mortgage:** a legal document that pledges a property to the lender as security for payment of a debt.

**Mortgage Insurance Premium (MIP):** the amount paid by a mortgagor for mortgage insurance. This insurance protects the investor from possible loss in the event of a borrower's default on a loan.

**Note:** a written promise to pay a certain amount of money.

**Origination Fee:** a fee paid to a lender for services provided when granting a loan, usually a percentage of the face amount of the loan.

**Private Mortgage Insurance (PMI):** *see Mortgage Insurance Premium.*

**Second Mortgage / Second Deed of Trust / Junior Mortgage / Junior Lien:** an additional loan imposed on a property with a first mortgage. Generally, a higher interest rate and shorter term than a "first" mortgage.

**Settlement Statement (HUD-1):** a financial statement rendered to the buyer and seller at the time of transfer of ownership, giving an account of all funds received or expended.

**Severalty Ownership:** ownership by one person only. Sole ownership.

**Short Sale:** When the homeowner owes more on the home than the home is worth and has a documented hardship, they can negotiate with their mortgage company to sell the home for less than they owe on the mortgage. The lender agrees to absorb the loss or collect from the seller in the future. This is a common occurrence in a declining market. Short sale transactions can take from 3 weeks to over 6 months to obtain approval from the lender. Most short sales are sold As – Is.

**Tenancy In Common:** ownership by two or more persons who hold an undivided interest without right of survivorship. (In event of the death of one owner, his/her share will pass to his/her heirs.

**Title Insurance:** an insurance policy that protects the insured (buyer or lender) against loss arising from defects in the title.