

# Glossary of Real Estate and Mortgage Terms

**Adjustable Rate Mortgage (ARM):** A mortgage with an interest rate that changes over time in line with movements in the index. ARMs are also referred to as AMLs (adjustable mortgage loans) or VRMs (variable rate mortgages).

**Adjusted Basis:** A measure used as a starting point for determining a gain or loss on the sale of property. Certain capital expenditures, depreciation, etc. An increase or decrease your basis.

**Adjustment Period:** The length of time between interest rate changes on an ARM. For example, a loan with an adjustment period of one year is called a one-year ARM, which means that the interest rate an change one a year.

**Agreement for Sale:** A written document in which the purchaser agrees to buy certain real estate and the seller agrees to sell under stated terms and conditions.

**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.

**Appreciation:** An increase in value of property.

**Assumption of Mortgage:** A buyer's agreement to assume the liability under an existing note that is secured by a mortgage or deed of trust. The lender must approve the buyer in order to release the original borrower (usually the seller) from liability.

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

**Basis:** Usually the cost of an asset. In the case of property, it's the cost including debt obligations and some taxes.

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

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

**Capitalize:** To add an expense to a property's basis rather than take as an itemized deduction.

**Casualty Loss:** A loss from theft, fire, storm, shipwreck, or other similar and unexpected occurrence.

**CC&R's:** covenants, conditions and restrictions. A document that controls the use, requirements and restrictions of a property.

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

**Clear Title:** A title that is free of liens or legal questions as to ownership of property.

**Closing:** The conclusion or consummation of a real estate transaction. This includes the delivery of deed financial adjustments, the signing of notes and the disbursement of funds necessary to the sale or loan transaction.

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

**Condominium:** A form of real estate ownership where 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 ARMs 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 arrangements.

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

**Depreciation:** A deductible expense for wear and tear of tangible property that has a useful life of more than one year and is used for business or income-producing purposes.

**Due-On-Sale clause:** An acceleration clause that requires full payment of a mortgage or deed of trust when the 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.

**Equity:** The difference between fair market value and current indebtedness, usually referred to as the owners interest.

**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 assumes responsibility for handling all of the paperwork and distribution of funds.

**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.

**Federal Housing Administration (FHA):** A division of the Department of Housing and Urban Development that insures residential mortgage loans made by private lenders.

**Federal National Mortgage Association (FNMA):** 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 the 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.

**Finance charge:** The total cost a borrower must pay, directly or indirectly, to obtain credit according to Regulation Z.

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

**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:** Protection against failure of mechanical systems within the property. Usually includes plumbing, electrical, heating systems and installed appliances.

**HUD-1:** A two-page financial disclosure statement detailing the closing costs of a home purchase.

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

**Itemized Deductions:** Expenses that you claim on your individual tax return and that are subtracted from your adjusted gross income.

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

**Lease:** A written document containing the conditions under which the possession and use of real property are given by the owner to another for a stated period and for a stated consideration.

**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 specified terms.

**Loan-To-Value Ratio:** The relationship between the amount of the mortgage and 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.

**Mortgage Life Insurance:** A type of term life insurance often bought by mortgagors. The coverage decreases as the mortgage balance declines. If the borrower dies while the policy is in force, the debt is automatically covered by insurance proceeds.

**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 you could owe more than you did at the beginning of the loan. Negative amortization occurs when an ARM has a payment cap that results in monthly payments that aren't high enough to cover the interest.

**Origination Fee:** A fee or charge for work involved in evaluating, preparing, and submitting a proposed mortgage loan. The fee is limited to 1 percent for FHA and VA loans.

**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 investment or note. The lender assesses loan discount points at losing to increase the yield on the mortgage to a position competitive with other types of investments.

**Prepayment:** Paying extra payments (or paying entire balance) to pay your mortgage off early; it is important to ask your lender if there is a prepayment penalty.

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

**Primary Financing:** A loan secured by a first mortgage for trust deed on real property.

**Principal, Interest, Taxes, Insurance (PITI):** The principal and interest payment on most loans is fixed for the term of the loan; the tax and insurance portion may be adjusted to reflect changes in taxes or insurance costs.

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

**Purchase Agreement:** A written document in which the purchaser agrees to buy certain real estate and the seller agrees to sell under stated terms and conditions. Also called a sales contract, earnest money contract, or agreement for sale.

**Rate Lock-in:** The ability to lock-in the interest rate at today's rate before the losing date.

**Real Property:** Physical property that is permanent and non-moveable (i.e., land and buildings).

**Refinancing:** The repayment of a debt from the proceeds of a new loan using the same property as security.

**Regulation Z:** The set of rules governing consumer lending issued by the Federal Reserve Board of Governors in accordance with the consumer Protection Act.

**Secondary Financing:** Financing real estate with a loan or loans that are subordinate to a first mortgage or first truth deed.

**Standard Deduction:** A deduction used to reduce income by taxpayers who do not itemize. The amount of the deduction depends on your filing status: if you are 65 or older, if you are blind, and whether you can be claimed as a dependent on another taxpayer's return.

**Tenancy in common:** A type of joint ownership of property by two or more persons with no right of survivorship.

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

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

**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.

**Veterans Administration (VA):** An independent agency of the federal government. (The VA home loan guarantee program is designed to encourage lenders to offer long-term, low down payment mortgages to eligible veterans by guaranteeing the lender against loss.)

**Wrap-around/All-Inclusive Trust Deed:** A mortgage which secures a debt which includes the balance due on an additional amount advanced by the wrap-around mortgagee. The wrap-around mortgagee then makes the payments on the senior mortgage.