AGENCY OPERATIONS

GLOSSARY OF TERMS

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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, the variable rate mortgage, or the graduated rate mortgage.

Amortization: This is the process of combining both interest and principal in payments, rather than simply paying off interest at the start. This allows you to build equity in the home early on.

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 costs. The APR allows homebuyers to compare different types of mortgages based on the annual cost for each loan.

Appraisal: In order to get a loan form a bank to buy a home, you first need to get the home apraised so the bank can be sure they are lending the correct amount of money. The appraiser will determine the value of the home based on an examination of the property itself, as well as the sale price of comparable homes in the area.

Assessed Value: This is how much a home is worth according to a public tax assessor who makes that determination in order to figure out how much city or state tax the owner owes.

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.

Buyer's Agent: This is the agent who represents the buyer in the home-buying process. On the other side is the listing agent, who represents the seller.

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.

Cash Reserves: The cash reserves is the money left over for the buyer after the down payment and the closing costs.

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

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

Closing Costs: In addition to the final price of a home, there are also closing costs, which will typically make up about two to five percent of the purchase price, not including the down payment. Examples of closing costs include loan processing costs, title insurance, and excise tax.

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.

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

Comparative Market Analysis: Comparitive market analysis (CMA) is a report on comparable homes in the area that is used to derive an accurate value for the home in question.

Contingencies: A term refers to conditions that have to be met in order for the purchase of a home to be finalized. For example, there may be contingencies that the loan must be approved or the appraised value must be near the final sale price.

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

Discount Point: An additional charge 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.

Dual Agency: Dual agency is when one agent represents both sides, rather than having both a buyer's agent and a listing agent.

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

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

Escrow: Escrow is an account that the lender sets up that receives monthly payments from the buyer.

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.

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

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

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 outright ownership and full power disposition.

Fixed-rate Mortgage: There are two types of conventional loans: the fixed-rate and the adjustable-rate mortgage.
In a fixed-rate mortgage, the interest rate stays the same throughout the life of the loan.

Home Warranty: This warranty protects from future problems to things such as plumbing and heating, which can be extremely expensive to fix.

Inspection: Home inspections are required once a potential buyer makes an offer. Typically, they cost a few hundred dollars. The purpose is to check that the house's plumbing, foundation, appliances, and other features are up to code. Issues that my turn up during an inspection may factor into the negotiation on a final price. Failing to do an inspection may result in surprise costly repairs down the road for the home buyer.

Interest: This is the cost of borrowing money for a home. Interest is combined with principal to determine monthly mortgage payments. The longer a mortgage is, the more you will pay in interest when you have finally paid off the loan.

Joint Tenancy: An equal undivided ownership of property by two or more persons. Upon the 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.

Listing: A listing is essentially a home that is for sale. The term gets its name from the fact that these homes are often "listed" on a website or in a publication.

Listing Agent: This is the agent who represents the seller in the home-buying process. On the other side is the buyer's agent, who represents the buyer.

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.

Mortgage Banker: A mortgage banker works for a bank or similar lending institution which actually provides you the money for the loan. The banker will be the liason between you and the lending institution and will manage all aspects of the loan process.

Mortgage Broker: A mortgage broker doesn't represent one institution, but works with many to shop for a loan for a specific individual. The broker is a middleman between you and the lender and will manage all aspects of the loan process.

Negative Amortization: This 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 outstanding 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.

Offer: This is the initial price offered by a prospective buyer to the seller. A seller may accept the offer, reject it, or counter with a different offer.

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

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

Pre-approval letter: Before buying a home, a buyer can obtain a pre-approval letter from a bank, which provides an estimate on how much the bank will lend that person. This letter will help determine what the buyer can afford.

Principal: The principal is the amount of money borrowed to purchase a home. Paying off the principal allows a buyer to build equity in a home. Principal is combined with interest to determine the monthly mortgage payment.

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

Private Mortgage Insurance (PMI): If 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®.

Refinancing: Refinancing is when you restructure your home loan, replacing your old loan with an entirely new loan that has different rates and payment structures. The main reason people refinance their home loans is to get a lower interest rate on their mortgage, and therefore lower not only the monthly payments but also the overall debt owed.

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 the right of survivorship – interests need not be equal.

Title Insurance: Title insurance is often required as part of the closing costs. It covers research into public records to ensure that the title is free and clear, and ready for sale. If you purchase a home and find out later that there are liens on the home, you'll be glad you had title insurance.

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 nonjudicial 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.