

# GLOSSARY OF REAL ESTATE TERMS

## *Understanding the Language*

### **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).

**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 can change once a year.

**Amortization** Repayment of a loan in 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.

**Appraisal** An estimate of the property's value provided by a professional appraiser.

**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.

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

**Buydown** Permanent-prepaid interest that brings the note rate on the loan down to a lower, permanent rate. Temporary - prepaid interest that lowers the note rate temporarily on the loan, allowing the buyer to more readily qualify and to increase payments as income grows.

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

**Cash Reserves** The amount of the buyer's liquid cash remaining after making the down payment and paying all closing costs.

**CC&Rs** Covenants, conditions and restrictions. A document that controls the use, requirements and restrictions of a property.

**Certificate of Commitment** The lender's approval of a VA loan, which is usually good for up to six months.

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

**Chattel** Personal property.

**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.

**Commitment Period** The period during which a loan approval is valid.

**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 surface (walls, floor, 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 home buyers 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.

**CRB** Certified Residential Broker. To be certified, a broker must be a member of the National Association of Realtors, have five years experience as a licensed broker and have completed required Residential Division courses.

**CRS** Certified Residential Specialist.

# GLOSSARY OF REAL ESTATE TERMS - *Continued*

## *Understanding the Language*

**Debt Ratios** The comparison of a buyer's housing cost to his or her gross or net effective income, and the comparison of a buyer's long-term debt to his or her gross or net effective income. The first ratio is housing ratio; the second ratio is total debt ratio.

**Due-On-Sale Clause** A clause that requires a 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.

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

**Equity** The difference between what is owed and what the property could be sold for.

**FHA Loan** A loan insured by the Federal Housing Administration (of the Department of Housing and Urban Development).

**Federal Home Loan Mortgage Corporation (FHLMC)** Called "Freddie Mac"; a part of the secondary market, particularly used to purchase loans from savings and loan lenders within the Federal Home Loan Bank Board.

**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 the 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.

**Fixed Rate Mortgage** A conventional loan with a single interest rate for the life of the loan.

**Fully Indexed Rate** The maximum interest rate on an ARM that can be reached at the first adjustment.

**Gift Letter** A letter from a relative stating that an amount will be gifted to the buyer, and that said amount is not to be repaid.

**Government National Mortgage Association (GNMA)** Called "Ginnie Mae"; a government part of the secondary market that deals primarily in recycling VA and FHA mortgages, particularly those that are highly leveraged.

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

**GRI** Graduate, Realtors Institute. A professional designation granted to a member of the National Association of Realtors who has successfully completed courses covering Law, Finance and Principles of Real Estate.

**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.

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

**Initial Interest Rate** The introductory interest rate on a loan; signals that there may be rate adjustments later in the loan.

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

**Jumbo Loans** Mortgage loans that exceed the loan amounts acceptable for sale in the secondary market; these jumbos must be packaged and sold differently to investors and therefore have separate underwriting guidelines.

**Lien** A legal hold or claim on property as security for a debt or charge.

# GLOSSARY OF REAL ESTATE TERMS - *Continued*

## *Understanding the Language*

**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.

**Lock-in** The fixing of an interest rate or points at a certain level, usually during the loan application process. It is usually done for a certain period of time, such as 60 days, and may require a fee or premium in the form of a higher interest rate.

**Margin** The number of percentage points the lender adds to the index rate to calculate the ARM interest rate at each adjustment.

**Mortgage Insurance Premium (MIP)** The mortgage insurance required on FHA loans for the life of said loans; MIP can either be paid in cash at closing or financed in its entirety in the loan. The premium varies depending on the method of payment.

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

**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 the borrowers could owe more than they did at the beginning of the loan. Negative amortization can occur 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 one percent for FHA and VA loans.

**Payment Cap** The maximum amount the payment can adjust in any given time frame.

**PITI** Principal, Interest, Taxes and Insurance.

**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. Use may be residential, commercial or industrial.

**Point** An amount equal to one percent of the principal amount of the investment or note. Lender assesses loan discount points at closing to increase the yield on the mortgage to a position competitive with other types of investment.

**Prepayment Penalty** A fee charged to a borrower who pays a loan before its due. Not allowed for FHA or VA loans.

**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 Gap** The difference between where the rate is now and where it could adjust to on an ARM. Also used to compare the difference between a current conventional rate and that of an ARM.

**Realtor®** A real estate broker or associate active in a local real estate board affiliated with the National Association of Realtors®

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

**Tenancy In Common** A type of joint ownership of property by two or more persons with no right of survivorship.

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

**VA Loans** A loan, made by a private lender, that is partially guaranteed by the Veterans Administration.