

Real Estate Glossary

While many terms in real estate are universal throughout the nation, for example "title insurance," which protects your property against hidden liens or potential ownership issues, always means "title insurance," words describing or relating to the same thing often differ considerably in various parts of the country. For example, "closing" in one area is sometimes called a "settlement" or "escrow" in another.

While this glossary is intended to provide accurate explanations and definitions for some of the most common real estate terms, this page is not exhaustive and may not be 100 percent accurate in all jurisdictions. These definitions are for general purposes only and should not be used for legal purposes. Please consult with your local title company, real estate agent or lender.

ABSTRACT - An abbreviation of the cardinal aspects of all recorded deeds, mortgages, leases and other instruments affecting the title to a particular piece of land.

ABSTRACTING - The process of making and compiling an abstract.

ABTRACTER - The person or company engaged in making abstracts.

ACCELERATION CLAUSE – A clause in your mortgage which allows the lender to demand payment of the outstanding loan balance for various reasons. The most common reason for accelerating a loan is if the borrower defaults on the loan or transfers title to another individual without informing the lender.

ADJUSTABLE-RATE MORTGAGE – Adjustable-Rate Mortgages (ARM's) are mortgages on which the interest rate and monthly payment will change periodically, according to corresponding fluctuations in an index. All ARM's are tied to indexes. The main difference among ARM programs is the length of the initial fixed interest rate period.

ADJUSTMENT DATE – The date the interest rate changes on an ARM.

ADVERSE POSSESSION - The unauthorized occupation of land belonging to another, by a person who does not have the consent of the owner. Said occupier is said to hold possession adversely to the rights and interests of the owner. In most states, by operation of law, title to the land becomes vested in such occupier after a fixed number of years of peaceful occupancy.

AMORTIZATION - This term has developed through French and Old English from the Latin words "mors" or "mort" meaning death or dead. It is the killing off of an existing debt by regular partial payments. The word "mortgage" is also derived from the same Latin root. The loan payment consists of a portion which will be applied to pay the accruing interest on a loan, with the remainder being applied to the principal. Over time, the interest portion decreases as the

loan balance decreases, and the amount applied to principal increases so that the loan is paid off (amortized) in the specified time.

AMORTIZATION SCHEDULE – A table which shows how much of each payment will be applied toward principal and how much toward interest over the life of the loan. It also shows the gradual decrease of the loan balance until it reaches zero.

AMOUNT FINANCED – This figure is used to calculate your APR. It represents your loan amount minus any prepaid finance charges (i.e., the sum of “Amount Financed” and “Finance Charge”) assuming you kept the loan to maturity and made only the required monthly payments.

APR - Annual Percentage Rate. The yearly interest percentage of a loan as expressed by the actual rate of interest paid. There are two interest rates applicable to your loan: (i) your Actual Interest Rate and (ii) your Annual Percentage Rate. Your Actual Rate is the annual interest rate of your loan (sometimes referred to as the “note rate”), and is the rate used to calculate your monthly payments. The amount of interest you pay, as determined by your Actual Rate, is only one of the costs associated with your loan . . . there may be others. The Annual Percentage Rate (referred to as the “APR”) encompasses both your interest and any additional costs or prepaid finance charges you may pay such as prepaid interest (necessary to adjust your first payment if you close mid-month), private mortgage insurance, closing fees, points, etc. Your APR represents the total cost of credit on a yearly basis after all charges are taken into consideration. It will usually be slightly higher than your Actual Rate because it includes these additional items and assumes you will keep the loan to maturity.

In other words, it is not the note rate of your loan. It is a value created according to a government formula intended to reflect the true annual cost of borrowing, expressed as a percentage. It works sort of like this, but not exactly, so only use this as a guideline: deduct the closing costs from your loan amount, then using your actual loan payment, calculate what the interest rate would be on this amount instead of your actual loan amount. You will come up with a number close to the APR. Because you are using the same payment on a smaller amount, the APR is always higher than the actual rate on your loan.

APPLICATION – The form used to apply for a mortgage loan, containing information about a borrower’s income, savings, assets, debts and more.

APPLICATION FEE – Some lenders charge an “Application Fee” for accepting and reviewing your loan application.

APPRAISAL - An written justification of value of the property from analysis of facts about the property; an opinion of value. Based upon an analysis of comparable sales of similar homes nearby.

APPRAISED VALUE – An opinion of a property’s fair market value, based on an appraiser’s knowledge, experience, and analysis of the property. Since an appraisal is based primarily on

comparable sales, and the most recent sale is the one on the property in question, the appraisal usually comes out at the purchase price.

APPRAISER – An individual qualified by training, education, and experience to estimate the value of real property and personal property.

APPRECIATION – The increase in the value of a property due to changes in market conditions, inflation, or other causes.

ASSESSED VALUE OR ASSESSMENT – The valuation placed on property by a public tax assessor for the purposes of taxation.

ASSET – Items of value owned by an individual. Assets that can be quickly converted into cash are considered “liquid assets.” These include bank accounts, stocks, bonds, mutual funds, etc. Other assets include real estate, personal property, and debts owed to an individual by others.

ASSIGNMENT RECORDING FEE – After closing a lender may transfer your loan to a specialized loan “servicer” who handles the collection of your monthly payments. The Assignment Fee covers the cost of recording this transfer at the local recording office.

ATTORNEY'S OPINION - The written statement of an attorney setting forth what he believes to be the condition of a real estate title.

BALLOON MORTGAGE – A mortgage loan that requires the remaining principal balance be paid at a specific point in time. For example, a loan may be amortized as if it would be paid over a thirty year period, but requires that at the end of the tenth year the entire remaining balance must be paid.

BALLOON PAYMENT – The final lump sum payment that is due at the termination of a balloon mortgage.

BANKRUPTCY – By filing in federal bankruptcy court, an individual or individuals can restructure or relieve themselves of debts and liabilities. Bankruptcies are of various types, but the most common for an individual seems to be a “Chapter 7 No Asset” bankruptcy which relieves the borrower of most types of debts.

BILL OF SALE – A written document that transfers title of personal property. For example, if the seller of a property is leaving a lawn mower, window air conditioning units, etc. he would sign a bill of sale transferring that property to the purchaser.

BIWEEKLY MORTGAGE – A mortgage in which you make payments every two weeks instead of once a month. The basic result is that instead of making twelve monthly payments during the year, you make thirteen. The extra payment reduces the principal, substantially reducing the time it takes to pay off a thirty year mortgage. Note that there are independent companies that

encourage you to set up bi-weekly payment schedules with them on your thirty year mortgage. They charge a set-up fee and a transfer fee for every payment. Your funds are deposited into a trust account from which your monthly payment is then made, and the excess funds then remain the trust account until enough has accrued to make the additional payment which will then be paid to reduce your principal. You could save money by doing the same thing yourself, plus you have to have faith that once you transfer money to them that they will actually transfer your funds to the lender.

BOND MARKET – Usually refers to the daily buying and selling of thirty year treasury bonds. Lenders follow this market intensely because as the yields of the bonds go up and down, fixed rate mortgages do approximately the same thing. The same factors that affect the Treasury Bond market also affect mortgage rates at the same time. That is why rates change daily, and in a volatile market can and do change during the day as well.

BRIDGE LOAN – Not used much anymore, bridge loans are obtained by those who have not yet sold their previous property, but must close on a purchased property. The bridge loan becomes the source of their funds for the down payment. One reason for their fall from favor is that there are more and more second mortgage lenders now that will lend at a high loan to value. In addition, sellers often prefer to accept offers from buyers who have already sold their property.

BROKER - One who acts as an agent for another in negotiating sales or purchases in return for a fee or commission. Broker has several meanings in different situations. Most realtors are “agents” who work under a “broker.” Some agents are brokers as well, either working for themselves or under another broker. In the mortgage industry, broker usually refers to a company or individual that does not lend the money for the loans themselves, but broker loans to larger lenders or investors. As a normal definition, a broker is anyone who acts as an agent, bring two parties together for any type of transaction and earns a fee for doing so.

BROKERAGE - A fee or commission paid to a broker.

BUYDOWN – Usually refers to a fixed rate mortgage where the interest rate is “bought down” for a temporary period, usually one to three years. After that time and for the remainder of the term, the borrower’s payment is calculated at the note rate. In order to buy down the initial rate for the temporary payment, a lump sum is paid and held in an account used to supplement the borrower’s monthly payment. These funds usually come from the seller (or some other source) as a financial incentive to induce someone to buy their property. A “lender funded buy down” is when the lender pays the initial lump sum. They can accomplish this because the note rate on the loan (after the buy down adjustments) will be higher than the current market rate. One reason for doing this is because the borrower may get to “qualify” at the start rate and can qualify for a higher loan amount. Another reason is that a borrower may expect his earnings to go up substantially in the near future, but wants a lower payment right now.

CAP – Adjustable Rate Mortgages have fluctuating interest rates, but those fluctuations are usually limited to a certain amount. Those limitations may apply to how much the loan may

adjust over a six month period, an annual period, and over the life of the loan, and are referred to as "caps." Some ARM's, although they may have a life cap, allow the interest rate to fluctuate freely, but require a certain minimum payment which can change once a year. There is a limit on how much that payment can change each year, and that limit is also referred to as a cap.

CASH OUT REFINANCE – When a borrower refinances his mortgage at a higher amount than the current loan balance with the intention of pulling out money for personal use.

CERTIFICATE OF TITLE - In areas where attorneys examine abstracts or chains of title, a written opinion, executed by the examining attorney stating that title is vested as stated in the abstract.

CHAIN OF TITLE - Beginning with a conveyance out of an original source of title such as a government, each succeeding deed, will or other medium which conveys and transfers the title to succeeding owners constitutes a link in the chain of title. The chain of title is the composite of all such links.

CLAIM - A right to assert, or the assertion of, a demand for payment of money due; or the surrender or delivery of possession of property or the recognition or some right. A demand for something as one's rightful due.

CLEAR TITLE – A title that is free of liens or legal questions as to the ownership of the property.

CLOSING - In some areas called a "settlement." The process of completing a real estate transaction during which deeds, mortgages, leases and other required instruments are signed and/or delivered, an accounting between the parties is made, the money is disbursed, the papers are recorded, and all other details such as payment of outstanding liens and transfer of hazard insurance policies are attended to.

CLOSING COSTS – Closing costs are separated into what are called "non-recurring closing costs" and "pre-paid items." Non-recurring closing costs are any items which are paid just once as a result of buying the property or obtaining a loan. "Pre-paid" are items which recur over time, such as property taxes and homeowners insurance. A lender makes an attempt to estimate the amount of non-recurring closing costs and pre-paid items on the Good Faith Estimate which they must issue to the borrower within three days of receiving a home loan application.

CLOSING STATEMENT - A summation, in the form of a balance sheet, made at a closing, showing the amounts of debits and credits to which each party to a real estate transaction is entitled.

CLOUD ON TITLE - An irregularity, possible claim, or encumbrance which, if valid, would adversely affect or impair the title. These conditions are revealed by a title search and usually cannot be removed except by deed, release or court action.

CO-BORROWER – An individual who is both obligated on the loan and who is on title to the property.

COLLATERAL – In a home loan, the property is the collateral. The borrower risks losing the property if the loan is not repaid according to the terms of the mortgage or deed of trust.

COMMISSION - The amount due a real estate broker, mortgage loan broker, or real estate professional for services performed in such capacity.

CONDITIONS - This term is first cousin to restrictions and reservations. It refers to provisions in deeds and other real estate instruments which provisions make a particular right contingent upon the occurrence of some future event.

CONDOMINIUM – A real estate project in which each unit owner holds title to a unit in a building, an undivided interest in the common areas of the project, and sometimes the exclusive use of certain limited common areas. The condominium may be attached or detached. The homeowners association dues are included in the total monthly mortgage payment for qualifying purposes.

CONTINGENCY – A condition that must be met before the contract is legally binding.

CONTRACT - Same as "agreement," but usually more formal. An oral or written agreement to do or not so a certain thing.

COVENANT - A formal agreement or contract between two parties in which one party gives the other certain promises and assurances, such as covenants of warranty in a warranty deed.

CREDIT REPORT – On every loan transaction a credit report will be ordered to determine past credit history and outstanding liabilities. Prepared by a credit bureau and used by a lender in determining a loan applicant's creditworthiness.

DEED - A written document by which title to real estate is conveyed from one party to another.

DEED BOOK - A book among the public records in which deeds are recorded.

DEFAULT - Failure to perform a promised task or to pay an obligation when due.

DEFECT - A blemish, imperfection or deficiency. A defective title is one that is irregular and faulty.

DEPRECIATION - Loss in value occasioned by ordinary wear and tear; destructive action of the elements; or functional or economic obsolescence.

DISCOUNT POINTS – The term “point” refers to one percent of the loan amount. You may pay “points” at closing to lower the interest rate on your loan. The more points you pay, the lower your rate.

DUE ON SALE PROVISION – A provision in a mortgage that allows the lender to demand repayment in full if the borrower sells the property that serves as security for the mortgage.

EARNEST MONEY - Down payment or a small part of the purchase price made by a purchaser as evidence of good faith.

EASEMENT - A right held by a person to enjoy or make limited use of another's real property.

EGRESS - The right to a path or right-of-way over which a person may leave or go away from his own real estate.

EJECTMENT - (1) Eviction or dispossession. (2) A law suit to regain possession of real estate held by another.

EMINENT DOMAIN - The right of a government to take privately owned property for public purposes under condemnation proceedings upon payment of its reasonable value.

ENCROACHMENT - The extension of a structure from the real estate to which it belongs across a boundary line and onto adjoining property.

ENCUMBRANCE - A claim, right, or lien upon the title to real estate, held by someone other than the real estate owner.

ENDORSEMENT - Addition to or modification of a title insurance policy which expands or changes coverage of the policy, fulfilling specific requirements of the insured.

ESCROW - Technically, this term strictly refers to a deed delivered to a third person to be held by him until the fulfillment or performance of some act or condition by the grantee. In title industry parlance it means the depositing with an impartial third party called the escrow agent (usually the title company) of anything pertaining to a real estate transaction including money and documents of all kinds which are to be disbursed and delivered to the rightful parties by the escrow agent when all conditions of the transaction have been met.

ESCROW AGREEMENT - A written agreement usually made between buyer, seller, and escrow agent, but sometimes only between one person and the escrow agent. It sets forth the conditions to be performed incident to the object deposited in escrow, and gives the escrow agent instructions with respect to the disposition of the object so deposited.

ESTATE - (1) A sizable piece of rural land usually with a large house and other pretentious improvements. (2) The whole of one's possessions, especially all of the property, assets, debts,

and liabilities left by a deceased or bankrupt person. (3) The nature and extent of an owner's rights in real estate.

EXAMINATION - In title industry terms, to peruse and study the instruments in a chain of title and to determine their effect and condition in order to reach a conclusion as to the status of the title.

EXAMINER - Usually referred to, in title industry terms, as title examiner. One who examines and determines the condition and status of real estate titles.

FEE SIMPLE - The highest degree of ownership which a person can have in real estate. An interest in real estate which gives the owner unqualified ownership and full power of disposition.

FIRST MORTGAGE - A mortgage having priority as a lien over any other mortgage or lien on the same property.

FLOAT – The interest rate will continue to change, or float, due to market fluctuations, until it is locked with the lender.

FORECLOSURE - A legal proceeding for the collection of real estate mortgages and other types of liens on real estate, which results in cutting off the right to redeem the mortgaged property and usually involves a judicial sale of the property to pay the mortgage debt.

GENERAL WARRANTY - A warranty provision in a deed or mortgage or other real estate instrument containing all of the common law items of warranty. Also known as a full warranty.

GOOD FAITH ESTIMATE - An estimate of closing costs the lender is required (under the federal Real Estate Settlement Procedures Act) to give to the buyer within at least three days of applying for a mortgage loan. This is the lender's estimate - it must be completely accurate regarding the lender's own charges and is supposed to be reasonably close to the charges third-party providers such as title insurers/agents, attorneys, surveyors, etc., may charge. You should check with those third-party providers, however, regarding how much they will charge if you have any questions or concerns prior to settlement.

HAZARD INSURANCE - Real estate insurance protecting against fire, some natural causes, vandalism, etc., depending upon the policy. The buyer often adds liability insurance and extended coverage for personal property.

HEIR - A person who inherits or who is entitled to inherit real estate by provisions of law or under the provisions of a will.

HOMEOWNERS ASSOCIATION – A nonprofit association that manages the common areas of a planned unit development (PUD) or condominium project.

HOMEOWNERS INSURANCE – An insurance policy that combines personal liability insurance and hazard insurance coverage for a dwelling and its contents.

HOMEOWNERS WARRANTY – A type of insurance often by the homebuyers that will cover repairs to certain items, such as heating or air conditioning, should they break down within the coverage period. The buyer often requests the seller to pay for this coverage as a condition of the sale, but either party can pay.

HUD-1 SETTLEMENT STATEMENT – A document that provides a itemized listing of the funds that were paid at closing. Items that appear on the settlement statement include real estate commissions, loan fees, points, and initial escrow amounts. Each type of expense goes on a specific numbered line. The total at the bottom of the HUD-1 statement define the seller’s net proceeds and the buyer’s net payment at closing. The HUD-1 is also known as the “closing statement” or “settlement sheet.”

HOME EQUITY LINE OF CREDIT – A home equity line of credit is a credit line that is kept open and restored as you pay off what is owed. An equity line of credit also has a high credit limit similar to a credit card that you are allowed to draw upon as needed.

INGRESS - The right or permission to enter; also the means or place of entry such as a right-of-way across adjoining land.

INTESTATE - Dying without leaving a legal will.

JOINT TENANTS - Two or more persons who hold title to real estate jointly, with equal rights to share in its enjoyment during their respective lives with the provision that upon the death of a joint tenant, his share in the property passes to the surviving tenants, and so on, until the full title is vested in the last survivor. A joint tenant cannot legally sell or encumber his interest without the consent or joinder of all of the other joint tenants.

JUDGMENT - A conclusion or determination by a court of law usually awarding the payment of money or relief of some kind to one of the parties to a lawsuit.

LEASE - An agreement granting the use or occupancy of land during a specified period in exchange for rent.

LIEN - The liability of real estate as security for payment of a debt. Such liability may be created by contract, such as a mortgage, or by operation of law, such as a mechanics lien.

LIS PENDENS - A pending lawsuit. A lis pendens notice is legal notice to the world that a lawsuit is pending.

LOAN POLICY - A policy of title insurance issued to the mortgage lender insuring against loss by defects in, liens against, or unmarketability of title.

MARKETABLE TITLE - A title which a court of equity considers to be so free of material defects and liens that it will force the title's acceptance by questioning purchaser. Also known as a merchantable title.

MARKET VALUE - An average between the highest price which a buyer, willing but not compelled to buy, would pay and the lowest price a seller, willing, but not compelled to sell, would accept.

MECHANIC'S LIEN - A lien on real estate, created by operation of law, which secures the payment of debts due to persons who perform labor or services or furnish materials incident to the construction of buildings and improvements on the real estate.

METES AND BOUNDS - A land description in which boundaries are described by courses, directions, distances, and monuments.

MORTGAGE - A temporary conditional pledge of property to a creditor as security for the payment of a debt which may be cancelled by payment.

OPINION - In title industry terms, referred to as title opinion. The conclusion and judgment of a skilled person as to the status of a title, based upon a title examination.

OWNER'S POLICY - A policy of title insurance usually insuring an owner of real estate against loss occasioned by defects in, liens against, or unmarketability of the owner's title.

POWER OF ATTORNEY - A legal instrument authorizing one to act as another's agent or attorney.

PREMIUM - (1) The amount payable for an insurance policy. (2) A sum of money or bonus paid in addition to the regular price.

PROBATE - A legal procedure in which the validity and probity of a document, such as a will, is proven.

PROMISSORY NOTE - A written promise to pay or repay a specified sum of money at a stated time, or on demand, to a named person. In addition to the payment of principal, a promissory note usually provides for the payment of interest.

PUBLIC RECORDS - The transcriptions in a recorder's office of instruments which have been recorded, including the indexes pertaining to them.

QUIET TITLE SUIT - A lawsuit brought by an owner of real estate for the purpose of cancelling, wiping out, and putting a quietus upon supposedly immaterial, inconsequential, and unenforceable claims and interests which cloud his title.

QUIT CLAIM DEED - A deed which does not imply that the grantor holds title, but which surrenders and gives to the grantee any possible interest or rights which the grantor may have in the property.

REALTOR - A copyrighted trade name which can be legally used only by those persons belonging to the National Association of Realtors.

RECORD TITLE - The aspects of a title which appear in the public records as distinguished from unrecorded title aspects and interests.

REFINANCE RATE - When referring to title insurance, the refinance rate is the reduced rate for a Loan Policy issued on the new loan in a refinance transaction, in which the original loan was previously insured within some period of years

RIGHT OF WAY - (1) The right to pass over property owned by another, usually based upon an easement. (2) A path or thoroughfare over which passage is made. (3) A strip of land over which facilities such as highways, railroads, or power lines are built.

RIPARIAN RIGHTS - The many rights of a person in, to, and over the banks, bed, shallows, shore, and water of a stream or body of water upon which his land borders.

SEARCH - In title industry terms, a careful exploration and perusal of the public records in an effort to find all recorded instruments relating to a particular chain of title.

SECOND MORTGAGE - A mortgage ranking in priority immediately below a first mortgage.

SIMULTANEOUS ISSUE RATE - When referring to title insurance, the simultaneous issue rate is the reduced rate for a Loan Policy or Owner's Policy of title insurance issued on the same property or loan at the same time as another policy. The term usually refers to a Loan Policy issued at the same time as an Owner's Policy when a property is purchased

SPECIAL WARRANTY DEED - A deed which warrants the title only with respect to acts of the seller and the interests of anyone claiming by, through, or under him.

SUBDIVISION - An area of land laid out and divided into lots, blocks, and building sites, and in which public facilities are laid out, such as streets, alleys, parks, and easements for public utilities.

SURVEY - (1) To determine the location, boundaries, area, or the elevations of land and structures upon the earth's surface by means of courses in relation to the North Star, and the measuring of angles and distances by using the techniques of geometry and trigonometry. (2) The map or plat drawn by a surveyor which represents the property surveyed and shows the results of a survey.

TAX LIEN - The lien which is imposed upon real estate by operation of law which secures the payment of real estate taxes.

TENANCY BY ENTIRETIES - An estate or interest in real estate predicated upon the legal fiction that a husband and wife are one person. A conveyance or devise to them (unless contrary intent is expressed) vests title in them as one person. Upon the death of either husband or wife, full title passes to the survivor.

TENANT - (1) Usually one who holds possession of real estate under a lease. (2) In a broader sense, one who holds or possesses lands and tenements by any kind of title.

TENANTS IN COMMON - Two or more persons in whom title to a single piece of real estate is vested in such a manner that they have a common or equal right to possession and enjoyment of the property, but each holds a separate individual interest or estate in the property. Each owner may sell or encumber his respective interest or dispose of it by will, and if he dies without leaving a will, his heirs inherit his undivided interest.

THIRD PARTY - A term usually applied to persons who are not principal parties to a contract or other instrument, but who have some right, interest or duty which such contract or instrument affects. For example, where a sale contract between buyer and seller of real estate provides that the money and documents involved in the transaction will be deposited with a title company pending the closing of the deal, the title company becomes a third party to the transaction.

TITLE - (1) A combination of all the elements that constitute the highest legal right to own, possess, use, control, enjoy, and dispose of real estate or an inheritable right or interest therein. (2) The rights of ownership recognized and protected by the law.

TITLE COVENANTS - Covenants ordinarily inserted in conveyances and in transfers of title to real estate for the purpose of giving protection to the purchaser against possible insufficiency of the title received. A group of such covenants known as "common law covenants" includes: (a) covenants against encumbrances; (b) covenant for further assurance (in other words, to do whatever is necessary to rectify title deficiencies); (c) covenant of good right and authority to convey; (d) covenant of quiet enjoyment; (e) covenant of seisin; (f) covenant of warranty.

TITLE DEFECT - (1) Any possible or patent claim or right outstanding in a chain of title which is adverse to the claim of ownership. (2) Any material irregularity in the execution or effect of an instrument in the chain of title.

TITLE EXAMINATION - (See [Examination](#).)

TITLE INSURANCE - Indemnity against loss resulting from defects in or liens upon a title.

TITLE SEARCH - A search and perusal of the public records for recorded instruments which affect the title to a particular piece of land.

TITLE SEARCHER - One who searches titles in the land records.

UNDERWRITER - An insurance company which issues insurance policies either to the public or to another insurer.

WAIVER - The voluntary and intentional relinquishment of a known right, claim, or privilege.

WARRANTY DEED - A deed containing one or more title covenants.