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Real Estate Terms and Glossary

A:

Acceleration clause - A clause in a mortgage allowing the lender to demand payment of the outstanding loan balance for reasons such as the borrower defaulting on the loan or if the borrower transfers title to someone else without informing the lender.

Adjustable-rate mortgage - also known as an ARM or a variable rate mortgage - A mortgage loan in which the interest rate is adjusted periodically based on an index which reflects the cost to the lender of borrowing on the credit markets. An ARM can have a fixed interest rate for a period of time such as a 5/1 ARM with which the borrower's interest rate is fixed for 5 years.

Adjustment date - The date the interest rate changes on an adjustable-rate mortgage. The term is also used to describe the date on which interest will begin to accrue on a mortgage usually corresponding to the date mortgage funds are dispersed.

Amortization - The paying off of an amount over time by making planned, incremental paymens of principal and interest. As each mortgage payment is made, part of the payment is applied as interest on the loan and the remainder of the payment is applied towards reducing the principal. To amortize a loan means "to kill it off". Over time, the interest portion decreases as the loan balance decreases, and the amount applied to principal increases so that the loan is paid off (amortized) in the specified time.

Amortization schedule - A table which shows how much of each payment will be applied toward principal and how much toward interest over the life of the loan. It also shows the gradual decrease of the loan balance until it reaches zero.

Annual percentage rate (APR) - The annual rate charged for borrowing or earned through an investment. APR is expressed as a percentage that represents the actual yearly cost of funds over the term of a loan. The APR is intended to make it easier to compare lenders and loan options and it is utilized as a means of standardization. The value is created according to a government formula intended to reflect the true annual cost of borrowing, expressed as a percentage. It is generally higher than the actual note rate on your loan and can account for such things as up-front fees, service charges, etc. In the United States, the calculation and disclosure of APR is governed by the Truth in Lending Act and implemented by the Consumer Financial Protection Bureau.

Application - The form used to apply for a mortgage loan which requests information about a borrower for the purpose of approving or denying the loan including borrower's income, savings, assets, debts and other relevant information. The borrower is compelled by law to be truthful on the application.

Appraisal - A written report justifying the value of or price paid for a property, primarily through a factual analysis of comparable sales of similar homes nearby.

Appraised value - An opinion of a property's fair market value, based on an appraiser's knowledge, experience, and analysis of the property via comparison with comparable sales of similar homes nearby.

Appraiser - An individual qualified by education, training, and experience to estimate the value of real property and personal property. In most cases, the appraiser is independent and charges a fee paid for by the prospective borrower in a real estate transaction.

Appreciation - The increase in the value of a home or property over a period of time. Various factors influence property appreciation including the demand and supply of homes in a certain area, fiscal inflation, interest rates on home loans, development of new infrastructure, and population growth.

Assessed value - The valuation placed on property by a public tax assessor for purposes of taxation. The assessed valuation takes comparable home sales, location data, and inspections into consideration.

Assessment - The placing of a value on property for the purpose of taxation.

Assessor - A public official who establishes the value of a property for taxation purposes.

Asset - Anything of value or a resource of value that can be converted into cash. Assets that can be quickly converted into cash such as bank accounts, stocks, bonds, or mutual funds are considered "liquid assets". Other assets include real estate, personal property, and debts owed to an individual by others.

Assignment - When ownership of a mortgage is transferred from one company or individual to another, it is called an assignment.

Assumable mortgage - A type of financing arrangement whereby an outstanding mortgage and its terms are transferred from the current owner to a buyer. The advantage in assuming a mortgage is that closing costs are considerably less than on a new, regular loan. Only certain mortgage loans are assumable, conventional mortgages generally are not.

Assumption - The term applied when a buyer assumes the seller's mortgage.

B:

Balloon mortgage - A mortgage loan that requires the remaining principal balance be paid at a specific point in time. For example, a loan may be amortized as if it would be paid over a thirty year period, but requires that at the end of the tenth year the entire remaining balance must be paid.

Balloon payment - The final lump sum payment that is due at the termination of a balloon mortgage.

Bankruptcy

Bankruptcy is a legal process by which an individual, couple, or company can petition a Federal Bankruptcy Court to restructure debts and liabilities or eliminate them entirely. Bankruptcies are of various types with a common one being Chapter 7 by which a borrower is relieved of most types of debts. A bankruptcy is a significant issue in the home buying process because it makes it very difficult for a home buyer to qualify for a normal mortgage for about two years after a bankruptcy has been formally discharged. Usually a lender will require a showing that the prospective borrower has a renewed ability to replay debt before granting a loan.

Bill of Sale

A written document that transfers title to personal property. For example, when selling a car, a bill of sale documents the price paid by a buyer and the funds received by a seller.

Biweekly mortgage

A mortgage in which payments are made every two weeks instead of once a month, resulting in 13 payments being made during the course of the year. Because the 13th payment is essentially an extra principal payment, the time to pay off the mortgage is substantially reduced. Note that a borrower can with most mortgage loans make extra payments to principal at any time as long as the loan has no prepayment penalties. Third party companies are not required to make a biweekly mortgage work. Simple fiscal discipline on the part of the homeowner is all that is needed.

Bond Market

Usually refers to the daily buying and selling of thirty year U.S. treasury bonds. Fixed rate mortgage rates go up and down on a daily basis just as the yields of bonds rise and fall. .

Bridge Loan

This is a loan obtained by those who have not yet sold their current home, but most close on a property they are purchasing. The bridge loan becomes the source of funds for the down payment. As lenders will often lend at a higher loan to value ratio, a bridge loan is often not required. However, by not putting as much money down on the new property, buyers incur highly monthly loan payments and have higher interest costs over the life of the loan.

Broker

A broker is anyone who acts as an agent bringing two parties together for almost any type of transaction. In the real estate world, the "broker" is the owner of the real estate office and has Realtors who serve as agents working under the broker. In the mortgage industry, broker usually refers to a company or individual that arranges for the loans to be made to borrowers from lenders or investors in that case being called a Mortgage Broker.

Buydown

A process by which an interest rate is artificially reduced for a temporary period of from one to three years and then rises to the note rate. The difference may be absorbed by a lender or paid for by a seller. The purpose is to act as an incentive for a buyer to purchase a property or to reduce a monthly payment for qualification purposes.

C:

Cap

May also be described as a "rate cap" where the fluctuation in rate of an Adjustable Rate Mortgage is limited to a certain amount during a defined period. Those limitations may apply to how much the loan may adjust over a six month period, an annual period, and over the life of the loan, and are referred to as "caps." The amount and frequency of the caps varies widely among different lenders offering Adjustable Rate Mortgages.

Cash-out refinance

A cash-out refinance occurs when a borrower who refinances his mortgage borrows more money than what is needed to pay off the current mortgage, thus obtaining additional money for whatever purpose the borrower has in mind. Caution is advised as doing this increases the amount of principal required to pay off the loan.

Certificate of deposit

A deposit held in a bank which pays a certain amount of interest to the depositor in return for the depositor not withdrawing the funds for a specified period of time, usually a period of months or 1 to 5 years. Certificates of deposit pay higher rates than regular savings accounts.

Certificate of deposit index

One of the indexes used for determining interest rate changes on some adjustable rate mortgages. It is calculated average of what a certain group of banks are paying on certificates of deposit.

Certificate of Eligibility

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

Certificate of Reasonable Value (CRV)

Once the appraisal has been performed on a property being bought with a VA loan, the Veterans Administration issues a CRV.

Chain of Title

An analysis of the transfers of title which have occurred over the years regarding a particular piece of property.

Clear Title

A title that is presumed free of any liens or legal questions as to ownership of the property.

Closing

The closing is the final stage in the real estate transaction whereby documents are signed, money changes hands, and the new owner's deed is recorded at the local registry of deeds. The specific meaning of the word "closing" and when a transaction has "closed" can vary.

Closing costs

Closing costs are costs incurred in the process of transferring ownership of real estate from one party to another. These items are often grouped separately on paper into 'non-recurring closing costs" which are costs paid just once as a result of purchasing the property or obtaining the loan and "pre-paid items" which are items which recur over time such as property taxes and homeowners insurance. Closing costs are estimated by lenders on a document called a Good Faith Estimate which is provided to a borrower within days after receiving a loan application.

Cloud on title

Problems found by a title search on a particular piece of property. These issues adversely affect the title to real estate and may affect the ability to complete the sale unless resolved by deed, release, or court action.

Co-borrower

An additional person who is both obligated on the loan and is on title to the property.

Collateral

Collateral is property pledged as security for a loan. With a real estate loan, the home itself is the collateral. The borrower risks losing the property if monthly payments are not made.

Collection

Collection is the process or effort to get the money owed on a debt. When a mortgage borrower falls behind, the loan goes to collection and the lender contacts the borrower in an effort to bring the loan current.

Commission

A fee paid as a flat amount or as a percentage of a transaction. Real estate agents earn a commission when a property is sold and the closing has taken place. Other professionals may earn commissions for the work that they do.

Common area assessments

Fees paid by owners of individual units in a condomium complex or housing development to cover costs of maintaining the property and common areas. These costs may also be called Homeowners Association Fees.

Common areas

Those portions of a building, land, and amenities owned collectively by the individual owners within a condominium complex or housing development. Costs of operation and maintenance are shared. Common areas include almost all shared areas including recreational facilities such as swimming pools and tennis courts as well as corridors of buildings and parking areas.

Community property

Property acquired by a married couple during their marriage which is considered to be owned jointly.

Comparable sales

Often referred to as comps, comparable sales are recent sales of similar properties in the area which are used to help determine the market value of a property.

Condominium

A type of ownership in real property where an individual owner has title to the interior of their own unit and joint title with all of the owners to the property, common areas, and buildings. The term is used colloquially to describe a type of construction or development which fits the ownership definition.

Condominium conversion

Changing the ownership of an existing building to the condominium form of ownership.

Construction loan

A short-term, interim loan for the purpose of financing the cost of construction. The lender makes payments to the builder at periodic intervals as the work progresses. A construction loan is often replaced by a conventional mortgage loan once the construction has been completed.

Contingency

A condition that must be met before a contract is legally binding. Real estate purchase agreements often include Home inspection, appraisal, and mortgage contingencies. In these examples, a buyer could choose not to move forward with a transaction if a Home Inspection revealed deficiences in a property unacceptable to the buyer. Or, a buyer could void the deal if an appraisal indicates the property is worth less than the contemplated contract price. Or, a buyer could get out of the transaction if a mortgage of a specified amount is not approved. In order to be valid, contingencies must be specified in the contract between the buyer and seller of the property. Often the contract specifies dates by which the buyer must notify a seller that a specific contingency has not been met.

Contract

An oral or written agreement between two or more parties.

Conventional mortgage

Refers to home loans other than government loans

Convertible ARM

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

Cooperative (co-op)

A type of multiple ownership in which the residents of a multi unit housing complex own shares in the cooperative entity that owns the property, giving each resident the right to occupy a specific apartment or unit.

Credit

An agreement in which a borrower receives something of value in exchange for a promise to repay the lender at a later date. Types of credit include credit cards, auto loans, home mortgages, and even short-term credit extended by utilities such as the electric company which supplies electricity to a dwelling. Paying bills on time results in "good credit."

Credit history

A record of an person's repayment of debt. Credit histories are reviewed my mortgage lenders as one of the underwriting criteria in determining credit risk often using FICO scores to calculate an appropriate interest rate. The better the credit, the lower the risk, and thus the lower the interest rate a lender may be willling to offer the borrower.

Creditor

A person or company to whom money is owed.

Credit report

A report of an individual's credit history prepared by a credit bureau and used by a lender in determining creditworthiness often containing a FICO score, called a credit score.

D:

Debt

An amount owed to another person or company.

Deed

The legal document conveying title to a property.

Default

Failure to make the mortgage payment within a specified period of time. For first mortgages, if a payment has not been made within 30 days of the due date, the loan is considered to be in default.

Delinquency

Refers to situation whereby payments have not been made on time. A payment delinquency can occur for failure to pay any loans, credit cards, or mortgages on time. When a loan payment is more than 30 days late, most lenders report the delinquency to one or more credit bureaus.

Deposit

A sum of money given in advance and to be used towards a larger amount being expected in the future, such as a deposit given towards the purchase of a car. In real estate, money given in anticipation of a future contract is called an "earnest money deposit". It is often required upon acceptance of an offer to purchase real property.

Depreciation

A decline in the value of property; the opposite of appreciation. An asset such as a car loses value as it ages and is said to depreciate. Real estate can increase in value over time and is said to appreciate, the opposite of depreciation. Depreciation is also an accounting term applied to the declining monetary value of an asset and is used as an expense to reduce taxable income. Since no money is actually paid out of pocket, lenders will add back depreciation expense for self-employed borrowers and count it as income.

Discount points or Points

A point is a fee representing one percent of the loan amount. For example, 2 points equals 2 percent. It is a term used in the mortgage industry.

Down payment

The portion of a property's purchase price paid in cash by the buyer and not financed. Down payments often range from 3 percent to 20 percent. The greater the down payment, the less risky the loan is considered to be.

Due-on-sale provision

A provision in most all mortgages mandating repayment in full upon sale of the property serving as security for the mortgage.

E:

Earnest money deposit

A deposit made to represent a buyer's good faith to buy a home. It is used towards the purchase price upon closing and refunded to the buyer if certain contingencies contemplated in the purchase contract occur.

Easement

A right of way giving persons other than the owner access to or over a property. For example, the electric company has an easement allowing for its lines to go to the home.

Effective age

The estimate by an appraiser of the physical condition of a building. The actual age of a building may be higher or lower than its estimated effective age.

Eminent domain

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

Encroachment

An improvement that intrudes illegally on another's property. For example, a fence built 3 feet over the property line into your neighbor's yard would be considered an encroachment.

Encumbrance

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

Equity

Reflects a homeowner's net financial interest in a property when the amount of money owed on it is subtracted from its fair market value.

Escrow

An item of value, money, or documents deposited with a third party to be delivered upon the fulfillment of a condition. For example, the earnest money deposit is put into escrow until delivered to the seller when the transaction is closed.

Escrow account

An account established with a lender by paying an amount each month above what is required to cover the scheduled principal and interest payment and used when needed by the lender to pay items like property taxes and homeowner's insurance on the borrower's behalf when they become due.

Escrow analysis

Generally on an annual basis the lender will perform an "escrow analysis" to determine the correct amount to collect for anticipated insurance and property tax expenditures. Upon completion, the borrower is notified of any changes in monthly payment required by any changes in required monthly escrow.

Escrow disbursements

The use of funds from the escrow account to pay real estate taxes, hazard insurance, mortgage insurance, and other property expenses as they become due.

Estate

The ownership interest of an individual in real property. The value of an estate is the sum total of all the real property and personal property owned by an individual at time of death.

Eviction

The lawful expulsion of an occupant from real property.

Examination of title

The report on the title of a property based on data gathered from the public records or an abstract of the title.

Exclusive listing

A written contract that gives a licensed real estate agent the exclusive right to sell a property for a specified time.

Executor

A person named in a will to administer an estate or a person so appointed by a court. "Executrix" is the feminine form.

F:

Fair Credit Reporting Act

A Federal consumer protection law passed in 1970 that regulates the disclosure of consumer credit reports by consumer/credit reporting agencies and establishes procedures for correcting mistakes on one's credit record. It addresses the fairness, accuracy, and privacy of the personal information contained these agency files.

Fair market value

The highest price that a buyer, willing but not compelled to buy, would pay, and the lowest a seller, willing but not compelled to sell, would accept.

Fannie Mae (FNMA)

The Federal National Mortgage Association which is a United States government-sponsored enterprise and a publicly traded company since 1968. The purpose of the company is to expand the secondary mortgage market by securitizing mortgage loans and thus making funds once again available for lending. A similar organization is the Federal Home Loan Mortgage Corporation (FHLMC) known as Freddie Mac.

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.

Fee simple

The greatest possible interest a person can have in real estate with the freedom to dispose of it at will.

FHA mortgage

A mortgage that is insured by the Federal Housing Administration (FHA). Along with VA loans, an FHA loan will often be referred to as a government loan.

Firm commitment

A lender's agreement to make a loan to a specific borrower on a specific property often after reviewing the borrower's credit worthiness and having an appraisal of the property.

First mortgage

The mortgage that is in first place among any loans recorded against a property.

Fixed-rate mortgage

A mortgage in which the interest rate does not change during the entire term of the loan (in contrast with an adjustable rate mortgage.)

Fixture

Personal property that becomes real property when attached in a permanent manner to real estate. For example, when a home is sold, the seller is expected to leave the bathtub, among other fixtures.

Flood insurance

Insurance that compensates for physical property damage resulting from flooding. It is required for properties located in federally designated flood areas often referred to as flood zones.

Foreclosure

The legal process by which a borrower in default under a mortgage is deprived of his or her interest in the mortgaged property. This can involve a forced sale of the property at public auction with the proceeds of the sale being applied to the mortgage debt.

401(k)/403(b)

An employer-sponsored investment plan that allows individuals to set aside tax-deferred income for retirement or emergency purposes. 401(k) plans are provided by employers that are private corporations. 403(b) plans are provided by employers that are not for profit organizations.

G:

Government loan (mortgage)

A mortgage that is insured by the Federal Housing Administration (FHA) or guaranteed by the Department of Veterans Affairs (VA) Mortgages that are not government loans are classified as conventional loans.

Government National Mortgage Association (Ginnie Mae)

A government-owned corporation within the U.S. Department of Housing and Urban Development (HUD). Created by Congress on September 1, 1968, GNMA performs the same role as Fannie Mae and Freddie Mac in providing funds to lenders for making home loans. The difference is that Ginnie Mae provides funds for government loans (FHA and VA)

Grantee

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

Grantor

The person conveying an interest in real property.

H:

Hazard insurance

Insurance coverage for physical damage to a property from fire, wind, vandalism, theft, or other hazards.

Home Equity Conversion Mortgage (HECM)

Usually referred to as a reverse annuity mortgage or simply a "reverse mortgage". Instead of making payments to a lender, the lender makes payments to the homeowner. The purpose is to allow older home owners to utilize the equity they have in their homes in the form of monthly payments. Unlike traditional home equity loans, a borrower does not qualify on the basis of income but on the value of his or her home. In addition, the loan does not have to be repaid until the borrower no longer occupies the property.

Home equity line of credit

A mortgage loan, usually in second position, that allows the borrower to obtain cash drawn against the equity of his home, up to a predetermined amount.

Home inspection

A thorough inspection by a qualified professional who evaluates the structural and mechanical condition of a property. A satisfactory home inspection is often included as a contingency by the purchaser of a home.

Homeowners' association

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

Homeowner's insurance

An insurance policy that combines personal liability insurance and hazard insurance coverage for a dwelling and its contents.

Homeowner's warranty

A type of insurance often purchased by home buyers that will cover repairs to certain major items, such as heating or air conditioning, in the event they should they break down within the coverage period. When utilized in a transaction, the seller often pays for the coverage at the request of the buyer, but this can be negotiated so that either party can pay.

HUD median income

Median family income for a particular county or metropolitan statistical area (MSA), as estimated by the Department of Housing and Urban Development (HUD).

HUD-1 settlement statement

A standard government real estate form that was once used by settlement agents to itemize all charges imposed on a borrower and seller for a real estate transaction. Currently the statement is only used in the case of reverse mortgages.

I:

Interest

Money paid regularly at a particular rate for the use of money lent, or for delaying the repayment of a debt.

J:

Joint tenancy

A form of ownership or taking title to property which means each party owns the whole property and that ownership is not separate. In the event of the death of one party, the survivor owns the property in its entirety.

Judgment or Judgement

A decision made by a court of law often requiring the repayment of a debt.

Judicial foreclosure

Refers to foreclosure cases that go through the court system. Foreclosure occurs when a home is sold to pay off an unpaid debt. A non-judicial foreclosure can occur when a mortgage agreement has a "power of sale" clause. In that case, the lender has the right to foreclose on a property by itself.

Jumbo loan

A loan that exceeds Fannie Mae's and Freddie Mac's loan limits, . Also called a nonconforming loan. Freddie Mac and Fannie Mae loans are referred to as conforming loans.

K:

Key: Metallic Instrument inserted into a lock which allows the holder to enter a dwelling.

L:

Lease

A written agreement between the property owner and a tenant that stipulates the payment and conditions under which the tenant may possess the real estate for a specified period of time.

Lease Option

An alternative financing option that allows home buyers to lease a home with an option to buy. An agreed portion of the monthly rent payment can be applied toward the down payment on an already specified price.

Legal description

A written recorded instrument defining the boundaries of a property typically containing the city, county, and enough information so that a surveyor can reliably determine the boundaries later.

Lender

An organization or person that lends money.

Liabilities

A person's financial obligations, including long-term and short-term debt and any other amounts that are owed to others.

Liability Insurance

A type of insurance coverage which provides the insured party with protection against claims resulting from injuries and damage to people or property. Liability insurance policies cover both legal costs and any payouts for which the insured party would be responsible if found legally liable. It is usually part of a home-owner's insurance policy.

Lien

A legal claim against a property that must be paid off when the property is sold. A mortgage is considered a lien. Also refers to a right to keep possession of property belonging to another person until a debt owed by that person is discharged.

Life cap

For an adjustable-rate mortgage (ARM), a limit on the amount that the interest rate can increase or decrease over the life of the mortgage.

Line of credit

An agreement by a lender to extend credit up to a certain amount for a certain time to a specified borrower.

Liquid asset

A cash asset or an asset that is easily converted into cash.

Loan

A sum of borrowed money (principal) that is generally repaid with interest.

Loan officer

The representative of a lender who assists borrowers in the application process.

Loan servicing

The process by which a company collects payments from a borrower which may include interest, principal, and escrow for insurance and property taxes. This company may be a representative of the lender hired for the specific purpose of servicing loans by processing payments, sending statements, and managing escrow accounts and collection efforts.

Loan-to-value (LTV)

The percentage relationship between the amount of the loan and the appraised value or sales price (whichever is lower).

Lock-in or rate lock

An agreement in which the lender guarantees a specified interest rate for a certain amount of time at a certain cost.

Lock-in period

The time period during which the lender has guaranteed an interest rate to a borrower typically 30, 45,or 60 days.

M:

Margin

The difference between the interest rate and the index on an adjustable rate mortgage. The margin remains stable over the life of the loan. It is the index which moves up and down.

Maturity

The date on which the principal balance of a loan, bond, or other financial instrument becomes due and payable.

Modification

Occasionally, a lender will agree to modify the terms of your mortgage without requiring you to refinance. If any changes are made, it is called a modification.

Mortgage

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

Mortgage broker

A mortgage company that originates loans, then places those loans with a variety of other lending institutions with whom they usually have pre-established relationships.

Mortgagee

The lender in a mortgage agreement.

Mortgage insurance

An insurance policy which compensates lenders or investors for losses due to the default of a mortgage loan. Mortgage insurance can be either public or private depending upon the insurer.

Mortgage insurance may be required on loans on which the borrower has made a down payment of less than 20 percent. In some cases, a higher interest rate is charged to compensate a lender for mortgage insurance itself carries. And in some cases, FHA loans and certain first-time homebuyer programs require mortgage insurance regardless of the amount of down payment.

Mortgage life and disability insurance

A type of term life insurance often bought by borrowers. The amount of coverage decreases as the principal balance declines. Some policies also cover the borrower in the event of disability. In the event that the borrower dies while the policy is in force, the debt is automatically satisfied by insurance proceeds. In the case of disability insurance, the insurance will make the mortgage payment for a specified amount of time during the disability sometimes after a certain waiting period

Mortgagor

The borrower in a mortgage agreement.

Multidwelling or Multi-family units

Properties that provide separate housing units for more than one family while securing only a single mortgage.

N:

Negative Amortization

Some adjustable rate mortgages allow the interest rate to fluctuate independently of a required minimum payment. If a borrower makes the minimum payment it may not cover all of the interest that would normally be due at the current interest rate. In essence, the borrower is deferring the interest payment, which is why this is called "deferred interest." The deferred interest is added to the balance of the loan and the loan balance grows larger instead of smaller, which is called negative amortization.

No cash-out refinance

A refinance transaction does not put cash in the hand of the borrower, but instead the new loan covers only the balance due on the current loan and any costs associated with obtaining the new mortgage.

No-cost loan

The lender covers some or all of the loan settlement costs in exchange for charging the borrower a higher interest rate on their loan.

Note

A legal document that obligates a borrower to repay a mortgage loan at a stated interest rate during a specified period of time.

Note rate

The interest rate stated on a mortgage note.

No-points loan

Almost all lenders offer loans at "no points." You will find the interest rate on a "no points" loan is approximately a quarter percent higher than on a loan where you pay one point.

Notice of default

A formal written notice to a borrower that a default has occurred and that legal action may be taken.

O:

Original principal balance

The total amount of principal owed on a mortgage before any payments are made.

Origination Fee or Loan Origination Fee

A fee charged by a lender on entering into a loan agreement to cover the cost of processing the loan. On a government loan the loan origination fee may be one percent of the loan amount, with any additional points charged being called "discount points." One point equals one percent of the loan amount. On a conventional loan, the loan origination fee refers to the total number of points a borrower pays.

Owner financing

A property purchase transaction in which the property seller finances the purchase directly with the person or entity buying it, either in whole or in part.

P:

Partial payment

A payment that is not sufficient to cover the scheduled monthly payment on a mortgage loan.

Payment change date

The date when a new monthly payment amount takes effect on an adjustable-rate mortgage (ARM) or a graduated-payment mortgage (GPM). Generally, the payment change date occurs in the month immediately after the interest rate adjustment date.

Periodic payment cap or Periodic Rate Cap

A consumer safeguard that limits the amount that the interest rate on an adjustable rate mortgage can change in an adjustment interval regardless of how high or low the index might be.

Personal Property

Any property that is not real property.

PITI

This stands for principal, interest, taxes and insurance. If you have an "impounded" loan, then your monthly payment to the lender includes all of these and may include mortgage insurance as well. If you do not have an impounded account, then the lender still calculates this amount and uses it as part of determining your debt-to-income ratio.

PITI reserves

A cash amount that a borrower must have on hand after making a down payment and paying all closing costs for the purchase of a home. The principal, interest, taxes, and insurance (PITI) reserves must equal the amount that the borrower would have to pay for PITI for a predefined number of months.

Point

A point is 1 percent of the amount of the mortgage.

Power of attorney

A legal document granting the authority to act for another person in specified or all legal or financial matters.

Pre-approval

Being pre-approved means you've actually been approved by a lender for a specific loan amount after having provided documented financial information such as pay stubs, statements, obligations, and savings which an underwriter has reviewed. Often a pre-approval letter is provided to the prospective borrower by the lender for use in presenting to potential property sellers. Once a property is chosen, it must still meet the underwriting guidelines of the lender.

Prepayment

Any amount paid to reduce the principal balance of a loan before the due date.

Prepayment penalty

A fee that may be charged to a borrower who pays off a loan before it is due.

Pre-qualification

Refers to a loan officer's opinion of the ability of a borrower to qualify for a home loan after reviewing various factors but it stops short of a pre-approval which

Prime rate

The interest rate that banks charge to their preferred customers.

Principal

The amount borrowed or remaining unpaid. The part of the monthly payment that reduces the remaining balance of a mortgage.

Principal balance

The outstanding balance of principal on a mortgage.

Principal, interest, taxes, and insurance (PITI)

The four components of a monthly mortgage payment on loans with an escrow account. Principal refers to the part of the monthly payment that reduces the remaining balance of the mortgage. Interest is the fee charged for borrowing money. Taxes and insurance refer to the amounts that are paid into an escrow account each month for property taxes and mortgage and hazard insurance.

Private mortgage insurance (MI)

Mortgage insurance that is provided by a private mortgage insurance company to protect lenders against loss if a borrower defaults.

Promissory Note

A signed document containing a written promise to pay a stated sum to a specified person or the bearer at a specified date or on demand.

Public auction

A meeting in an announced public location to sell property to repay a mortgage that is in default.

Purchase agreement or Purchase and Sale Agreement

A written contract signed by the buyer and seller stating the terms and conditions under which a property will be sold.

Q:

Qualifying ratios

Ratios that are used by lenders in the underwriting approval process for loans. The two main qualifying ratios that a borrowers should be aware of include debt-to-income and the housing expense ratio. In order to more easily qualify for a mortgage, a borrower can attempt to pay off as many debts as possible in the months preceding the search for a home. The housing expense ratio is generally for a specific property as includes the potential mortgage principal and interest payments, property taxes, hazard insurance, mortgage insurance if applicable, and association fees if applicable.

Quitclaim deed

A deed that transfers without warranty whatever interest or title a grantor may have at the time the conveyance is made.

R:

Rate lock or lock-in

An agreement in which the lender guarantees a specified interest rate for a certain amount of time at a certain cost.

Real estate agent

A person licensed to negotiate and transact the sale of real estate.

Real Estate Settlement Procedures Act (RESPA)

A consumer protection law that requires lenders to give borrowers advance notice of closing costs.

Real property

Land and any property attached to it including any subset of land that has been improved through legal human actions. Examples of real properties include buildings, ponds, canals, roads, machinery, and anything of a

Realtor

A real estate agent, broker or an associate who holds active membership in a local real estate board that is affiliated with the National Association of Realtors.

Recorder

The public official who keeps records of transactions that affect real property in the area. Sometimes known as a "Registrar of Deeds" or "County Clerk."

Recording

The noting in the registrar's office of the details of a properly executed legal document, such as a deed, a mortgage note, a satisfaction of mortgage, or an extension of mortgage, thereby making it a part of the public record.

Refinance transaction

The process of paying off one loan with the proceeds from a new loan using the same property as security.

Remaining balance

The amount of principal that has not yet been repaid.

Remaining term

The original amortization term minus the number of payments that have been applied.

Rent loss insurance

Rent loss insurance reimburses a landlord for lost income while the property is being repaired or rebuilt under a loss covered by property insurance. Property insurance itself doesn't cover lost rents, but a rent loss policy must be paired with a property insurance policy.

Repayment plan

An arrangement made to repay delinquent installments or advances.

Replacement reserve fund

A fund set aside for replacement of common property in a condominium, or other cooperative real estate project, particularly that which has a short life expectancy such as carpeting and furniture.

Revolving debt

A credit arrangement, such as a credit card, that allows a customer to borrow against a preapproved line of credit when purchasing goods and services. The borrower is billed for the amount that is actually borrowed plus any interest due.

Right of first refusal

A provision in an agreement that requires the owner of a property to give another party the first opportunity to purchase or lease the property before he or she offers it for sale or lease to others.

Right of ingress or egress

The right to enter or leave designated premises.

Right of survivorship

In joint tenancy, the right of survivors to acquire the interest of a deceased joint tenant.

S:

Sale-leaseback

A technique in which a seller deeds property to a buyer for a consideration with the buyer simultaneously leasing the property back to the seller for an ongoing fee.

Second mortgage

A mortgage that has a lien position subordinate to the first mortgage.

Secondary market

The buying and selling of existing mortgages, usually as part of a "pool" of mortgages.

Secured loan

A loan that is backed by collateral. A home is the collateral for the loan obtained to buy it.

Security

The property that will be pledged as collateral for a loan.

Seller carry-back

Simply owner-provided financing for a real estate transaction

Servicer

An organization that collects principal and interest payments from borrowers and manages borrowers' escrow accounts. The servicer often services mortgages that have been purchased by an investor in the secondary mortgage market.

Servicing

The collection of mortgage payments from borrowers and related responsibilities of a loan servicer.

Settlement statement

A document that summarizes all of the fees and charges that a borrower and lender face during the settlement process of a loan transaction. The exact format of the settlement statement may vary by type of loan.

Subdivision

A housing development that is created by dividing a tract of land into individual lots for sale or lease.

Subordinate financing

Any mortgage or other lien that has a priority that is lower than that of the first mortgage.

Survey

A drawing or map showing the precise legal boundaries of a property, the location of improvements, easements, rights of way, encroachments, and other physical features.

Sweat equity

Contribution to the construction or rehabilitation of a property in the form of labor or services rather than cash.

T:

Tenancy in common

As opposed to joint tenancy, when there are two or more individuals on title to a piece of property, this type of ownership does not pass ownership to the others in the event of death.

Third-party origination

A process by which a lender uses another party to completely or partially originate, process, underwrite, close, fund, or package the mortgages it plans to deliver to the secondary mortgage market.

Title

A legal document evidencing a person's right to or ownership of a property.

Title company

A company that specializes in examining and insuring titles to real estate.

Title insurance

Insurance that protects the lender (lender's policy) or the buyer (owner's policy) against loss arising from disputes over ownership of a property.

Title search

A check of the title records to ensure that the seller is the legal owner of the property and that there are no liens or other outstanding claims.

Transfer of ownership

Any means by which the ownership of a property changes hands. Lenders consider all of the following situations to be a transfer of ownership: the purchase of a property "subject to" the mortgage, the assumption of the mortgage debt by the property purchaser, and any exchange of possession of the property under a land sales contract or any other land trust device.

Transfer tax

State or local tax payable when title passes from one owner to another.

Treasury index

An index based on the auctions of U.S. Treasury bills, or on the U.S. Treasury's daily yield curve, often used as the index used to determine interest rate changes

Truth-in-Lending

A federal law that requires lenders to fully disclose, in writing, the terms and conditions of a mortgage, including the annual percentage rate (APR) and other charges.

Two-step mortgage

An adjustable-rate mortgage (ARM) that has one interest rate for the first five or seven years of its mortgage term and a different interest rate for the remainder of the amortization term.

Two- to four-family property

A property that consists of a structure that provides living space (dwelling units) for two to four families, although ownership of the structure is evidenced by a single deed.

Trustee

A fiduciary who holds or controls property for the benefit of another.

U:

Underwriter

A person or company that underwrites an insurance risk.

V:

VA mortgage

A mortgage that is guaranteed by the Department of Veterans Affairs (VA).

Vested

Having the right to use a portion of a fund such as an individual retirement fund. For example, individuals who are 100 percent vested can withdraw all of the funds that are set aside for them in a retirement fund. However, taxes may be due on any funds that are actually withdrawn.

Veterans Administration (VA)

An agency of the federal government that guarantees residential mortgages made to eligible veterans of the military services. The guarantee protects the lender against loss and thus encourages lenders to make mortgages to veterans.

W:

Window - a period of time

X:

Xerox

Term used to describe a paper photocopy of an original written document as one of the original copy machines was made by a company named Xerox. Copiers are often used to provide additional copies of documents related to real estate closings.

Y:

Youtube

Website owned by Google on which individual users upload videos, often of homes available for sale.

Z:

Zoning

The process of dividing land in muncipality into zones such as residential, commercial, and industrial in which certain land uses are permitted or prohibited.

Chair City

REAL ESTATE

cedar wood

Realty Group