

**GLOSSARY TERMS**

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## Glossary of 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.

**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:** Increase in value due to any cause.

**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.

**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.

**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).

**Closing Statement:** 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.

**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.

**Conventional mortgage:** A fixed rate, fixed-term mortgage not insured by the federal government.

**Deed:** A legal document conveying title to a property.

**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.

**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:** A right to use 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.

**Escrow:** The placement of money *or* documents with a third party for safekeeping pending the fulfillment *or* performance of a specified act *or* condition.

**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.



**Fannie Mae:** Nickname for Federal National Mortgage Corp. (FNMA), a tax paying corporation created by Congress to support the secondary mortgages insured by FHA *or* guaranteed by V A, as well as conventional home mortgages.

**FHA Insured mortgage:** A mortgage under which the Federal Housing Administration insures loans made, according to its regulation, by approved lenders.

**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 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.

**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 maker services the loan. Any person *or* institution that invests in mortgages.

**Joint & Survivorship Deed:** (Also known as “Warranty deed creating tenants in common with right of survivorship”) Upon death of one of the owners, title to the interest transfers “by contract” to survivors.

**Lease purchase agreement:** Buyer makes a deposit for the future purchase of a property with the right to lease the property in the interim.

**Lien:** A legal claim against a property that must be paid when the property is sold.

**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.

**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.

**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.

**Mortgagee:** The lender of money or the receiver of the mortgage.

**Mortgagor:** The borrower of money of 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.

**Origination fee:** A fee or charge for work involved in the evaluation, preparation and submission of a proposed mortgage loan.

**Pre-payment penalty:** A fee paid to the mortgagee for paying the mortgage before it becomes due. Also known as pre-payment fee or reinvestment fee.

**Private mortgage insurance (PMI):** Insurance issued to a lender by a private company to protect the lender against loss on a defaulted mortgage loan. Its use is usually limited to loans with high loan-to-value ratios. The borrower pays the premiums.

**Promissory note:** A written contract containing a promise to pay a definite amount of money at a definite future time.

**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:** Registered collective membership marks that identify real estate professionals who are members of the National Association of REALTORS® and who subscribe to its strict Code of Ethics.

**Rent 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.

**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.

**Second mortgage/Second deed of trust/Junior mortgage or 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.

**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.

**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 an undivided interest without right of survivorship. (In the event of the death of one owner, his/her share will pass to his/her heirs.)

**Title:** A document that's evidence of ownership.

**Title defect:** An outstanding claim or encumbrance on property that affects marketability.

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**Title insurance:** Protection *for* lenders and homeowners against financial loss resulting *from* legal defects in the title.

**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.

**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 as single family, residential, commercial, industrial, multi-family, etc.

