

## Real Estate Glossary

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**ABR.** Accredited Buyers Representative. A professional designation awarded by the Real Estate Buyers Agent Council to REALTORS who specialize in representing buyers in real estate transactions.

**Acceleration clause.** A provision in a mortgage that gives the lender the right to demand payment of the entire outstanding balance if a monthly payment is missed.

**Adjustable rate mortgage (ARM).** A mortgage with an interest rate that changes over time based on an index.

**Agency.** The contractual relationship between a real estate agent and client. A client is represented by an agent.

**Amortization schedule.** A timetable for repayment of a mortgage showing the amount of each payment applied to interest and principal and the remaining balance.

**Amortization.** The gradual repayment of a mortgage by installments.

**Annual percentage rate (APR).** The total yearly cost of a mortgage stated as a percentage of the loan amount; includes the base interest rate, primary mortgage insurance, and loan origination fee (points).

**Appraisal.** A professional opinion on the market value of a property.

**Appreciation.** An increase in the value of a house due to changes in market conditions.

**APR.** Annual percentage rate

**ARM.** Adjustable rate mortgage.

**Assessed value.** The value placed upon a property by a public tax assessor for purposes of taxation.

**Assumable mortgage.** A mortgage that can be taken over (assumed) by the buyer when a house is sold.

**Assumption.** The transfer of the seller's existing mortgage to the buyer.

**Binder.** A preliminary agreement, secure by the payment of earnest money, under which a buyer offers to purchase real estate.

**Buyer's agent,** Buyer's representative. A real estate agent who represents the buyer in a real estate transaction.

**Cap.** A provision of an adjustable rate mortgage limiting how much the interest rate of mortgage payments may increase.

**Cash reserve.** A requirement of some lenders that buyers have sufficient cash remaining after closing to make the first two mortgage payments.

**Clear title.** A title that is free of liens and legal questions as to ownership of the property.

Closed within a set period of time. The lock-in also usually specifies the number of points to be paid at closing.

**Closing costs.** Expenses (over and above the price of the property) incurred by buyers and sellers in transferring ownership of a property. Also called "settlement costs."

**Closing.** The occasion where a sale is finalized; the buyer signs the mortgage and closing costs are paid. Also called "settlement."

**Commitment letter.** A formal offer by a lender stating the terms under which it agrees to loan money to a home buyer.

**Condominium.** A form of property ownership in which the homeowner holds title to an individual dwelling unit plus an interest in common areas of a multi-unit project.

**Contingency.** A condition that must be met before a contract is legally binding.

**Conventional mortgage.** Any mortgage that is not insured or guaranteed by the federal government.

**Convertible ARM.** An adjustable rate mortgage that can be converted to a fixed rate mortgage under specified conditions.

## Real Estate Glossary

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**Cooperative.** A form of common property ownership in which the residents of an apartment building do not own their own units, but rather own shares in the corporation that owns the property.

**Covenant.** A clause in a mortgage that obligates or restricts the borrower and which, if violated, can result in foreclosure.

**CRA. Community Reinvestment Act.** A federal law that requires federally chartered banks to demonstrate their commitment to making credit available and promoting affordable housing. Makes red lining illegal.

**Credit report.** A report of an individual's credit history prepared by a credit bureau and used by a lender in determining a loan applicant's credit worthiness.

**Deed to trust.** The document used in some states instead of a mortgage. Title is conveyed to a trustee rather than to the borrower.

**Deed.** The legal document conveying title (ownership) of a property.

**Default.** Failure to make mortgage payment on a timely basis or to comply with other conditions of a mortgage.

**Delinquency.** A loan in which a payment is overdue but not yet in default.

**Deposit.** Cash paid to the seller when a formal sales contract is signed.

**Depreciation.** A decline in the value of property, the opposite of appreciation.

**Down payment.** The part of the purchase price which the buyer pays in cash and does not finance with a mortgage.

**Due-on-sale clause.** A provision in a mortgage allowing the lender to demand repayment in full if the borrower sells the property securing the mortgage.

**Earnest money.** A deposit given to the seller to show that a prospective buyer is serious about buying the house.

**Easement.** A right of way giving persons other than the owner access to or over a property.

**Equal Credit Opportunity Act (ECOA).** A federal law that prohibits lenders from denying mortgages on the basis of the borrower's race, color, religion, national origin, age, sex, or marital status, or receipt of income from public assistance programs.

**Equity.** The difference between the market value of a property and the homeowner's outstanding mortgage balance.

**Escrow.** The holding of documents and money by a neutral third party prior to closing; also, an account held by the lender into which a homeowner pays money for taxes and insurance.

**Fair Credit Reporting Act.** A consumer protection law that sets up a procedure for correcting mistakes on one's credit record.

**Fair Market Value (FMV).** Amount at which an asset would change hands between two parties, who both have knowledge of the relevant facts.

**FHA loan.** A mortgage that is insured by the Federal Housing Administration

**First mortgage.** The mortgage that has first claim in the event of default.

**Fixed rate mortgage.** A mortgage in which the interest rate does not change during the entire term of the loan.

**Flood insurance.** Insurance required for properties in federally designated flood areas.

**FMV.** Fair market value.

**Forbearance.** The lender's postponement of foreclosure to give the borrower time to catch up on overdue payments.

**Foreclosure.** The process by which a mortgaged property may be repossessed by the lender and sold when a mortgage is in default.

**FRM.** Fixed rate mortgage.

**FSBO.** For sale by owner.

## Real Estate Glossary

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**GEM.** Graduated equity mortgage.

**GPM.** Graduated payment mortgage.

**Graduated payment mortgage.** A mortgage that starts with low monthly payments that increase at a predetermined rate.

**Hazard insurance.** Insurance policy that combines liability coverage and hazard insurance.

**Home equity loan.** A mortgage based on the borrower's equity in the home.

**Home inspection.** An examination of a house by a professional inspector. The inspector's job is to inform the client of the condition of the home, describe any problems discovered, and explain how and why they occurred.

**Homeowner's Insurance.** An insurance policy that combines liability coverage and hazard insurance.

**Homeowner's warranty.** A type of insurance that covers repairs to specified parts of a house for a specific period of time.

**Installment sale.** A real estate transaction in which the sales price is paid to the owner in installments.

**Interest rate cap.** A provision of an ARM limiting how much interest rates may increase per adjustment period. See also lifetime cap.

**Interest.** The fee charged for borrowing money. Usually stated as a percentage.

**Joint tenancy.** A form of co-ownership giving each owner (tenant) equal interest and equal rights in the property, including the right of survivorship.

**Late charge.** The penalty a borrower must pay when a payment is made after the due date.

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

**Lifetime cap.** A provision of an ARM that limits the total increase in interest rates over the life of the loan.

**Loan servicing.** The collection of mortgage payments from borrowers and related responsibilities of a loan service.

**Loan-to-value ratio (LTV).** The relationship between the amount of a mortgage and the total value of the property.

**Lock-in.** A written agreement guaranteeing the home buyer a specified interest rate provided the loan is s

**LTV.** Loan to value.

**Manufactured housing.** A home built entirely in a factory and in compliance with the federal HUD code.

**Margin.** The set percentage the lender adds to the index rate to determine the interest rate of an ARM.

**MID.** Mortgage interest deduction on federal tax return.

**MIP.** Mortgage insurance premium.

**MLS.** Multiple listing service.

**Mortgage banker.** A company that originates mortgages exclusively for resale in the secondary market.

**Mortgage insurance premium. (MIP).** The fee paid by a borrower to FHA or a private insurer for mortgage insurance.

**Mortgage insurance.** Required by lenders on some loans to protect lenders from a possible default.

**Mortgage note.** A legal document obligating a borrower to repay a loan at a stated interest rate during a specified period of time, the agreement is secured by a mortgage.

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

**Mortgagee.** The lender.

**Mortgagor.** The borrower.

## Real Estate Glossary

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**Multiple listing service.** A service that combines agency listings of all available homes in an area into one directory or database.

**NAR.** National Association of REALTORS®. A trade organization for real estate agents and brokers who become members by agreeing to abide by the organization's code of ethics. Members may call themselves REALTORS®.

**Negative amortization.** Payment terms under which the borrower's monthly payments do not cover the interest due; as a result, the loan balance increases.

**Negative amortization.** Payment terms under which the borrower's monthly payments do not cover the interest due and, as a result, the loan balance increases.

**Negative equity.** When the amount of principal owed on a mortgage is greater than the fair market value.

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

**Origination fee.** A fee paid to a lender for processing a loan application; it is stated as a percentage of the mortgage amount, or points.

**Owner financing.** A purchase in which the seller provides all or a part of the financing.

**Payment cap.** A provision of some ARMs limiting how much a borrower's payments may increase regardless of how much the interest rate increases; can result in negative amortization.

**PITI.** Stands for principal, interest, tax, and insurance—the components of a monthly mortgage payment.

**PMI.** Private mortgage insurance.

**Points.** A one-time charge by the lender to increase the yield of the loan; a point is one percent (1%) of the amount of the mortgage.

**Pre approval.** A letter from a lender stating how much money the borrower can obtain.

**Prepayment penalty.** A fee charged to a borrower who pays off a loan before it is due.

**Prequalification.** The process of determining how much money a prospective homebuyer will be eligible to borrow before a loan is applied for.

**Principal.** The amount borrowed or remaining unpaid; also that part of the monthly payment that reduces the outstanding balance of a mortgage.

**Private mortgage insurance (PMI).** Insurance provided by nongovernmental insurers that protects lenders against loss of a borrower defaults.

**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.

**Qualifying ratios.** Guidelines applied by lenders to determine how large a loan to grant a homebuyer.

**Radon.** A radioactive gas found in some homes that in sufficient concentrations can cause health problems.

**Real estate agent.** A person licensed to negotiate and transact the sale of real estate on behalf of the owner.

**Real Estate Settlement Procedures Act. (RESPA)** A consumer protection law that requires lenders to give borrowers advance notice of closing costs.

**REALTOR®.** A real estate professional who is a member of the National Association of REALTORS®. A registered trademark.

**REBAC.** Real Estate BUYER'S AGENT Council. A professional trade association of real estate agents who represent property buyers in real estate transactions. Affiliated with the National Association of REALTORS®.

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

## Real Estate Glossary

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**Second mortgage.** A mortgage that is subordinated to the rights of the first mortgage holder.

**Secondary mortgage market.** The buying and selling of existing mortgages.

**Seller take-back.** An agreement in which the owner of a property provides financing often in combination with an assumed mortgage.

**Seller's agent.** A real estate agent who represents the property owner, the seller; also a listing agent.

**Settlement sheet.** The computation of costs payable at closing which determines the seller's net proceeds and the buyer's net payment.

**Survey.** A drawing showing the legal boundaries of a property.

**Tenancy by the entirety.** A type of joint ownership of property available only to a husband and wife.

**Tenancy in common.** A type of joint ownership in a property without rights of survivorship.

**Title company.** A company that specializes in insuring the title to a property.

**Title insurance.** Insurance to protect 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 property and that there are no liens or other claims outstanding.

**Title.** A legal document establishing the right of ownership.

**Transfer tax.** State or local tax payment when title passes from one owner to another.

**Truth-in-lending.** A federal law that requires lenders to fully disclose in writing, the terms and conditions of a mortgage, including the APR and other charges.

**Underwriting.** The process of evaluating a loan application to determine the risk involved for the lender.

**VA loan.** A loan that is guaranteed by the Veterans Administration.

**Walk through.** A buyer's final inspection of the home to determine if conditions in the purchase agreement have been satisfied.

**Warranty.** A home warranty.