



Real Estate Glossary

Acknowledgment: A formal declaration made before an authorized official (usually a notary public), by the person who has executed (signed) a document, that such execution is his/her own act and deed. In most instances a document must be acknowledged (notarized) before it can be accepted for recording.

Adjustable Rate Mortgage (ARM): A mortgage with an interest rate that changes over time in line with movements in the index.

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 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 percentage of the loan amount).

Appraisal: An opinion of value based on factual analysis. Legally, an estimation of value by two disinterested persons of suitable qualifications.

Assessments: Specific and special taxes (in addition to general taxes) imposed on real property to pay for public improvements within a specific geographic area.

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 assume the loan.

Beneficiary: Lender

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.

CC&R's: Covenants, Conditions, and Restrictions. A document that controls the use, requirements and restrictions of a property. Closing Statement: The financial disclosure statement that accounts for all of the funds received and expected at the closing.

Contingency Clause: A provision in some ARM's 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.

Conventional Mortgage: A mortgage or deed of trust not obtained under a government insured program such as FHA or VA.

Conveyance: Transfer of title to land. Includes most instruments

by which an interest in real estate is created, mortgaged or assigned.

Deed: Written instrument by which the ownership of land is transferred from one person to another.

Deed of Trust: Written instrument by which the ownership of land is transferred to a trustee as security for a debt or other obligation. Also called Trust Deed. Used in place of mortgages in many states.

Documentary Transfer Tax: A state tax on the sale of real property, based on the sale price.

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.

Easement: Gives one party the right to go onto another party's property. Utilities often get easements that allow them to run pipes or phone lines beneath private property.

Encumbrance: A claim, lien, charge, or liability attached to and binding real property. Any right to, or interest in, land which may exist in one other than the owner, but which will not prevent the transfer of fee title.

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 paper work and distribution of funds.

Federal National Mortgage Association: Popularly known as Fannie Mac. 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 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.

Grant Deed: Grant Deed is a document which legally transfers your title to the property to the new owner.



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 with 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.

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

Lease: An agreement by which an owner of real property gives the right of possession to another for a specific period of time and for a specified consideration (rent). Title does not pass.

Legal Description: A method of geographically identifying a parcel of land, which is acceptable in a court of law. A description of a parcel of land sufficient to identify the property such as a lot and tract number.

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

Loan to Value Ratio: The relationship between the amount of 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.

Mechanics Lien: A lien created by statute for the purpose of securing priority of payment for the prices or value of work performed and materials furnished in construction or repair of improvements to land and which attaches to the land as well as the improvements.

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 can occur when an ARM has a payment cap that results in monthly payments that aren't high enough to cover the interest.

Note: A unilateral agreement containing an express and absolute promise of the signer to pay to a named person, order, or bearer, a defined sum of money at a specified date or on demand. Usually provides for interest and, concerning real property, is secured by a mortgage or trust deed.

Notice of Default: A notice filed to show that the borrower under a mortgage or deed of trust is in default (behind on the payments).

Origination Fee: A fee or charge for establishing a new loan.

PITI: Principal, interest, taxes and insurance.

Point: An amount equal to 1% of the principal amount of the investment or note. The lender assesses loan discount points at closing to increase the yield on the mortgage to a position competitive with other types of investments.

Prepayment Penalty: A fee charged to a mortgagor who pays a loan before it is due.

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

Promissory Note: A promise in writing, and executed by the maker, to pay a specified amount during a limited time, or on demand, or at sight, to a named person, or on order, or to bearer.

Proration: To divide (prorate) property taxes, insurance premiums, rental income, etc., between buyer and seller proportionally to time of use, or the date of closing.

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.

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

Reconveyance: An instrument used to transfer title from a trustee to the equitable owner of real estate, when title is held as collateral security for a debt. Most commonly used upon payment in full of a trust deed. Also called a Deed of Reconveyance or release.

Recordation: Filing for record in the office of the county recorder.

Statement of Identity: Also called Statement of Information, a confidential form filled out by the buyer and seller to help Title Company determine if any liens are recorded against either. Very helpful when people with common names are involved.

Tax Lien: (1) A lien for nonpayment of property taxes. Attaches only to the property upon which the taxes are unpaid. (2) A federal income tax lien. May attach to all property of the one owing taxes.

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

Transfer Tax: State tax on the transfer of real property. Based on purchase price or money changing hands. Also called documentary transfer tax.

VA Loan: A loan that is guaranteed by the Veterans Administration and made by a private lender.