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GLOSSARY OF TERMS

What does it all mean? The following is a short glossary of terms commonly used during a real estate transaction.

Adjustable Rate Mortgage (ARM): A mortgage in which the interest rate is adjusted periodically in accordance with a market indicator to more closely coincide with the current rates. Also sometimes known as "renegotiable rate mortgage", "variable rate mortgage", or "graduated rate mortgage".

Amortization: Reduction of the principal of a debt in regular, periodic installments.

Annual Percentage Rate (APR): An interest rate reflecting the cost of a mortgage as a yearly rate. This rate is likely to be higher than the stated note rate or advertised rate on the mortgage, because it takes into account point and other credit cost. The APR allows home buyers to compare different types of mortgages based on the annual cost for each loan.

Assumption of Mortgage: An obligation undertaken by a new purchaser of land to be liable for payment of an existing note secured by a mortgage.

Caps: Consumer safeguards that limit the amount the interest rate on an adjustable rate mortgage can change at each adjustment or over the life of the loan.

Certificate of Reasonable Value (CRV): An appraisal issued by the Veterans Administration showing the property's current market value.

Closing (also called "settlement"): The completion of a real estate transfer, where the title passes from seller to buyer, or a mortgage lien is given to secure debt.

Condominium: A statutory form of real estate development of separately-owned units and jointly-owned common elements in a multi-unit project.

Conforming Loan: A mortgage whose underlying terms and conditions meet the funding criteria of Fannie Mae and Freddie Mac—mainly, a dollar limit on the size of

the loan. The baseline conforming loan limit is adjusted annually and allows certain counties to be designated as "higher-cost areas". Lenders prefer to deal with conforming loans, as these are the only type that Fannie Mae and Freddie Mac will guarantee.

Covenants, Conditions & Restrictions (CC&R's): A document that controls the use, requirements, and restrictions of a property.

Conventional Mortgage: A mortgage securing a loan made by investors without governmental underwriting, i.e. a loan which is not FHA insured or VA guaranteed.

Deed: Written instrument which, when properly executed and delivered, conveys title.

Earnest Money: A deposit of funds made by a buyer of real estate as evidence of good faith.

Easement: A non-possessory right to use all or part of the land owned by another for a specific purpose.

Equity: The difference between the fair market value and current indebtedness, also referred to as the owner's interest. The value an owner has in real estate over and above the obligation against the property.

Farmers Home Administration Loan (FMHA Loan): A loan insured by the federal government similar to FHA loan, but usually used for residential properties in rural areas.

Federal Housing Administration Loan (FHA Loan): A loan insured by the Federal Housing Administration, open to all qualified home purchasers.

Federal National Mortgage Association (FNMA): Also known as "Fannie Mae". A U.S. government sponsored corporation dealing in the purchase of first mortgages for the secondary market.

Glossary continued on back...



Fee Simple Deed: The absolute ownership of a parcel of land. The highest degree of ownership that a person can have in real estate, which gives the owner unqualified ownership and full power disposition.

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 in the property.

Lien: A claim upon a piece of property for the payment or satisfaction of a debt or obligation.

Loan-To-Value Ratio: The relationship between the amount of the mortgage loan and the appraised value of the property expressed as a percentage.

Mortgage: A conditioned pledge of property to a creditor as security for the payment of a debt.

Negative Amortization: Occurs when your monthly payments are not large enough to pay all the interest due on the loan. This unpaid interest is added to the unpaid balance of the loan. The danger of negative amortization is that the home buyer ends up owing more than the original amount of the loan.

Personal Property: Any property which is not real property, e.g., money, savings accounts, appliances, cars, boats, etc.

Points (also called "commission points" or "discount points"): An additional charge made by a lender at the time a loan is made. Each point is equal to 1% of the loan amount (e.g. two points on a \$100,000 mortgage would cost \$2000).

Principal, Interest, Taxes and Insurance (PITI): Also called monthly housing expense.

Private Mortgage Insurance (PMI): In the event that a buyer does not have a 20% down payment, lenders will allow a smaller down payment—as low as 3% in some cases. With the smaller down payment loans, however, borrowers are usually required to carry private mortgage

insurance. Private mortgage insurance will usually require an initial premium payment and may require an additional monthly fee, depending on the loan's structure.

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

Subdivision: A tract of land surveyed and divided into lots for purposes of sale.

Tenancy in Common: An undivided ownership in real estate by two or more persons, without right of survivorship – interests need not be equal.

Trust Account: An account separate and apart and physically segregated from the broker's own, in which the broker is required by law to deposit all funds collected for clients.

Trustee: The neutral third party in the deed of trust with limited powers. When the loan is paid in full, the property is reconveyed by the trustee back to the person or persons legally entitled to the land, or if delinquent, the property will be conveyed pursuant to non judicial foreclosure proceedings, to the highest bidder in a public sale.

Trustor: The borrower, owner and guarantor of the property conveyed in a deed of trust.

Veterans Administration Loan (VA Loan): Housing loan to veterans by banks, savings and loans, or other lenders that are guaranteed by the Veterans Administration, enabling veterans to buy a residence with little or no down payment.

Warranty: In a broad sense, an agreement or undertaking by a seller to be responsible for present or future losses of the purchaser occasioned by deficiency or defect in the quality, condition or quantity of the thing sold. In a stricter sense, the provision or provisions in a deed, lease, or other instrument conveying or transferring an estate or interest in real estate under which the seller becomes liable to the purchaser for defect in or encumbrances on the title.