



REAL ESTATE GLOSSARY

Brief descriptions of common terminology used in real estate transactions. These are general terms and are not intended to apply to all possible uses of the term. Please consult your real estate agent for more information or questions regarding definitions.

Adjustable Rate Mortgage (ARM): A mortgage with an interest rate that changes over time in line with movements with the index.

Adjustable Period: The length of time between interest rate changes on an ARM. For example, a loan with an adjustable period of one year is called a one year ARM, which means that the interest rate can change once per year.

Affidavit: A sworn statement in writing, made before an authorized official.

A.L.T.A.: Abbreviation for the American Land Title Association.

Amortization: Repayment of a loan in equal installments of principal and interest rather than interest only payments.

Annual Percentage Rate (APR): The total finance charge (interest, loan fees, points expressed as a percentage of the loan amount).

Assessments: Specific and special taxes (in addition to normal taxes) imposed on real property to pay for public improvements within a specific geographic area.

Assumption of Mortgage: A buyer's agreement to assume the liability on an existing note that is secured by a mortgage or deed of trust. The lender must approve the buyer in order to assume the loan.

Attorney-in-Fact: An agent authorized to act for another under a power of attorney.

Balloon Payment: A lump sum principal payment due at the end of some mortgages or other long-term loans.

Beneficiary: As used in a trust deed, the lender is designated as the Beneficiary, i.e. obtains the benefit of the security.

Binder: Sometimes known as an offer to purchase or an earnest money request. A binder is the acknowledgement of a deposit along with a brief written agreement to enter into a contract for the sale of real estate.

Cap: The limit of how much the interest rate or monthly payment can change, either at each adjustment or over the life of the mortgage.

CC & R's: Covenants, Conditions and Restrictions. A document that controls the use, requirements and restrictions of a property.



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Certificate of Reasonable Value (CRV): A document that establishes the maximum value and loan amount for a VA guaranteed loan.

Conventional Loan: A mortgage loan, which is not insured or guaranteed by a governmental agency.

Closing Statement: The financial disclosure statement that accounts for all of the funds received and expected at the closing of the escrow, including deposits or taxes, hazard insurance and mortgage insurance.

Condominium: A form of real estate ownership. The owner receives title to a particular unit and has a proportionate interest in certain common areas. The unit itself is generally a separately owned space whose interior surfaces (walls, floors, and ceilings) serve as its boundaries.

Contingency: A condition that must be satisfied before a contract is binding. For instance, a sales agreement may be contingent upon the buyer obtaining financing.

Conversion Clause: A provision in some ARM's that enables you to change an ARM to a fixed-rate loan, usually after the first adjustment period. The new fixed rate is generally set at the prevailing interest rate for fixed rate mortgages. This conversion feature may cost extra.

Cooperative: A form of multiple ownership in which a corporation or business trust entity holds title to a property and grants occupancy rights to shareholders by means of proprietary leases or similar agreements.

Deed: Written instrument by which the ownership of land is transferred from one person to another.

Deed of Trust: Written instrument by which title to land is transferred to a trustee as security for a debt or other obligation.

Deposit Receipt: Used when accepting "Earnest Money" to bind an offer for property by a prospective purchaser; also includes terms of a contract.

Due on Sale Clause: An acceleration clause that requires full payment of a mortgage or deed of trust when secured property changes ownership.

Earnest Money: The portion of the down payment delivered to the seller or escrow agent by the purchaser with a written offer as evidence of good faith.

Easement: A right created by grant, reservation, agreement, prescription, or necessary implication, which one has in the land of another.

Escrow: A procedure in which a third party acts as a stakeholder for both the buyer and the seller, carrying out both parties' instructions and assuming responsibility for handling all of the paperwork and distribution of funds.



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Federal National Mortgage Association: Popularly known as Fannie Mae. A privately owned corporation created by Congress to support the secondary mortgage market. It purchases and sells residential mortgages insured by FHA or guaranteed by VA, as well as conventional home mortgages.

Fee Simple: An estate in which the owner has unrestricted power to dispose of the property as he wishes, including leaving by will or inheritance. It is the greatest interest a person can have in real estate.

FHA Loan (Federal Housing Administration): A federal agency, created by the National Housing Act of 1934, for the purpose of expanding and strengthening home ownership by making private mortgage financing possible on a long-term, low down payment basis. The vehicle is a mortgage insurance program, with premiums paid by the homeowner, to protect lenders against loss on these higher risk loans. Since 1965, FHA has been part of the newly created department of Housing and Urban Development (HUD).

Finance Charge: The total cost a borrower must pay, directly or indirectly, to obtain credit.

Graduated Payment Mortgage: A residential mortgage with monthly payments that start at a low level and increase at a predetermined rate.

Grant: A transfer of real property.

Grantee: The person to whom a grant is made.

Grantor: The person who makes a grant.

Home Inspection Report: A qualified inspector's report on a property's overall condition. The report usually covers an evaluation of both the structural and mechanical systems.

Index: The measure of interest rate changes used to determine adjustments in an ARM's interest rate over the term of the loan.

Joint Tenancy: An equal undivided ownership of property by two or more persons. Upon death of any owner, the survivor receives the decedent's interest in the property.

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

Loan Commitment: A written promise to make a loan for a specified amount on specific terms.

Loan to Value Ratio: The relationship between the amount of the appraised value of the property, expressed as a percentage of the appraised value.

Margin: The number of percentage points the lender adds to the index rate to calculate the ARM interest rate at each adjustment.



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Mortgage Banker: A company or individual engaged in the business of originating mortgage loans with its own funds. Selling those loans to long term investors and servicing the loans for the investor until they are paid in full.

Negative Amortization: This occurs when monthly payments fail to cover the interest cost. The interest not covered is added to the unpaid principle balance so that even after several payments, you could owe more than you did at the beginning of the loan.

Origination Fee: A fee or charge for establishing a loan.

PITI: 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 developments, sometimes with improvements clustered between open, common areas.

Point: An amount equal to one percent of the principal amount of the investment or note. The lender assesses loan discount points at closing to increase the yield on the mortgage to a position competitive with other types of investments.

Pre-Payment Penalty: A fee charged to a mortgagor who pays a loan before it is due. Not allowed for FHA or VA loans.

Private Mortgage Insurance (PMI): Insurance written by private companies protecting the lender against loss if the borrower defaults on the mortgage.

Real Property: Land and buildings as opposed to property or chattels.

Realtor: A real estate broker or associate active in a local real estate board affiliated with the National Association of Realtors.

Recordation: Filing for record in the office of the county recorder.

Title: Evidence of a person's right or the extent of his or her interest in the property.

Title Insurance Policy: A policy that protects the purchaser, mortgagee or other party against loss.

VA Loan: A loan that is partially guaranteed by the Veterans Administration and made by a private lender.

Veterans Administration (VA): An independent agency of the federal government created by the Service Men's Readjustment Act of 1944 to administer a variety of benefit programs designated to facilitate the adjustment of returning veterans to civilian life. Among the program's benefit's is the home loan guaranty program designated to encourage mortgage lenders to offer long-term low down payment financing to eligible veterans by guaranteeing the lender against loss on these higher-risk loans.