GLOSSARY OF TERMS

Adjustable Rate Mortgage (ARM): A mortgage loan under which the interest rate is periodically adjusted to closely coincide with the current rates. The amounts and times of adjustments are agreed to at the inception of the loan.

Adjustment Period: The length of time between interest rate changes on the ARM. For example, a loan with an adjustable 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 Rates (APR): The total finance charge (interest, loan fees, and points) expressed as a percentage of the loan amount.

Appraisal: An educated estimate of the value of a property on a certain date given by a person normally an appraiser, usually after an inspection of the property.

As-Is: Implied in most agreements of purchase and sale, suggests the buyer is accepting the property in its present state and relinquishes and responsibility from the buyer.

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.

Bankruptcy: A person who has done any of the acts that by law entitles his/her creditors to have his/her estate administered for their benefit; or a person judicially declared subject to having his/her estate administered under the bankruptcy laws for the benefit of his/her creditors; or a person who becomes insolvent.

Bid: To offer a price whether for payment or acceptance.

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.

Buy down: Permanent – prepaid interest that brings the note rate on the loan down to a lower, permanent 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 adjustable or over the life of the mortgage.

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

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CC&R's: 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 for 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, mortgage insurance, etc.

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, floors and ceilings) serves as boundaries.

Contingency Clause: A condition that must be satisfied before a contract is binding. A sales agreement may be contingent upon the buyer obtaining financing.

Conversion Clause: A provision in some ARMs that enables homebuyers 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 conversation feature may cost extra.

Cooperative: A form of multiple ownership in which a corporation or business trust entity holds a title to a property and grants occupancy rights to shareholders by means of proprietary leases or similar arrangements.

CRB: Certified Residential Broker

CRS: Certified Residential Specialist

Credit Risk: An estimate of the amount of credit that can be extended to a company or person without undue risk.

Credit Union: A cooperative organization that makes loans to its members at low interest rates.

Debt Ratios: A ratio that indicates what proportion of debt a company has relative to its assets. The measure gives an idea to the leverage of the company along with the potential risks the company faces in terms of its debt-load.

Due-on-Sale Clause: A due-on-sale clause is a clause in a loan or promissory note that stipulates full balance may be called due upon sale or transfer of ownership of the property used to secure the note. The lender has the right, but not the obligation, to call the note due in such a circumstance.

Earnest Money: Sometimes called earnest money or initial deposit, or alternatively a good-faith deposit) is a deposit towards the purchase of real estate made by a buyer to demonstrate that he/she is serious about wanting to complete the purchase.

Escrow: An escrow is an agreement in which an objective third party holds legal documents and funds on behalf of a buyer and seller, and distributes them according to the buyer's and seller's instruction.

Equity: The difference between the fair market value and unpaid mortgage balance on a home.

Fair Market Value: 1) An estimate of the market value of a property, based on what a knowledgeable, willing, and unpressured buyer would probably pay to a knowledgeable, willing, and unpressured seller in the market. An estimate of fair market value may be founded either on precedent or extrapolation. Fair market value differs from the intrinsic value that an individual may place on the same asset based on their own preferences and circumstances. 2) An estimate of the Fair Market Value is usually subjective due to the circumstances of place, time, the existence of comparable precedents, and the evaluation principles of each involved person. Opinions on value are always based upon subjective interpretation of available information at the time of assessment. This is in contract to an imposed value, in which a legal authority sets an absolute value upon a product or a service. 3) A property sale, in lieu of an eminent domain taking, would not be considered a fair market transaction since one of the parties (i.e. the seller) was under undue pressure to enter into the transaction. Other examples of sales that would not meet the test of fair market value include a liquidation sale, deed in lieu of foreclosure, distressed sale, and similar types of transactions. There is no longer any such value in real estate appraising as Fair Market Value, the correct term is Market Value.

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 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/she wishes, including leaving property by will or inheritance.

Finance Charge: The total cost a borrow 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.

Flood Insurance: Insurance indemnifying against loss by flood damage. Required by lenders in areas federally designated as potential flood areas. The insurance is private but federally subsidized.

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 governmental part of the secondary market that deals primarily in recycling VA and FHA mortgages, particularly those that are highly leveraged.

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 Principals of Real Estate.

Home Equity Loan: A loan or credit line that is secured by the equity the borrower has in a home.

Home Inspection Report: A professional home inspection is an examination of the current condition of a house. It is not an inspection to verify compliance with appropriate codes. Home inspections are usually conducted by a home inspector who has the training and certifications to perform such inspections. The inspector prepares and delivers to the client a written report of findings. The client then uses the knowledge gained to make informed decisions about their pending real estate purchase. The home inspector describes the condition of the home at the time of inspection but does not guarantee future condition, efficiency, or life expectancy of systems or components. A home inspector is sometimes confused with a real estate appraiser. A home inspector determines the condition of a structure, whereas an appraiser determines the value of a property.

Home Loan: Money lent at interest or something lent usually for the borrower's temporary use.

Home Owners Association: Owners of a specific building or association formed for the purpose of improving or maintaining the quality of the area. An association formed by the builder of condominiums or planned developments are required by statue in some states. The builder's participation as well as the duties of the association is controlled by statue.

Home Warranty Plan: Protection against failure of mechanical systems within the property. Usually includes plumbing, electrical, heating systems and installed appliances.

HUD-1: The form used for the closing statement. (Refer to closing statement)

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 interest in property with rights of survivorship by two or more persons. A joint tenant may not will his/her interest and upon the death of a joint tenant, his/her interest passes to the other joint tenants. However, a joint tenant may sell his/her interest or partition the property, thereby converting his/her interest to an interest held as a tenant in common. If a tenancy in common is created, this does not disturb the other owners, who still hold their interests as joint tenants among themselves. Property under this tenancy may be attached by a lien for debts or obligations. Upon divorce, a joint tenancy remains intact as to property held by a husband and wife as joint tenants.

Jumbo Loans: A jumbo mortgage is a mortgage loan in an amount above conventional conforming loan limits. This standard is set by the two government-sponsored enterprises Fannie Mae and Freddie Mac, and sets the limit on the maximum value of any individual mortgage they will purchase from a lender. Fannie Mae (FNMA) and Freddie Mac (FHLMC) are large agencies that purchase the bulk of U.S. residential mortgages from banks and other lenders, allowing them to free up liquidity to lend more mortgages. When FNMA and FHLMC limits don't cover the full loan amount, the loan is referred to as a "jumbo mortgage". The average interest rates on jumbo mortgages are typically higher than for conforming mortgages.

Lien: a lien is a form of security interest granted over an item of property to secure the payment of a debt or performance of some other obligation. The owner of the property, who grants the lien, is referred to as the lienor and the person who has the benefit of the lien is referred to as the lienee.

Loan Commitment: A written promise by a lender to fund 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 time, 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 ate to calculate the ARM interest rate at each adjustment.

Market Value: An asset's market value is the price it would bring in the market, if it were sold immediately. See "Fair Market Value".

MLS-IDX: IDX or broker reciprocity is a listing sharing arrangement between brokers within a Multiple Listing Service.

Mortgage: A temporary, conditional pledge of property to a creditor as security for performance of an obligation or repayment of a debt.

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 it's entirely in the loan. The premium varies depending on the method of payment.

Mortgage Life Insurance: A type of term life insurance often bought by homebuyers. 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.

Offer: To offer a price whether for payment or acceptance.

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 development at the same or slightly greater overall density than a 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 investments.

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

Prime Rate: The lowest rate of interest on bank loans at a given time and place, offered to preferred borrowers.

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

Property Tax: A tax assessed on real or personal property usually by the County of record.

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 of sale.

QR Codes: QR stands for Quick Response. A QR code is a specific matrix barcode (or two-dimensional code) that is readable by dedicated QR barcode readers and camera telephone known today as a "Smart Phone". The code consists of black modules arranged in a square pattern on a white background. The information encoded may be text, URL, or other data.

Rate Gap: The difference between where the rate is now and where it could adjust o 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.

Statement of Information: A confidential form filled out by buyer and seller to help a title company determine if any liens are recorded against either also called a statement of identity.

Tenancy by the Entirety: This type of tenancy may exist only between husband and wife or reciprocal beneficiaries. One tenant by the entirety may not terminate the tenancy by a separate transfer of his/her interest in the property nor may he/she partition the property without the consent of the other owner. The death of one owner vests title solely in the other and, therefore, it is impossible to pass title by will. Property held under a tenancy by the entirety may not be attached as to the debts and obligations of only one owner. Federal Tax Liens and Child Support Liens against the husband, but not the wife, DO attach to the property. Upon divorce, a tenancy by the entirety becomes a tenancy in common.

Tenancy in Common: A type of joint ownership with no right of survivorship, Each person has an undivided interest in the property which he/she is free to convey or pass on to his/her heirs or assigns, without the consent of the other owners. Tenants in common need not hold equal undivided interests. Property under this tenancy may be attached by alien for debts or obligations.

Tenancy in Severalty: One person owns property as sole ownership in severalty. Only he/she alone can use, mortgage, or dispose of the property. Upon a person's death, interest passes to his/her heirs or devisees through probate proceedings. Corporations hold title to property in severalty.

Title Insurance Policy: A policy that protects the purchaser, mortgagee other party against losses. A type of insurance which guarantees the ownership and quality of title to land.

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