



Guide to the ABC's of Real Estate



GLOSSARY

Adjustable-Rate Mortgage (ARM): A loan characterized by a fluctuating interest rate, usually one tied to a bank or savings and loan association cost-of-funds index.

Agent: Like brokers, real estate agents (REALTORS®, sales associates, licensees, etc.) are trained and licensed to conduct real estate transactions. Agents, however, must operate under the supervision of a broker, and their training is not as extensive.

Amortized loan: A loan in which the principal as well as the interest is payable in monthly or other periodic installments over the term of the loan.

Appraisal: An estimate of the quantity, quality or value of something. The process through which conclusions of property value are obtained; also refers to the report that sets forth the process of estimation and conclusion of value.

Appreciation: An increase in the worth of value of a property due to economic or related causes, which may prove to be either temporary or permanent; opposite of depreciation.

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

Broker: A real estate broker is a person licensed to carry out real estate transactions and receive a fee for these activities.

Brokerage: The bringing together of parties interested in making a real estate transaction.

Chain of title: The succession of conveyances, from some accepted starting point, whereby the present holder of real property derives title.

Closing: The occasion when a sale is finalized; the buyer signs the mortgage and closing costs are paid.

Closing agent: Presides over the closing; works on the buyer's behalf to transfer title and ownership from the seller to the buyer.

Closing costs: Expenses (over and above the price of the property) incurred by buyers and sellers in transferring ownership of a property.

Closing statement: A detailed cash accounting of a real estate transaction showing all cash received, all charges and credits made and all cash paid out in the transaction.

Cloud on title: Any document, claim, unreleased lien or encumbrance that may impair the title to real property or make the title doubtful; usually revealed by a title search and removed by either a quitclaim deed or suit to quiet title.

Collateral: Property pledged as security for a debt, such as the real estate pledged as security for a mortgage.

Commission: Payment to a broker for services rendered, such as in the sale or purchase of real property; usually a percentage of the selling price of the property.

Competitive Market Analysis (CMA): A comparison of the prices of recently sold homes that are similar to a seller's home in terms of location, style and amenities.

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

Conventional loan: A loan that requires no insurance or guarantee.

Counteroffer: A new offer made in response to an offer received. It has the effect of rejecting the original offer which cannot be accepted thereafter unless revived by the offeror.

Debt-to-income ratio: The ratio used to qualify potential borrowers for a loan. Compares total monthly housing expense and other debt with total monthly income.

Deed: A written instrument that, when executed and delivered, conveys title to or an interest in real estate.

Default: Failure to make mortgage payments on a timely basis or to comply with other conditions of the mortgage.

Discount point: A unit of measurement used for various loan charges; one point equals one percent of the amount of the loan.

Down payment investment: Part of the purchase price which the buyer pays in cash and does not finance with a mortgage.

Earnest money: Money deposited by a buyer under the terms of a contract, to be forfeited if the buyer defaults but applied to the purchase price if the sale is closed.

Easement: A right to use the land of another for a specific purpose, such as for a right-of-way or utilities.

Equity: The interest or value that an owner has in property over and above any indebtedness.

Escrow account: The trust account established by a broker under the provisions of the license law for the purpose of holding funds on behalf of the broker's principal or some other person until the consummation or termination of a transaction.

Evidence of title: Proof of ownership of property; commonly a certificate of title, an abstract of title with lawyer's opinion or title insurance.

Federal Housing Administration (FHA) Loan: A loan insured by the Federal Housing Administration and made by an approved lender in accordance with the FHA's regulations.



Foreclosure: A legal procedure whereby property used as security for a debt is sold to satisfy the debt in the event of default in payment of the mortgage or default of other terms in the mortgage document. The foreclosure procedure brings the rights of all parties to a conclusion and passes the title in the mortgaged property to either the holder of the mortgage or a third party who may purchase the realty at the foreclosure sale.

Homeowner's insurance policy: A standardized package insurance policy that covers a residential real estate owner against financial loss from fire, theft, public liability and other common risks.

Housing expense ratio: The relationship between the monthly payments made for housing costs and monthly income.

HUD 1 Statement: An itemized statement of all charges that will be collected at closing, whether they are required by the lender or a third party.

Leverage: The use of borrowed money to finance an investment.

Lien: The right given by law to certain creditors to have their debts paid out of the property of a defaulting debtor, usually by means of a court sale.

Limited agency: Representing both parties in a transaction where both parties agree to it.

Loan origination fee: A fee charged to the borrower by the lender for making a mortgage loan. The fee is usually computed as a percentage of the loan amount.

Loan-to-value ratio: The relationship between the amount of the mortgage loan and the value of the real estate being pledged as collateral.

Mortgage: A conditional transfer or pledge of real estate as security for the payment of a debt. Also, the document creating a mortgage lien.

Mortgage lien: A lien or charge on the property of a borrower that secures the underlying debt obligations.

Broker's Listing Cooperative (BLC): A marketing organization composed of member brokers who agree to share their listing agreements with one another in the hope of procuring ready, willing and able buyers for their properties more quickly than they could on their own.

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

Payment cap: The limit on the amount the monthly payment can be increased on an adjustable-rate mortgage when the interest rate is adjusted.

Prepaid items: On a closing statement, items that have been paid in advance by the seller, such as insurance premiums and some real estate taxes, for which he or she must be reimbursed by the buyer.

Prepayment penalty: A charge imposed on a borrower who pays off the loan principal early. This penalty compensates the lender for interest and other charges that would otherwise be lost.

Principal: The original amount (as in a loan) of the total due and payable at a certain date.

Private Mortgage Insurance (PMI): Insurance provided by private carrier that protects a lender against a loss in the event of a foreclosure or deficiency.

Prorations: Expenses, either prepaid or paid in arrears, that are divided or distributed between buyer and seller at closing.

Rate cap: The limit on the amount the interest rate can be increased at each adjustment period in an adjustable-rate loan. The cap may also set the maximum interest rate that can be charged during the life of the loan.

Real estate: Land; a portion of the earth's surface extending downward to the center of the earth and upward indefinitely into space, including all things permanently attached to it, whether naturally or artificially.

Realtist: Members of the National Association of Real Estate Brokers use the term Realtist.

REALTOR®: Members of the National Association of REALTORS® use the term REALTOR.

Survey: The process by which boundaries are measured and land areas are determined; the on-site measurement of lot lines, dimensions and position of a house on a lot, including the determination of any existing encroachments or easements. Surveys prepared from public records are called location surveys. Surveys prepared on-site by a professional surveyor are called stake surveys.

Title: (1) The right to or ownership of land. (2) The evidence of ownership of land.

Title insurance: A policy insuring the owner or borrower against loss by reason of defects in the title to a parcel of real estate, other than encumbrances, defects and matters specifically excluded by the policy.

Veterans Affairs (VA) loan: A mortgage loan on approved property made to a qualified veteran by an authorized lender and guaranteed by the Department of Veterans Affairs in order to limit the lender's possible loss.

Zoning: The division of a city or county by legislative regulations into areas (zones), specifying the uses allowable for the property in those areas. Buyers are encouraged to investigate any zoning issues directly with the appropriate city or county division.

