

Real Estate Terms in Plain English

Abstract: A summary and report of all recorded deeds, mortgages, leases and other instruments relating to a particular piece of land.

Agency: A fiduciary relationship between a principal/client and an agent arising out of a brokerage agreement whereby the agent is engaged to do certain acts on behalf of the principal in dealing with a third party. **Duties –** A licensee who provides services through a brokerage agreement for a seller, landlord, buyer, or a tenant is bound by the duties of loyalty, obedience, disclosure, confidentiality, reasonable care, diligence, and accounting.

Adjustable Rate Mortgage (ARM): A loan with an interest rate that changes with market conditions on pre-determined dates.

Amortized Loan: A loan which is paid off in equal installments during its term.

Annual Percentage Rate (APR): A term used to represent the percentage relationship of the total finance charge to the amount of the loan, over the term of the loan. Do not confuse the APR with your quoted interest rate, which is used to determine your monthly principal and interest payment. The APR reflects the cost of your mortgage loan as a yearly rate. It will be higher than the interest rate stated on the note because it includes, in addition to the interest rate, loan discount points, fees and mortgage insurance.

Appraisal: A report written by a qualified expert that states an opinion on the value of a property based on its characteristics and the selling prices of similar properties or comparable properties in the area.

Assumable Mortgage: Purchaser takes ownership to real estate encumbered by an existing mortgage and assumes responsibility as the guarantor for the unpaid balance of the mortgage.

Automated Underwriting: A computerized method of reviewing home mortgage applications for loan approval.

Bridge Loan: A loan which enables home buyers to get financing to make a down payment and pay closing costs on a new home before selling the home they currently own.

Buyer's Agency: A Buyer's Agent has duties as defined by law, to represent the best interest of the buyer as a client. This generally means to seek real estate at the price and terms specified by the buyer or tenant; present in a timely manner all offers to and from the buyer or tenant on real estate; account for the client's funds; disclose all information relevant to the transaction as required by law to the client and maintain the client's confidentiality.



Closing: The process of completing a real estate transaction during which deeds, mortgages, leases and other required instruments are signed and/or delivered. An accounting between the parties is made, the money is disbursed, the papers are recorded, and all other details are attended to. (In some areas, this is called a “settlement.”)

Closing Agent: Usually an attorney or title agency representative who oversees the closing and witnesses the signing of the closing documents.

Closing Costs: The costs paid by the mortgage borrower, and sometimes the seller, in addition to the purchase price of the property. These include the lender’s fees, title fees and appraisal costs.

Commitment Letter: A binding, written pledge by the lender to a mortgage applicant to make a loan, usually under certain stated conditions.

Conventional Loan/Mortgage: A mortgage that is not insured or guaranteed by a government agency such as FHA, VA or the Farmers Home Administration.

Conveyance: The transfer of an interest in property from one party to another.

Credit Report: A report issued by an independent agency which contains certain information concerning a mortgage applicant’s credit history and current credit standing.

Debt-To-Income Ratio: A formula lenders use to determine the loan amount for which you may qualify. Guidelines may vary depending on the loan program.

Deed: A document of various forms by which title to real estate is transferred from one party to another.

Disclosed Dual Agency: (Undisclosed Dual Agency is Illegal). A licensee may act for more than one party whose interests may differ in a transaction with the knowledge and written consent of all parties for whom the licensee acts. If a licensee represents a Buyer in a transaction involving a property which is listed by the same Broker or by that Broker’s company, then a Disclosed Dual Agency exists. When Disclosed Dual Agency occurs, the full range of agency duties cannot be delivered to both parties. These agency duties will be modified by agreement so that neither client will be given an unfair advantage. Dual Agency must be disclosed and agreed to in writing by both buyer and seller. A Disclosed Dual Agent may not reveal confidential information regarding, but not limited to:

1. Willingness of the seller to accept less than the asking price.
2. Willingness of the buyer to pay more than what has been offered.
3. Confidential negotiating strategy not disclosed in the sales contract as terms of the sale.
4. Neither motivation of the seller for selling nor the motivation of the buyer for buying.

Down Payment: A portion of the sales price paid to the seller by the home buyer to close the sales transaction. Also, the difference between the sales price and the home mortgage amount.



Easement: A right held by one party to enjoy or make use of another real property.

Equity: Your ownership interest or that portion of the value of the property that exceeds the current amount of your home loan.

Escrow Account: The depositing with an impartial third party called the escrow agent (usually the title company) of anything pertaining to the real estate transaction, including money and documents of all kinds which are to be disbursed and delivered to the rightful parties by the escrow agent when all conditions of the transaction have been met.

Escrow Payment: The depositing with an impartial third party called the escrow agent of anything pertaining to a real estate transaction, including money and documents of all kinds which are to be disbursed and delivered to the rightful parties by the escrow agent when all conditions of the transaction have been met.

Fixed Rate Mortgage: A loan with an interest rate that remains the same for the entire repayment term.

FICO Score: A numerical rating that indicates a mortgage applicant's creditworthiness based on a number of criteria. It is one piece of information used in the decision-making process.

Float The Rate: This term is used when a mortgage applicant chooses not to secure a rate lock, but instead allows the interest rate to fluctuate until the applicant decides to lock in, usually no later than five days prior to closing.

Good Faith Estimate: A document that tells mortgage borrowers the approximate costs they will pay at or before closing, based on common practice in the locality.

Government Loan: A mortgage insured by a government agency such as FHA, VA, the Farmers Home Administration, or a state bond program.

Graduated Payment Mortgage: An FHA, VA or Conventional loan where the borrower pays a portion of the interest due each month during the first few years of the loan. The payment increases gradually during the first few years to the amount necessary to fully amortize the loan during its life.

Homeowners' Insurance (also called hazard insurance): A real estate insurance policy required of the buyer protecting the property against loss caused by fire, some natural causes, vandalism, etc. May also include added coverage such as personal liability and theft away from the home.

HUD Settlement Statement: A Written statement which summarizes the financial portion of the real estate transaction as required by the Department of Housing and Urban Development.

Index: Interest rate adjustments on adjustable rate mortgage (ARM) loans are based on a specific "index" or treasury issue (bond) which is selected because it is a reliable, familiar financial indicator. Your monthly interest rate payment will be adjusted up or down in relation to this market indicator, plus the margin as specified in your note.



Interest Rate: A percentage of the mortgage amount that is paid to the lender for the use of the money, usually expressed as an annual percentage.

Interim Interest: The interest that accrues, on a per-diem basis, from the day of closing until the end of the month.

Investor: The holder of a mortgage or the permanent lender for whom the mortgage banker services the loan. Any person or institution that invests in mortgages.

Lender's Title Insurance: Insurance typically paid by the borrower which protects the validity of the lender's mortgage against claims and losses that may arise if the mortgage becomes invalid, unenforceable, or results in loss of priority.

Lien: A charge against property for a loan of money recorded as collateral for the payment of a debt.

Loan Conditions: These are terms under which the lender agrees to make the loan. They include the interest rate, length of loan agreement and any requirements the borrower must meet prior to closing.

Loan Payment Reserves: A requirement of many loan programs that, in addition to funds for the down payment and other purchase-related costs, you have saved enough money to cover one or two months of mortgage payments after your closing.

Loan-To-Value Ratio: The ratio of the amount borrowed to the appraised value or sales price of real property expressed as a percentage.

Margin: The number of percentage points added to the index to calculate the interest rate for an adjustable rate mortgage (ARM) at each adjustment period.

Mortgagee: The lender.

Mortgage/Deed of Trust: Pledge of real property to secure a debt by a written instrument given by the mortgagor. Should be recorded in the County Recorder's Office.

Mortgage Insurance: An insurance policy which will repay a portion of the loan if the borrower does not make payments as agreed upon in the note. Mortgage insurance may be required in cases where the borrower makes less than a 20% down payment on the loan.

Mortgage Insurance Premium (MIP): The consideration paid by a mortgagor for mortgage insurance either to FHA or a private mortgage insurance (PMI) company. This insurance protects the investor from possible loss in the event of a borrower's default on a loan.

Mortgagor: The borrower.



Nonconforming Loan: A mortgage program that offers approval guidelines which are not industry standard. It may, for example, have different loan limits than conforming loans but may offer financing in conforming and jumbo amounts.

Note: The agreement which states the home mortgage amount to be borrowed and the terms and conditions of the loan. It also includes a complete description of how the loan should be repaid and the time frame for the repayment.

Origination Fee: The amount collected by the lender for making a loan. It is generally equal to the percentage of the principal amount borrowed.

Owner's Title Insurance: A policy of title insurance which insures the owner of real estate against loss occasioned by defects in, liens against, or marketability of the owner's title.

Point(s): One point equals 1% of the loan amount. Paying points can decrease the interest rate.

Pre-approval: A written commitment from a lender, subject to a property appraisal and other stated conditions, that lets you know exactly how much home you can afford.

Prepaids: That portion of your loan closing costs which must be collected at closing to cover taxes, interest and insurance.

Prepayment Penalty: A fee paid to the mortgagee for paying the mortgage before it becomes due. Also known as prepayment fee or reinvestment fee.

Principal: The amount of a loan, excluding interest, or the remaining balance of a loan, excluding interest.

Private Mortgage Insurance (PMI): A mortgage insurance policy on a conventional mortgage loan issued by a private mortgage company.

Processing: The completion of a mortgage loan application and supporting documents.

Rate Cap: The limit of how much the interest may change on an ARM at each adjustment and over the life of the loan.

Rate Lock: An agreement between the mortgage borrower and the lender to protect the quoted interest rate, points and term of the loan while it is processed.

Rent With Option: A contract which gives one the right to lease property at a certain sum with the option to purchase at a future date.

Second Mortgage/Second Trust: A mortgage ranking below a first mortgage in its priority.



Seller Agency: A Seller's Agent has the duties, as defined by law, to represent the seller's interest in the sale of property. This generally means: A duty to seek a sale, lease, rent or exchange at the price and terms stated in the brokerage agreement at a price and terms acceptable to the seller or landlord; present all offers and agreements in a timely manner to and from the seller or landlord; account for the client's funds; disclose all information relevant to the transaction, as required by law, to the client and maintain the client's confidentiality.

Straight Loan: A loan with periodic payments of interest only. The principle sum due is a lump sum upon maturity.

Sub-prime Loan: A home financing program that accommodates borrowers with special qualifying factors, including poor credit histories.

Title: The right of an owner to possess and use the property plus a history of its ownership and transfers.

Title Insurance: A policy that insures against any losses to the property that result from defects in the title or deed given for a piece of property.

Title Order: An order for a search of the title to a parcel of land.

Title Search: An examination of public records, laws and court decisions to insure that no one except the seller has a valid claim to the property and to disclose past and current facts regarding ownership of property.

Truth-In-Lending Statement: Required by federal regulations, this statement tells consumers the cost of financing their loan, expressed as the annual percentage rate (APR), and discloses all material terms of the loan including the number of payments, payment amount, etc.

Underwriting: The process of a lender reviewing the application, documentation and property prior to rendering a loan decision.

