Terms You will Want to Know

Adjustable Rate Mortgage (ARM): A mortgage with an interest rate that changes over time in line with movements in the index. ARMs are also referred to as AMLs (adjustable mortgage loans) or VRMs (variable rate mortgages).

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.

Amortized Loan: A loan that is completely paid off, interest and principal, by a series of regular payments that are equal or nearly equal. Also called a Level Payments Loan.

Annual Percentage Rate (APR): The total finance charge (interest, loan fees, points) expressed as a percentage of the loan amount.

Appraisal: The act or process of estimating values of real estate or any interest therein.

Appreciation: An increase in value of real estate.

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 from 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.

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.

Certificate of Reasonable Value (CRV): A document that establishes the maximum value and loan amount for a VA guaranteed mortgage.

Closing: The final settlement of a real estate transaction between buyer and seller.

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, and mortgage insurance.

Condominium: A form of real estate ownership where the owner receives title to a particular unit and has a proportionate joint ownership of common area of the structure and the land interest. The unit itself is generally a separately owned space whose interior surfaces (walls, floors and ceilings) serve as its boundaries.

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

Conventional Mortgage: A mortgage securing a loan made by investors without governmental underwriting.

Conversion Clause: A provision in some ARMs that enables you 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 conversion feature may cost extra.

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

Counter-Offer: A rejection of an offer by one party along with an agreement for sale of the property to the other party on terms differing from the original offer.

CRB: Certified Residential Broker. To be certified, a broker must be a member of the National Association of Realtors®, have five years experience as a licensed broker, and have completed five required Residential Division courses.

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

Discount Points: Additional charges made by a lender at the time a loan is made. Points are measured as a percent of the loan, with each point equal to one percent. These additional interest charges are paid at the time a loan is closed to the lender at a rate of return so as to approximate the market level.

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: Created by grant or agreement for a specific purpose, an easement is the right, privilege or interest which one party has in the land of another. (Ex. right of way)

Equity: The interest or value which an owner has in real estate over and above the liens against real property.

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 paperwork and distribution of funds.

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 wishes, including leaving by will or inheritance. It is the greatest interest a person can have in real estate.

FHA Loan: A loan which has been insured by the Insuring Office of the Department of Housing and Urban Development; the Federal Housing Administration guaranteeing its payment in case of default by the owner.

Finance Charge: The total cost a borrower must pay, directly or indirectly, to obtain credit according to Regulation Z.

FMHA Loan: A loan insured by the federal government similar to FHA loan usually used for properties in rural areas.

Graduated Payment Mortgage: A residential mortgage monthly payments that start at a level and increase at a predetermined rate.

GRI: Graduate Realtors Institute. A professional designation granted to a member of the National Association of Realtors® who has successfully completed three courses covering Law, Finance and Principles of Real Estate.

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 within 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 descendant's interest in the property.

Land Contract: A contract ordinarily used in connection with the sale of property in cases where the seller does not wish to convey title until all or a certain part of the purchase price is paid by the buyer.

Lien: A form of encumbrance which usually makes property security for the payment of a debt of discharge of an obligation. Example: Judgments, taxes, mortgages, deeds of trust, etc.

Loan Commitment: A written promise to make 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.

Margin: The number of percentage points the lender adds to the index rate to calculate the ARM interest rate at each adjustment.

Marketable Title: Merchantable title; title free and clear of objectionable liens or encumbrances.

Mortgage: An instrument recognized by law by which property is hypothecated to secure the payment of a debt or obligation. The procedure for foreclosure in event of a default is established by the secured mortage instrument.

Mortgage Life Insurance: A type of term life insurance often bought by mortgagors. The coverage decreases as the mortgage balance declines. If the borrower dies while the policy is in force, the debt is automatically covered by insurance proceeds.

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 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.

Origination Fee: A fee or charge for work involved in evaluating, preparing, and submitting a proposed mortgage loan charged the borrower by the lending institution. The fee is limited to 1 percent for FHA and VA loans.

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

PITI: Principal, interest, taxes and insurance.

Planned Unit Development (PUD): A zoning designation for property developed at the same or slightly greater, overall density than conventional development; sometimes with improvements clustered between open, common areas. Uses may be residential, commercial or industrial.

Point: An amount equal to 1 percent 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. Not allowed by FHA or VA loans.

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

Promissory Note: Following a loan commitment from the lender, the borrower signs a note promising to repay the loan under stipulated terms. The promissory note establishes personal liability for its repayment.

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.

Real Property: Land and whatever by nature or artificial annexation is a part of it.

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.

Special Assessment: Legal charge against real estate by a public authority to pay cost of public improvements such as: street lights, sidewalks, street improvements, etc.

Sub-Division: A parcel of land that has been divided into smaller parts.

Tenancy in Common: A type of ownership by two or more persons who hold undivided interest; without right of survivorship; interests need not to be equal.

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

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

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