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Real Estate Glossary of Terms

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Acceleration clause

Stipulation in a mortgage agreement that allows the lender to demand immediate payment of the entire loan balance if any scheduled payment is missed.

Adjustable rate mortgage (ARM)

Mortgage loan on which the interest rate falls and rises with changes in prevailing rates. The mortgage rate is tied to a selected index and may be adjusted annually. Also called a variable rate mortgage.

Agent

Person authorized to act by and on behalf of another.

Air rights

Right to occupy and use the open space above a parcel of land or property, such as in the leasing of air space over existing buildings or highways.

Amortize

Pay a debt in monthly or other periodic installments until the total amount, along with the interest, if any, is paid.

Annual percentage rate (APR)

Combines the interest rate with other loan costs, such as points and loan fees, into a single figure that shows the true annual cost of borrowing.

Appraisal

A formal estimate of property value conducted by a professional qualified to make such an opinion.

Appreciation

Increase in property value or worth due to economic or related factors; the opposite of depreciation.



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Appurtenance

Whatever is annexed to land or used with it that will pass to the buyer with conveyance of title, such as a garage or fence.

As is

Said of property offered for sale in its present condition with no guarantees as to quality and no promise of repair or fix-up by the seller; property is purchased in exactly the condition in which it is found.

Assessed value

A value placed on a property by an agency of the government for taxation and other purposes.

Assessment

Tax or charge levied on property by a taxing authority to pay for local improvements such as sidewalks, streets, and sewers.

Assumption of mortgage

Taking title to property that has an existing mortgage, and being personally liable for its payment as a condition of the sale.

Balloon loan

Mortgage loan in which a larger final payment becomes due because the loan amount was not fully amortized.

Binder

Short purchase contract used in some areas to secure a real estate transaction until a more formal contract can be signed at a later date; usually accompanied by an earnest money deposit.

Blanket mortgage

Single mortgage that covers more than one real property, i.e. - a house plus the vacant lot next door.

Blockbusting

Illegal practice of creating panic selling in a neighborhood for financial gain. Typically exploits racial and religious bias to get homeowners to sell low so the properties can be resold at a mark up.

Breach of contract

When one party fails to live up to the terms and conditions of a contract, without a valid, legal excuse.



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Broker

Licensed individual who acts independently in conducting a real estate brokerage business; also a person who buys and sells for another for a commission.

Brokerage

Business of a broker. Also, the amount charged for a broker's service.

Builder's warranty

Written statement by a builder assuring that a dwelling was completed according to a stipulated set of standards. It protects the buyer from any latent defects.

Building codes

Minimum construction standards set by state or local laws for public safety and health. Includes the design, construction, repair, and quality of building materials, as well as the use and occupancy of structures.

Buy-down

Cash payment to a lender to reduce the interest rate a borrower must pay on a new mortgage loan. Commonly used by builders to sell new homes.

Buyer's market

Describes an excess supply of homes for sale, in which there are few buyers and many sellers. In such a market, the buyer can typically negotiate more favorable prices and terms.

Bylaws

Rules and regulations that govern how a homeowners' association will be run.

Cancellation clause

Stipulation in a contract that allows a buyer or seller to cancel the contract in the event of a certain specified occurrence.

Capital gain

Profit earned from the sale of an asset.

Caveat emptor

Latin for ""Let the buyer beware."" Under this legal phrase, the buyer is expected to judge and evaluate property carefully before buying, or purchase at their own risk.



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CC&Rs

Stands for covenants, conditions and restrictions. They are the rules by which a property owner in a condominium agrees to abide.

Close

Act of finalizing a transaction in which all the concerned parties meet to transfer title to a property. Also, when real estate formally changes ownership.

Closing costs

Expenses over and above the price of property that must be paid by buyers and sellers before title is transferred. Also known as settlement costs.

Closing statement

Written account of all expenses, adjustments, and disbursements received by the buyer and seller when completing a real estate transaction.

Cloud on title

Defect in the title that impairs the owner's ability to market the property. This might be a lien, claim, judgment, or encumbrance.

Collateral

Something of value given or pledged to a lender as security for the repayment of a loan.

Commingle funds

Mixing of a clients' funds, or escrow, with an agent's personal funds in an account; considered to be grounds for the suspension or revocation of the broker's real estate license.

Commission

Payment, or brokerage fees, given by the seller of a property to a real estate agent for services rendered. Usually paid at the closing.

Common elements

Parts of a condominium, cooperative, or private home association shared by all residents, so that each unit owner holds an undivided interest in, for example, the hallways, parking facilities, or swimming pool.



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Comparables

Properties similar to a specific piece of property that are used to help estimate the value of that property.

Competitive market analysis

A method of determining home value that looks at recent home sales, homes presently on the market, and homes that were listed but did not sell.

Condominium

Type of housing where buyers own their units outright, plus an undivided share, or joint ownership, in the common elements of the building or community.

Consideration

Something of value, usually money, given to induce another to enter into a contract.

Construction loan

Type of loan where money is doled out as construction takes place; borrower must obtain a permanent long-term mortgage from another source to repay the construction loan. Also called an interim loan.

Contingency

A provision in a contract that keeps it from becoming binding until a certain event happens. A satisfactory inspection report might be a contingency.

Contract

A legally enforceable agreement between two or more parties. To be valid, a real estate contract must be dated, in writing, include a consideration, have a description of the property, the place and date of delivery of the deed, and spell out all terms and conditions that were mutually agreed upon. It also must be executed (signed) by the buyer and seller.

Contractor

One who contracts to do something for another. For example, in construction, a specialist who enters into a formal construction contract to build a real estate structure or handle renovations, improvements, and additions to an existing structure.

Conventional loan

Real estate loan that is not insured by the FHA or guaranteed by the VA.



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Convey

To transfer property from one person to another.

Conveyance

Document used to transfer title. A deed is a conveyance.

Cooperative

Land and building owned or leased by a corporation which in turn leases space to its shareholders, who are also part owners of the building and have a proprietary lease. In lieu of rent, they each pay a proportionate monthly or quarterly fixed rate to cover operating costs, mortgage payments, taxes, etc.

Counteroffer

An offer made in response to an earlier, unacceptable one; it terminates the original offer.

Credit report

A past history of debt repayment used by creditors as an indicator of future readiness to responsibly repay debt.

Deed

Written document that when executed and delivered conveys title to real property.

Deed of trust

Document resembling a mortgage that conveys legal title to a neutral third party as security for a debt. Also called a trust deed or deed in trust.

Deed restrictions

Provisions placed in deeds to control how future landowners may or may not use the property. Also called deed covenants.

Default

Breach of a contract or failure to meet a legal obligation. Nonpayment of a mortgage beyond a certain number of payments is considered a default.

Deficiency judgment

Judgment issued against a borrower when the sale of foreclosed property does not bring in enough to pay the balance owed on the mortgage.

Delinquent loan

One where the borrower is behind, or late, in payments.



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Depreciation

Gradual decline on paper in market value of real estate, especially because of age, obsolescence, wear and tear, or economic conditions.

Discount broker

Full-service broker who charges less than the prevailing commission rates in his or her community.

Discount points

Added loan fee charged by a lender to make the yield on a lower-than-market-value loan competitive with higher-interest loans.

Downpayment

Initial cash investment made as evidence of good faith when purchasing real estate. It is usually a percentage of the sale price.

Due-on-sale

Clause in a note or mortgage giving the lender the right to call the entire loan balance due if the property is sold or otherwise conveyed.

Earnest money deposit

Money that accompanies an offer to purchase as evidence of good faith. It is almost always a personal check, certified check, or money order rather than cash

Easement

Limited right to cross or use for some specified purpose the property of another. It may be permanent or temporary. Water, sewage, and utility suppliers frequently hold an easement across private property.

Eminent domain

The right or power of government to acquire private property for public use without the consent of the owner, provided fair compensation is provided.

Encroachment

A building or other improvement that extends beyond its boundary and intrudes upon the property of another.

Encumbrance

Any impediment to a clear title. It can be a claim, lien, zoning restriction, or other legal right or interest in land that diminishes its value. The report of the title search usually shows all encumbrances.



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Equity

Value an owner has in a piece of property less the debt against it. For example, if the market value of a house is \$150,000 and the owner has paid off \$10,000 of a \$75,000 mortgage, the owner has \$85,000 equity.

Equity build-up

Term used to refer to the increase of one's equity in a property due to mortgage balance reduction and price appreciation.

Escheat

Reversion of property to the state when the owner dies without leaving a will and has no heirs to whom the property may pass.

Escrow

Money or documents held by a third party until specific conditions of an agreement or contract are fulfilled.

Escrow account

Special bank account into which escrow monies are deposited and from which they are disbursed. Lawyers and real estate brokers maintain escrow accounts to hold money in trust for others.

Escrow company

A firm that specializes in handling the closing of a transaction.

Exclusive agency listing

Listing where the owner reserves the right to sell his property himself, but also agrees to list with no other broker during the listing period besides the appointed real estate broker.

Exclusive-right-to-sell listing

Listing that gives the broker the right to collect a commission no matter who sells the property during the listing period.

Fair market value

See market value.

Fannie Mae

Common name for the Federal National Mortgage Association, which buys and sells loans in the secondary mortgage market.



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Fee simple

Ownership of real property that is to be used and/or sold at the owner's discretion.

FHA

Acronym for Federal Housing Authority, an agency created within the Department of Housing and Urban Development (HUD) that insures mortgages on residential property, with downpayment requirements usually lower than prevailing ones.

Fiduciary

Person acting in a position of trust, responsibility and confidence for another, such a broker for his client.

First mortgage

Mortgage on a property that is superior to any other. It is the first to be paid in the event of foreclosure.

Fixtures

Any personal property that has been permanently attached to real property and therefore included in the transfer of real estate. The kitchen sink is a fixture.

Foreclosure

Legal action instigated by a lender to end all ownership rights when mortgage payments have not been kept up.

Freddie Mac

Common name for the Federal Home Loan Mortgage Corporation, which buys and sells loans in the secondary mortgage market.

Gentrification

Process whereby private or government-sponsored development of certain aging neighborhoods results in the displacement of low- or moderate-income families by the more affluent and leads to an increase in property values.

Grace period

Specified period of time to meet a commitment after it becomes due, without penalty or default. For example, most lenders allow a two-week grace period after the due date of the mortgage payment before a late fee is imposed.



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Graduated payment mortgage

Mortgage loan for which the initial payments are low but increase over the life of the loan.

Grantee

Person named in a deed who acquires ownership of real estate; the buyer.

Grantor

Person named in a deed who conveys ownership of real estate; the seller.

Highest and best use

Use of land that is most logical and productive. Refers to the greatest income it can bring the owner, as well as factors such as aesthetics and benefits to the surrounding community.

Historic structures

Buildings of historical or architectural significance, perhaps landmarks, that are designated by federal, state, or local historical commissions.

Homeowner's insurance policy

Packaged insurance policy for homeowners and tenants that cover property damage and public liability, such as fire, theft, and personal liability.

Homestead protection

State and federal laws that protect against the forced sale of a person's home by creditors. Also, upon the death of one spouse, provides the other with a home for life.

Housing codes

Local regulations that set minimum conditions under which dwellings are considered fit for human habitation. It guards against unsanitary or unsafe conditions and overcrowding.

HUD

Acronym for the Department of Housing and Urban Development, an agency from which almost all of the federal government's housing programs flow.

Improvement

Any form of land development or man-made addition, such as the erection of a building or fence, to enhance the value of private property; also an improvement to publicly owned structures, such as a sewer or road.



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Inspection

The act of physically examining and testing a piece of property to ascertain certain information.

Installment payment

Periodic payment, usually monthly, of interest and principal on a mortgage or other loan.

Interest

A fee paid for the use of money; also a share or right in something.

Interim financing

Short-term loan usually made during the construction phase of a building project or until a permanent, long-term loan can be obtained. Also called a construction loan.

Judgment

Court decree stating that one person is indebted to another. Also specifies the amount of the debt.

Junior mortgage

Any mortgage, such a second or third mortgage on a property, which is subordinate to the first one in priority.

Lease

Contract that conveys the right to use property for a period of time in return for a consideration, usually rent, paid to the property owner.

Lease-purchase option

Opportunity to purchase a piece of property by renting for a specified period, with the provision that the lessee may choose to buy after or during the leasing period at a predetermined sale price.

Lessee

Someone who rents under a lease; the tenant.

Lessor

Someone who rents to another party through a lease; the landlord.

License

A privilege or right granted to a person by a state to operate as a real estate broker or salesperson.



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Lien

A debt on a property which encumbers it until the obligation is paid; a mortgage, back taxes, or other claim.

Listing

Contract used for hiring a real estate agent to sell a piece of property. Also a piece of property that is for sale.

Loan origination fee

Paid by the borrower to get a loan; it covers expenses incurred by the lender, such as the cost of the appraisal, credit report, title search, etc.

Loan servicing

Task of collecting monthly payments, handling insurance and tax impounds, delinquencies, early payoffs, and mortgage releases.

Loan-to-value ratio

Relationship of a mortgage loan to the appraised value of a piece of property. Usually expressed to the buyer in terms of how much the lender will lend, i.e. - 75 percent financing.

Maintenance fees

Paid by a condominium unit owner to the owners' association for upkeep of the common areas.

Market price

Actual selling price of a property.

Market value

Generally accepted as the highest price that a ready, willing, and able buyer will pay and the lowest price a ready, willing, and able seller will accept for a property.

Marketable title

Good and clear title that is free from reasonable doubt as to who the owner is.

Master deed

Document that converts a parcel of land into a condominium subdivision.

Master plan

Long-range, comprehensive guide for the physical growth or development of a community.



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Maturity date

Date on which principal and interest on a mortgage or other loan must be paid in full.

Mortgage

Legal document that creates a lien on property; it secures the repayment of a loan.

Mortgage broker

Individual or company that brings borrowers and lenders together; a loan broker.

Mortgage company or mortgage banker

Financial intermediary that offers mortgages to borrowers, and then resells them to various lending institutions, government agencies, or private investors.

Mortgagee

Party or institution that lends money; the creditor.

Mortgagor

Party or person that borrows money, giving a lien on the property as security for the loan; the borrower.

Multiple listing

Agreement that allows real estate brokers to distribute information on the properties they have listed for sale to other members of a local real estate organization. Allows the widest possible marketing of those properties. Commissions are split by mutual agreement between the listing broker and the selling broker.

Net lease

Lease requiring the tenant to pay all the costs incurred in maintaining a property, including taxes, insurance, repairs, and other expenses normally required of the owner.

Nonconforming use

Use of property that is permitted to continue after a zoning ordinance prohibiting it has been passed.

Offer

Oral or written proposal to buy a piece of property at a specified price.

Open listing

Listing that gives a broker a nonexclusive right to find a buyer; the owner can still find a buyer himself and avoid a commission.



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Option

The exclusive right to purchase or lease a property at a predetermined price or rent at some future time.

Origination fee

A charge by the lender for granting and processing a new mortgage loan.

PITI

Acronym for ""principal, interest, taxes, and insurance."" Frequently used to describe a loan payment that combines all four items.

Planned Unit Development (PUD)

Individually owned houses with community ownership of common areas, such as swimming pools and tennis courts.

Plat

Map or survey showing the location and boundaries of individual properties and how they have been subdivided into lots and blocks.

Point

Fee charged by a lender to get additional revenue over the interest rate. A point is equal to one percent of the loan amount.

Prepayment penalty

Fee charged by the lender when a borrower repays the loan early.

Principal

The amount of money borrowed; the amount of money still owed.

Private mortgage insurance (PMI)

Required by most lenders for conventional loans with a down payment of less than 20 percent. Insurance is paid by the borrower and guarantees the lender will not lose money if the borrower defaults.

Promissory note

A written promise to repay a debt on demand or at a stated time in the future.

Property tax

Assessment levied by city and county governments on real and personal property to generate the bulk of their operating revenues to pay for such public services as schools, libraries, and roads.



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Property tax deductions

The Internal Revenue Service allows homeowners to claim as itemized personal deductions money paid for state and local realty taxes, as well as interest on debt secured by their homes. It also allows for the deduction of loan prepayment penalties, and the deduction of points on new loans.

Qualification

Act of determining a potential buyer's needs, abilities, and urgency to buy and matching these with available properties.

Quit-claim deed

A conveyance by which the grantor transfers whatever interest he or she has in the real estate without warranties or obligations.

Real estate

The land itself and everything extending below and above it, including all things permanently attached, whether by nature or by man.

Real estate broker

Individual who has passed a state broker's test and represents others in realty transactions. Anyone having his or her own office must be a broker.

Real estate investment trust (REIT)

Entity that allows a very large number of investors to pool their money in the purchase of real estate, but as passive investors. The investors do not buy directly. Instead, they purchase shares in the REIT that owns the real estate investment.

Real estate salesperson

Person who has passed a state examination for that position, and must work under the supervision of a broker.

Real estate tax

See property tax.

Real property

Land and buildings and anything permanently attached to them.



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Realtor

A real estate broker or agent who is a member of the National Association of Realtors, a professional real estate group that subscribes to a Code of Ethics. Not every broker or agent is a Realtor, a word that is a registered trademark and always capitalized.

Recording

Entering or recording documents affecting or conveying interests in real estate in the recorder's office; until recorded a deed or mortgage generally is not effective against subsequent purchases or mortgage liens.

Redlining

Practice of refusing to make loans in certain neighborhoods. Also applies to insurance companies that refuse to offer policies in certain neighborhoods.

Refinance

To pay off one loan by taking out another on the same property.

Release of mortgage

Certificate from the lender stating that the loan has been repaid.

Rent control

Government-imposed restrictions on the amount of rent a property owner can charge.

Replacement cost

The cost at today's prices and using today's construction methods, of building an improvement having the same usefulness as the one being appraised.

Report of title

Document required before title insurance can be issued. It states the name of the owner, a legal description of the property, and the status of taxes, liens, and anything else that might affect the marketability of the title.

Reserve account

An account for money collected each month by a lender to pay for property taxes and property insurance as they come due.



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Restrictive covenants

Clauses placed in a deed to restrict the full use of the property by controlling how future landowners may or may not use the property; also used in leases.

Right of first refusal

A person's right to have the first opportunity to either lease or purchase real property.

Right of survivorship

A feature of joint tenancy giving the surviving joint tenants the rights, title and interests of the deceased joint tenant. Right of survivorship is the basic difference between buying property as joint tenants and as tenants in common.

Sales contract

Contract that contains the terms of the agreement between the buyer and seller for the sale of a particular parcel or parcels of real estate.

Second mortgage

Lien on property that is subordinate to a first mortgage. In the event of default, the second mortgage is repaid after the first. Also called a junior mortgage, and in some circumstances a home equity loan.

Secondary mortgage market

Market for the purchase and sale of existing mortgages, designed to provide greater liquidity for mortgages; plays an important role in getting money from those who want to lend to those who want to borrow.

Seller's market

One with few sellers and many buyers.

Semidetached

One structure containing two dwelling units separated vertically by a common wall.

Settlement

The day on which title is conveyed.

Settlement costs

See closing costs.



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Special assessment

A special tax imposed on specific parcels of real estate that will benefit from a proposed public improvement, such as a street or sewer.

Steering

The illegal practice of directing potential home buyers to or away from certain neighborhoods either to maintain or to change the character of an area, or to create a speculative situation.

Subdivision

A tract of land divided by the owner into smaller lots for homesites or other use.

Subletting

The leasing of premises by a lessee to a third party for part of the lessee's remaining term.

Survey

An exact measurement of the size and boundaries of a piece of land by civil engineers or surveyors.

Tax basis

The price paid for a property plus certain costs and expenses, such as closing costs, legal counsel, and a commission paid to help find the property.

Tax credit

An allowed deduction that can be subtracted from your income tax. If you are entitled to a \$1,500 credit, and your income tax would otherwise be \$10,000, the credit would reduce the tax due to \$8,500.

Tax rate

The rate at which real property is taxed in a tax district or county. For example, in a certain county, real property may be taxed at a rate of 55 mills (or 0.055) per dollar of assessed valuation.

Tax sale

A court-ordered sale of real property to raise money to cover delinquent taxes.

Tax shelter

A realty investment that produces income-tax deductions for its owner.

Tenancy by the entirety

A form of joint ownership reserved for married persons; right of survivorship exists and neither spouse has a disposable interest during the lifetime of the other.



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Tenants in common

Style of ownership in which two or more persons purchase a property jointly, but with no right of survivorship and separate undivided interests. They are free to will their share to anyone they choose, a principal difference between this form of ownership and joint tenancy.

Time-sharing

Part ownership of a property coupled with a right to exclusive use of it for a specified number of days per year.

Title

Actual ownership; the right of possession; also the evidence of ownership such as a deed or bill of sale.

Title insurance

An insurance policy that protects against any losses incurred because of defects in the title not listed in the title report or abstract.

Title report

A statement of the current condition of title for a parcel of land.

Title search

A professional examination of public records to determine the chain of ownership of a particular piece of property and to note any liens, encumbrances, easements, restrictions, or other factors that might affect the title.

Townhouse

Usually a two- or three-story dwelling with shared walls, or a living unit operating under the condominium or townhouse form of ownership.

Trust deed

A document used in place of a mortgage in certain states; a third-party trustee, not the lender, holds the title to the property until the loan is paid out or defaulted. Also called a deed of trust.

Trustee

One who as agent for others handles money or holds title to their land.

Undivided interest

Ownership by two or more persons that gives each the right to use the entire property.



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Urban renewal

The acquisition of run-down city areas for purposes of redevelopment.

Useful life

The period of time over which a commercial property can be depreciated for federal income-tax purposes. Also known as economic life.

Usury

Charging a higher rate of interest on a loan than is legally allowed.

VA loan

Veterans Administration-backed mortgage. The VA, a federal agency, operates a loan guarantee program for honorably discharged veterans and widows of veterans who died of a service-related injury. Mortgages call for low or no down payment. Sometimes referred to as GI loan.

Valid contract

One that meets all requirements of law, is binding upon its parties, and is enforceable in a court of law.

Valuation

Estimated or determined value; synonymous with appraising.

Value

Market value or present worth. To have value, a property must have utility, scarcity, effective demand, and transferability.

Variable rate mortgage

See adjustable rate mortgage.

Variance

A permit granted as an exception to a zoning ordinance that allows a property owner to meet certain specified needs.

Warranty deed

A deed in which the grantor guarantees that he or she is giving the grantee good title free of encumbrances. Considered to be the best deed a grantee can receive.

Write-off

Depreciation or amortization an owner takes on a commercial property.



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Yield

What an investment or property will return; the profit or income.

Zoning

Procedure that classifies real property for a number of different uses: residential, commercial, industrial, etc. in accordance with a land-use plan.