Glossary

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A-Credit: A credit score above 720. Borrowers with a score in this range usually receive rates from the lender that are the industry's lowest.

Abatement: Stopping or reducing of amount or value, as when assessments for ad valorem taxation are abated after the initial assessment has been made.

Absentee landlord: An owner of an interest in income-producing property who does not reside on the premises and who may rely on a property manager to oversee the investment.

Absolute fee simple title (Fee simple): A title that is unqualified; the best title one can obtain; conveys the highest bundle of rights.

Absorption analysis: A study of the number of units of residential or nonresidential property that can be sold or leased over a given period of time in a defined location.

Abstract: A summary; an abridgement. Before the use of photostatic copying, public records were kept by abstracts of recorded documents.

Abstract of Title: A condensed history of the title, consisting of a summary of the various links in the chain of title, together with a statement of all liens, charges, or encumbrances affecting a property.

Abstracter's certificate: A certificate contained in an abstract which shows the time period and scope of the search of public records done by the abstracter.

Abstraction: Method of finding land value in which all improvement costs (less depreciation) are deducted from sales price; also called extraction.

Abusus: The right of the owner to the proceeds from the sale of the property.

Accelerated depreciation: A method for calculating depreciation that allows larger deductions to be made in the early years of the economic life of an improvement, with a decrease in deductions in later years. Not available for real estate purchased after January 1, 1987.

Acceleration: Declaring a loan's entire balance immediately due and payable, either because the borrower has defaulted or (if the loan includes an alienation clause) has sold the security property without the lender's approval.

Acceleration clause: A clause within a mortgage or deed of trust stating the entire loan balance is immediately due from the borrower should they default under the terms and stipulation of the mortgagee. The lender has the legal right to call the loan and have full payment of the balance should the borrower fail to pay the loan under the terms of the mortgage note.

Access: A way to enter and leave a tract of land, sometimes by easement over land owned by another. (See also egress and ingress.)

Accessibility: The relative ease of entrance to a property by various means, a factor that contributes to the probable most profitable use of a site.

Accessory buildings: Structures on a property, such as sheds and garages, that are secondary to the main building.

Accretion: An addition to the land through natural causes, usually by change in water flow.

Accrual basis: In accounting, a system of allocating revenue and expense items on the basis of when the revenue is earned or the expense incurred, not on the basis of when the cash is received.

Accrued depreciation: (1) For accounting purposes, total depreciation taken on an asset from the time of its acquisition. (2) For appraisal purposes, the difference between reproduction or replacement cost and the appraised value as of the date of appraisal.

Accrued expenses: Expenses incurred that are not yet payable. In a closing statement, the accrued expenses of the seller typically are credited to the purchaser (taxes, wages, interest, etc.).

Accrued interest: Interest that is earned on the mortgage loan under the terms of the note but not yet paid by the borrower

Accrued items of expense: Expenses that have been incurred but are not yet due or payable; in a settlement statement, the seller's accrued expenses are credited to the buyer.

Acknowledgment: A declaration by the grantor of a deed before a notary or other authorized person attesting that the grantor's identity and signature are genuine, and that the deed execution was a free, voluntary act. The grantor then receives a certificate of acknowledgment signed by the notary.

Acquisition appraisal: A market value appraisal of property condemned or otherwise acquired for public use, to establish the compensation to be paid to the owner.

Acquisition cost: The purchase price or appraised value of the property plus the estimated closing costs.

Acquisitive prescription: Taking title to land against the real owner, where possession has been for the statutory period of 30 years if in "bad faith," or 10 years if in "good faith" with color of title.

Acre: A measure of land equal to 43,560 square feet.

Action to quiet title: A court action to establish ownership to real property. Although technically not an action to remove a cloud on title, the two actions are usually referred to as "Quiet Title" actions.

Active income: Income acquired in the pursuit of a taxpayer's main occupation.

Actual/Actual (A/A): A type of remittance requiring the lender to remit to Fannie Mae only principal and interest payments actually collected from borrowers. Compare with Scheduled/actual and Scheduled/scheduled.

Actual age: Chronological Age.

Actual notice: Direct knowledge; anything of which a person has first hand knowledge.

Ad hoc: Latin meaning "for this". For single purpose only.

Add-on interest: A method of computing interest whereby interest is charged on the entire principal amount for the specified term, regardless of any periodic repayments of principal that are made.

Adjustable rate mortgage (ARM): A mortgage that allows a periodic change in interest rate, after an initial period, by the lender. Most ARMs base rate changes on a pre-selected interest rate index over which the lender has no control. These are "indexed ARMs." There is no discretion associated with rate changes on indexed ARMs. ARMs are sometimes referred to as variable rate mortgages.

Adjusted book basis: The purchase price of a property plus any capital improvements less accrued depreciation, if any, to the date of the sale.

Adjustment: Decrease or increase in the sales price of a comparable property to account for a feature that the property has or does not have in comparison with the subject property.

Adjustment date: The date the interest rate changes on an ARM (adjustable rate mortgage).

Adjustment interval: On an ARM, the time between changes in the interest rate or monthly payment. The interval is often displayed in x/y format, where "x" is the period until the first adjustment, and "y" is the adjustment period thereafter. For example, a 3/1 ARM is one on which the initial rate holds for three years, after which it is adjusted every year. The most common adjustment intervals are one, three or five years on a fully amortizing ARM.

Adjustment period: The length of time between interest or payment rate change on an ARM.

Administrator: A person appointed by the court to administer the estate of a deceased person who died intestate.

Administratrix: Female administrator.

Ad Valorem: "According to value". A method of taxation using the value of the thing taxed to determine the amount of tax. Taxes can be either "Ad Valorem" or Specific". Example: A tax of $5.00 per $1000.00 of value per house is "Ad Valorem". A tax of $5.00 per house (irrespective of value) is "Specific".

Advance commitment: A written promise to make an investment at some time in the future if specified conditions are met.

Adverse land use: A land use that has a detrimental effect on the market value of nearby properties.

Adverse possession: The right of an occupant of land to acquire title against the real owner where possession has been actual, continuous, hostile, visible, and distinct for the statutory period (called acquisitive prescription in LA).

Aesthetic value: Relating to beauty, rather than to functional considerations.

Affiant: One who makes an affidavit. Also called a deponent, although technically not the same.

Affidavit: A sworn statement in writing before a proper official, usually a notary. See Acknowledgment.

Affirmation: A substitution for an oath when a person objects to taking an oath (Quakers, atheists, etc.). A lie after an affirmation is still perjury.

Affordability: A consumer's capacity to afford a house. Affordability is usually expressed in terms of the maximum price the consumer could pay for a house, and be approved for the mortgage required to pay that amount.

After-acquired property: Property acquired after the execution of a security agreement and that will serve as additional security for the underlying debt.

Age, actual: The age of a structure from a chronological standpoint (as opposed to its effective age); how many years it has actually been in existence.

Age, effective: The age of a structure indicated by its condition and remaining usefulness (as opposed to its actual age).

Age-life method of depreciation: A method of computing accrued depreciation in which the cost of a building is depreciated at a fixed annual percentage rate: also called the straight-line method.

Age-Life tables: Tables showing estimated economic life for various types of structures.

Agency: A relationship created when one person, the principal, delegates to another, the agent, the right to act on his or her behalf in business transactions and to exercise some degree of discretion while so acting.

Agency by Estoppel: An agency created by operation of law when an agent oversteps his or her authority but the action (or failure to act) by the principal leads one to believe the authority exists.

Agent: One who represents another from whom he has derived authority. In a listing agreement, the broker is the agent, and the salesperson is a sub-agent.

Agent Disclosure: A required disclosure of the types of agency relationship available and the licensee's duties in each type of relationship in a residential transaction. The licensee must disclose the licensee’s agency status before the potential buyer or seller reveals any confidential information to the licensee.

Agglomeration: Gathering in one ownership properties that belong to a number of owners.

Agreement for sale: A written document in which the purchaser agrees to buy certain real estate (or personal property) and the seller agrees to sell under stated terms and conditions. It is also called sales contract, binder, or earnest money contract.

Agreement of sale: A contract signed by buyer and seller stating the terms and conditions under which a property will be sold.

Aggregate: In statistics, the sum of all individuals, called variates.

Air rights: The rights to all or any portion of the space above the ground.

Alienation: Transference of real property from one person to another.

Alienation clause: A provision in a security instrument that gives the lender the right to accelerate the loan if the borrower sells the property or transfers a significant interest in it without the lender's approval; also called a due-on-sale clause.

All-inclusive income: Another name for a wraparound loan.

All-Inclusive trust deed: A deed of trust used for wraparound financing.

Allocation method: An evaluation based on the assumption that a certain percent of the value is attributable to land and the balance to improvements.

Allodial system: Land ownership free and clear of any rent or service due the government; the basis of real property law in the United States.

Allowance for vacancy and collection losses: The percentage of potential gross income that will be lost due to vacant units, collection losses, or both.

Alluvion: The increase of soil on a shore or bank of a river as the result of accretion.

Alt - A: A mortgage risk categorization that falls between prime and sub-prime, but is closer to prime; also referred to as "A minus".

Alternative documentation: The use of pay stubs, W-2 forms, and bank statements in lieu of Verifications of Employment (VOE) and Verifications of Deposit (VOD) to qualify a borrower for a mortgage. Alternative documentation is equivalent to 'full documentation," but is an expedited and simpler documentation requirement designed to speed up the loan approval process. Instead of verifying employment with the applicant's employer and bank deposits with the applicant's bank, the lender will accept paycheck stubs, W-2s, and the borrower's original bank statements.

Alternative minimum tax: Required if its application to the taxpayer's special preference items exceeds the regular tax amount.

Alternative mortgage instrument: Any one of the various new mortgage loans that is different from a traditional mortgage because the monthly payment, interest rate, term or other provisions are changed in an agreed-upon manner.

Amendment: A change, either to correct an error or to alter a part of an agreement without changing the principal idea or essence.

Amenity: An aspect of a property that enhances its value. Examples are off-street reserved parking within a condominium community, the nearness of good public transportation, tennis courts, or a swimming pool.

American Land Title Association (ALTA): A national association of title insurance companies, abstractors, and attorneys specializing in real property law. The association speaks for the title insurance and abstracting industry and establishes standard procedures and title policy forms.

Amortize: To structure loan payments so that a series of level payments, including principal and interest, will retire the debt in full at the end of the loan term.

Amortization: The systematic and continuous payment of an obligation through installments until the debt has been paid in full. The payments are calculated so that the debt is paid off at the end of a fixed period. Literally "killing off" (root: mort) the outstanding balance of a loan by making equal payments on a regular schedule (usually monthly). The payments are structured so that the borrower pays both interest and principal with each equal payment. Initial payments consist of more interest paid than principal, with each subsequent payment increasing in principal paid and decreasing in interest paid. The scheduled payment less the interest equals amortization. The loan balance declines by the amount of the scheduled payment, plus the amount of any extra payment. If the payment is less than the interest due, the balance rises, which is called negative amortization.

Amortization schedule: A table showing the monthly mortgage payment of principle, interest, escrow amount of property tax and insurance payments, and loan balance for the full term if the loan.

Amount financed: The loan amount applied for by the borrower less "prepaid finance charges" from the Good Faith estimate. For example, if the loan is for $100,000 and the pre-paid finance charges (PFC) are $4,000 in fees, the amount financed is $96,000.

Anchor tenant: The most reliable, and usually the largest, tenant in a shopping center. The strength of the anchor tenant greatly effects the availability of financing for the shopping center. The term may also be used to describe a tenant in an office building, industrial park, etc.

Ancillary probate: Process of settling an estate when property is located in a state other than the deceased's main residence.

Annexation: 1. The converting of personal property to real property by attaching it to real property, such as by installing cabinets in a kitchen. 2. A government entity's exercise of its right to own real property for public use and welfare by taking ownership of property adjacent to its existing property or by incorporating land outside its boundaries into the municipality

Annual percentage rate: An annual percentage figure that expresses total yearly cost of a mortgage as a result of the actual rate of interest paid. (See also APR)

Annual statement: An annual statement sent to mortgagors detailing all activity in their mortgage loan account, including all escrow activity.

Annuity: A series of income payments paid to the recipient over a number years or established intervals.

Annuity method: A method of capitalization that treats income from real property as a fixed, regular return on an investment. For the annuity method to be applied, the lessee must be reliable and the lease must be long term.

Anticipation: A component of value consisting of the benefits a buyer expects to derive from a property over a holding period. These anticipated benefits influence what the buyer is willing to pay for the property.

Anticipation, Principle of: An appraisal principle which holds that value is created by the expectation of benefits to be received in the future.

Anti-Deficiency Rules: Laws that prohibit a secured lender from suing the borrower for a deficiency judgment after foreclosure, in certain circumstances.

Application: A request for a loan or 'Form 1003' to be completed on each borrower when requesting a mortgage loan that includes information about the applicant's income, assets, debts, and the potential property.

Application fee: A fee that can be charged to the borrower at the time of application that may cover other fees associated with the loan, such as an appraisal or credit report. The fee is usually non-refundable and in no way guarantees a loan approval for the borrower.

Appraisal: A written estimate and professional opinion of a property's current fair market value prepared by a qualified licensed appraiser based on recent sales information of similar properties that are within an established radius of the subject property.

Appraisal amount or appraisal value: The fair market value of real estate provided by a licensed independent professional based on local sales of similar properties.

Appraisal by capitalization: Determining the value of property by dividing net annual income by the capitalization rate. Used on income producing properties.

Appraisal by cost approach: Estimating the value of a piece of property by adding to the estimated land value the estimate of the replacement cost or reproduction cost of the building, then deducting depreciation.

Appraisal by market data: An appraisal of property through the examination and comparison of actual sales of comparable properties.

Appraisal fee: A fee charged by a licensed appraiser for providing an appraisal report on a particular property in connection with a mortgage loan.

Appraisal Foundation: A nonprofit organization that sets forth appraiser qualifications and is responsible for the Uniform Standards of Professional Appraisal Practice.

Appraisal methods: The approaches used in the appraisal of real property. (See cost approach, income capitalization approach, sales comparison approach.)

Appraisal process: A systematic analysis of the factors that bear on the value of real estate; an orderly program by which the problem is defined; the work necessary to solve the problem is planned; the data involved are acquired, classified, analyzed, and interpreted into an estimate of value; and the value estimate is presented in the form requested by the client.

Appraisal report: The means that appraisers' value conclusions are communicated to the client.

Appraisal Standards Board: Created by The Appraisal Foundation and responsible for establishing minimum standards of appraisal competence.

Appraised value: An opinion of value reached by an appraiser based upon knowledge, experience, and a study of pertinent data.

Appraiser: A professional who has the knowledge of the real estate market and provides his/her expert opinion in the form of an appraisal for a residential or commercial property.

Appraiser Qualification Board: Created by The Appraisal Foundation and responsible for establishing minimum requirements for licensed and certified appraisers and licensing and certifying examinations.

Appreciation: An increase in property value over time (usually years) due to market fluctuation, scarcity of land, and/or inflation.

Approaches to value: Any of the following three methods used to estimate the value of real estate: cost approach, income capitalization approach, and sales comparison approach.

Appropriation: The private taking and use of public property, such as water from a river or lake. Not to be confused with condemnation or expropriation.

Approval: The lender's acceptance of the loan package submitted to them for underwriting. The initial borrower information must meet lender requirements and guidelines to receive an approval. The approval can be contingent on providing additional information such as an appraisal, title, insurance, and/or income information.

Appurtenance: That which has been added to a property, which becomes an inherent part of the property, and will pass with it when conveyed.

APR: The annual percentage rate is the percentage relationship of the total finance charge to the amount of the loan. The APR reflects the cost of the mortgage loan as a yearly rate and includes the interest rate, loan discount points, miscellaneous fees and mortgage insurance. It is also adjusted for the time value of money, so that dollars paid by the borrower up-front carry a heavier weight than dollars paid ten years down the road; however, the APR is calculated on the assumption that the loan runs to term, and is therefore potentially deceptive for borrowers with short time horizons.

Area: The surface (plane) space of land or a building. Also describes a neighborhood, or large land section (such as the Southern California area). The term may also indicate a use, such as a work area, living area, play area, etc.

ARM: An adjustable rate mortgage.

ARM margin: The spread (or difference) between the index rate and the interest rate of an adjustable-rate mortgage.

Arm's-length transaction: A transaction in which both buyer and seller act willingly and under no pressure, with knowledge of the present conditions and future potential of the property, and in which the property has been offered on the open market for a reasonable length of time and there are no unusual circumstances.

Arpent: A measurement of land in Louisiana based upon an old French measure, generally .84 of an acre (approx.).

Array: An arrangement of statistical data according to numerical size.

Asking price: The price at which the seller is offering property for sale. The eventual selling price may be less after negotiation with a buyer.

Assemblage: The acquisition of contiguous properties into one ownership for a specific use.

Assessed valuation: An assessment of property values by the government for the purpose of taxation.

Assessment: Determining a property's value for the purpose of taxation.

Assessor: One who estimates value of property for tax purposes.

Asset: Valuable items, encumbered or not, that can include savings and checking accounts, retirement, stocks, bonds, and or life insurance.

Assets, Liquid: Cash or other assets that can be readily turned into cash (liquidated), such as stock.

Assign: To transfer rights (especially contract rights) or interests to another.

Assignee: The person to whom an agreement or contract is transferred.

Assignment: The method or manner by which a right or contract is transferred from one person to another.

Assignment of contract and deed: The instrument used to substitute a new vendor for the original vendor in a land contract.

Assignment of mortgage: A document that evidences a transfer of ownership of a mortgage from one party to another.

Assignment of rents: An agreement between property owner and mortgagee specifically fixing the rights and obligations of each regarding rent transferred to a mortgagee if a mortgagor defaults.

Assignor: A party who assigns or transfers an agreement or contract to another.

Assumable loan: Loans where the responsibility of remaining mortgage payments is transferred from the current owner/seller to the buyer. The interest rate usually remains at the original percentage on the note. The original borrower can be released of the obligation if the transfer of ownership has been correctly provided by the title company.

Assumption: A method of selling real estate where the buyer of property agrees to make the remaining payments due on an existing mortgage. The seller still remains liable unless the transfer of ownership has been properly completed by the title company.

Assumption fee: The fee paid to a lender (usually by the purchaser of real property) resulting from the assumption of an existing mortgage.

Assumption of mortgage: Agreement by a buyer to assume to liability under an existing note secured by a mortgage or deed of trust. The lender usually must approve the new debtor in order to release the existing debtor (usually the seller) from liability.

Assumptions: Fact an appraiser assumes to be true but has not verified.

Assumptor: One who assumes a mortgage or deed of trust (usually a buyer).

Atrium: An interior court, centrally located in a structure, which is either uncovered or covered with a transparent or translucent material to admit light.

Attachment: A seizure of defendant's property by court order as security for any judgment a plaintiff may recover in a legal action.

Attest: To witness, to affirm to be true or genuine; to certify.

Attorney at Law: An advocate, counsel, or official agent employed in preparing, managing, and trying cases in court. Must be licensed by the state.

Attorney in Fact: One who is authorized to perform certain acts for another under a power of attorney.

Attractive nuisance: Anything on a property which may attract small children and is dangerous to them. Reasonable care must be used to prevent injury to the children.

Auction site: Lead-generation site

Audit: A verification and examination of records, particularly the financial accounts of a business or other organization.

Authorized user: Anyone authorized by the original credit card holder to use the holder's card. The cardholder is responsible for the charges of the authorized user, but the authorized user is not responsible for paying any charges, including his own. Sometimes authorized users are dunned for the unpaid bills of the card holder.

Automated underwriting: An online computer-driven process to obtain a preliminary underwriting decision based on initial borrower information. The decision is usually received within minutes and provides preliminary underwriting conditions needed for lender approval.

Automated underwriting system: A particular computerized system for doing automated underwriting. Mortgage insurers and several lenders have developed such systems, but the most widely used are Fannie Mae's "Desktop Underwriter" and Freddie Mac's "Loan Prospector".

Automated Valuation Model (AVM): A computer-generated residential property appraisal report.

Automatic guarantee: An approved mortgage lender can make a VA-guaranteed mortgage loan without any prior approval from the VA.

Average deviation: In statistics, the measure of how far the average individual, or variate, differs fro the mean of all variates.

Avulsion: The sudden removal of land of one owner and depositing on the land of another when a stream changes its channel.

B

Back-end fee or commission: Mortgage broker income paid by the lender, same as yield-spread premium and negative points.

Backfill: To replace ground removed by excavation for construction. Used to brace a structure (especially a foundation or footings).

Backup offer: A secondary offer to buy property, used in case the first (primary) offer fails. A backup offer is especially useful when the primary offer contains difficult contingencies.

Bad debt/vacancy factor: In the income approach to appraisal, a percentage deducted from a property's potential gross income, estimating the income that's likely to be lost because of vacancies and tenants that don't pay.

Bad-faith estimate: The practice of low-balling figures for settlement costs on the Good Faith Estimate, making them appear more attractive to mortgage shoppers.

Balance: The amount of the original loan remaining to be paid. It is equal to the loan amount less the sum of all prior payments of principal.

Balance, Principle of: The oversupply or undersupply of one type of real estate that affects the values of all of these properties in the market.

Balance sheet: A financial statement showing assets, liabilities, and the net worth as of a specific date.

Balloon: The loan balance remaining at the time the loan contract calls for full repayment.

Balloon mortgage: A fixed-rate mortgage for a set number of years that must be paid off in full in a single "balloon" payment at the end of the term. Balloon loans are popular with borrowers expecting to sell or refinance their property within a definite period of time. In most cases, the balance is refinanced with either the current lender or another lender. On a 7-year balloon loan, for example, the payment is usually calculated over a 30-year period, and the balance at the end of the 7th year must be repaid or refinanced at that time. Balloon mortgages are similar to ARMs in that the borrower trades off a lower rate of interest in the early years against the risk of a higher rate later. Balloon mortgages are riskier than ARMs because there is no limit on the extent of a rate increase at the end of the balloon period.

Balloon payment: The final lump sum payment that is made at the maturity date of a balloon mortgage.

Band of investment method: A method to determine capitalization rate by determining interest rates on liens and desired return for investor's equity.

Bank Insurance Fund (BIF): A fund under the control of the Deposit Insurance Corporation, which insures commercial bank and savings bank deposits.

Bankrupt: A person, firm or corporation who, through a court proceeding, is relieved from the payment of all debts after the surrender of all assets to a court-appointed trustee.

Bankruptcy: Legal relief from the payment of all debts and/or liabilities when person/persons are no longer able to repay after the surrender of all assets to a court-appointed trustee. Assets are distributed to creditors as full satisfaction of debts, with certain priorities and exemptions. A person, firm or corporation may declare bankruptcy under one of several chapters of the U. S. Bankruptcy Code: Chapter 7 covers liquidation of the debtor's assets; Chapter 11 covers reorganization of bankrupt businesses; Chapter 13 covers payment of debts by individuals through a bankruptcy plan. Borrowers who have undergone bankruptcy usually cannot qualify for "A" paper loans until after two years after declaration and a re-establishment of credit.

Bargain and Sale Deed: A deed in which the grantor covenants that the title is valid but may or may not warrant against encumbrances or promise to defend against claims by other parties. If there is a warrant of defense, the deed is a full warranty bargain and sale deed.

Baseline: (1) A survey line used in the government survey to establish township lines. The base line runs East and West through a principal meridian (line running North and South). (2) A horizontal elevation line used as the centerline in a survey for a highway route.

Baseline and Meridian: Imaginary lines used by surveyors in locating and describing land under the rectangular survey method. The north-south line is the meridian, the east-west line is the baseline.

Basement: Generally, the story of a building below ground level.

Base rent: The minimum rent payable under a percentage lease.

Base year: The year upon which a direct expense escalation of rent is based.

Basis: A measurement, for tax purposes, of how much is invested in a property. See *beginning basis*, *depreciable basis*.

Basis, adjusted: A property owner's initial basis in the property, plus capital expenditures for improvements, and minus any allowable cost recovery (depreciation) deductions.

Basis for depreciation: The value of property for purposes of depreciation. For example: A purchased asset- the basis is cost whether fully paid for or not. The method for determining the basis is different for gift, inheritance, etc.

Basis, initial: The amount of a property owner's original investment in the property; what it cost to acquire the property, which may include closing costs and certain other expenses, as well as the purchase price.

Basis point: A basis point is 1/100 of 1 percent interest; thus, 50 basis points equals ½ of 1 percent.

Basis risk: The risk that the price of a hedge tool will not move as expected relative to the market value of a hedged loan.

Basket Provision: A provision contained in the regulatory acts governing the investments of insurance companies, savings and loan associations, and mutual savings banks. It allows for a certain small percentage of total assets to be placed in investments not otherwise permitted by the regulatory acts.

Batt: A strip of insulation fitting closely between the studs of a wall.

Batture land: The land between a river bank and the water's edge when the water level is lower than normal.

Beam: A vertical or horizontal member of a structure; may be of wood, steel, concrete, or other strong material, and, unless decorative only, is a load-bearing part of the structure.

Beamed ceiling: A ceiling having one or more of its beams exposed.

Bearer: Whoever has possession of a negotiable instrument.

Bearer note: A banknote that is payable to the bearer on demand, rather than a special individual.

Bearer instruments: Checks, notes, drafts, bonds, etc., payable to whomever has possession of the instruments: i.e., the bearer.

Bearing wall: A wall which supports the weight of a part of a structure in addition to its own weight.

Bench mark: Surveying mark made in some object which is permanently fixed in the ground, showing the height of that point in relation to sea level. Used in topographic surveys and tidal observations.

Benchmark: The standard or base from which specific estimates are made.

Beneficiary: The person designated to receive the income from a trust estate or trust deed.

Bequeath: To transfer personal property by will.

Best faith estimate: An estimate of the total costs for securing a real estate loan that is given to borrowers prior to closing.

Betterments: Improvements to property made by tenants.

Bi: A prefix meaning both "every two" or "twice in". Biannual, for example, is twice in one year. Biennial is once every two years.

Bilateral (Reciprocal) contract: A contract in which both parties have reciprocal obligations towards each other.

Bill of Sale: A written document that transfers title of personal property.

Bi-monthly mortgage: A mortgage on which the borrower pays half the monthly payment on the first day of the month and the other half on the 15th.

Binder, insurance: A written evidence of temporary hazard or title coverage that only runs for a limited time and must be replaced by a permanent policy.

Biweekly mortgage: A mortgage on which the borrower pays half the monthly payment every two weeks. Because this results in 26 (rather than 24) payments per year, the biweekly mortgage amortizes before term. This significantly reduces the time in which the principal is paid off.

Blanket mortgage: A mortgage secured by the pledging of more than one property as collateral.

Blind ad: An ad (usually in a newspaper or magazine) which does not identify the party placing the ad. Often used in an ad for a job, asking that a resume be sent to a post office box.

Blockbusting: The discriminatory practice of encouraging members of one race to move into a neighborhood, and then persuading residents to sell their houses at lower prices.

Blue laws: Actually, laws adopted in some New England colonies regarding religious and personal conduct. Later came to mean any laws regarding the conducting of business on Sunday. Do not confuse with Blue Sky Laws.

Blue sky laws: State laws requiring the registration of securities (bonds, stocks, limited partnerships, etc.) to protect inexperienced buyers from fraud.

Boardfoot: A unit of measurement for lumber. One boardfoot equals 144 cubic inches or 12"x12"x1".

BOMA: The Building Owners and Managers Association, International.

Bona fide: In good faith, without fraud.

Bond: A certificate of indebtedness issued by a governmental body or a corporation; the bondholder receives a return in the form of periodic payments of interest until the principal is repaid in a lump sum.
Bond type securities: Debt instruments issued by the secondary market that are backed by mortgages.

Bonus: An extra payment, over and above what is strictly due; especially an extra payment an employer gives to an employee, as an incentive or in recognition of good performance.

Book value: Acquisition costs less any accrued depreciation.

Boot: Something given in addition to; generally used in exchange to refer to something given other than the major properties to be exchanged, in order to equalize value.

Borrower: One who received funds with the expressed or implied intention of repaying the loan in full.

Boycott: A refusal to do business with a targeted group, business or individual for the purpose of reducing competition or otherwise gaining an advantage. Under antitrust laws, it is illegal for a group of businesses to conspire in a boycott against another business. See *group boycott*.

Boulevard: A wide street, usually having a median or promenade, and lined with trees.

Breach: Violation of a legal obligation.

Breach of contract: Failure to perform a contract, in whole or part, without legal excuse.

Break-even point: In residential or commercial property, the figure at which occupancy income is equal to all required expenses and debt service.

Break-even ratio: The ratio of operating expenses plus the property's annual debt service to potential gross income.

Bridge loan: A short-term loan, usually from a bank, that "bridges" the period between the closing date of a home purchase and the closing date of a home sale. To qualify for a bridge loan, the borrower must have a contract to sell an existing house.

British Thermal Unit (BTU): Unit of heat required to raise one point of water one degree Fahrenheit. Used to express the capacity of heating and cooling systems.

Broker: An individual in the business of assisting in arranging funding or negotiating contracts for a client. This individual or company does not loan money. A fee is usually charged or a commission received for services rendered.

Brokerage: The act of bringing together principals (buyer-seller; landlord-tenant; etc.) for a fee or commission, rather than acting as a principal.

Brokerage fee: The commission or other compensation charged for a real estate broker's services.

Broom clean: A term used to describe the condition of a building delivered to a buyer or tenant. As the term indicates, the floors are swept and free of debris.

Budget mortgage: A mortgage where monthly payments include a share in the property taxes and insurance, in addition to principal and interest. The amount for taxes and insurance are placed in the borrower's impound account.

Build to suit: A method of leasing property whereby the lessor builds to suit the tenant (according to the tenant's specifications). The cost of construction is figured into the rental amount of the lease, which is usually for a long term.

Builder-financed construction: Having the builder finance the construction.

Building capitalization rate: The sum of the discount and capital recapture rates for a building.

Building codes: Local regulations that control design, construction, and materials used in construction. Building codes are based on safety and health standards.

Building permit: A local government’s written authorization allowing a party to undertake the improvement, repair, or refurbishment of a property in compliance with all relevant ordinances and codes. Further zoning enforcement is achieved through periodic inspections.

Building residual: A method of determining building value by determining property value (capitalizations method) and then subtracting site value (sales comparison method).

Bulk sale: A transfer in bulk, not in the ordinary course of business, of all or substantially all of the inventory and fixtures of a business.

Bundle of Rights: The total rights or interests a person has in property. For example: the exclusive right of an individual to own, possess, use, enjoy, and dispose of real property.

Business park: A preplanned conglomeration of buildings in one area designed to house activities of a business nature.

Buy-back: A transaction whereby Fannie Mae allows a lender to "buy back" the mortgages it previously agreed to sell by means of a mandatory delivery commitment. See Pair-off.

Buydown: A permanent buy-down is the payment of points in exchange for a lower interest rate. A temporary buy-down concentrates the rate reduction in the early years. The buy-down allows a loan to be made at less-than-market interest rates by paying front-end discounts. The interest rate is brought down for a temporary period, usually from one to three years. In order to acquire this discount, a lump sum is paid and held in an account used to supplement the borrower's monthly payment. After the discount period, the payment is calculated as the note rate.

Buydown mortgage: A mortgage made by a lender with a below-market interest rate in return for an interest rate subsidy in the form of money received from a builder, seller, or in some situations, a home buyer.

Buyer's market: When the supply of a commodity exceeds the demand.

Buy-up: Paying a higher interest rate in exchange for a rebate by the lender which reduces upfront costs.

C

Call clause: A provision in a mortgage or trust deed that gives the mortgagee or beneficiary the right to accelerate payment of the mortgage debt in full on a certain date or under specified conditions.

Call provision: A clause in the mortgage or deed of trust giving the mortgagee or beneficiary the right to accelerate payment of the mortgage debt in full on a certain date or on the occurrence of specified conditions.

Callable debt: A debt security in where the issuer has the right to redeem a security at a specified price on or after a specified date, but prior to its stated final maturity date.

CAMA. Computer assisted mass appraisal: Use of computerized databases and techniques in valuing commercial and residential properties for tax assessment purposes.

CAP: The limit placed on adjustments that can be made to interest rates or payments, such as the annual cap on an adjustable rate loan (ARM) or the cap on a rate over the life of the loan. A cap is also a set percentage amount by which an adjustable rate mortgage may adjust each adjustment period. For adjustable loans, caps are usually quoted as two numbers as in 2/6. The first number indicates how much a loan may adjust at each adjustment period while the second number indicates how much a loan may adjust over its lifetime. Loans like the 3/1 and 5/1 adjustable which have an initial fixed period are quoted with 3 numbers as in 3/2/6, which would mean that the first adjustment may be as much as 3%, subsequent adjustments are capped at 2% each, and the lifetime cap is 6%. Two-Step loans are quoted with a single cap, which is the amount by which the loan may adjust at its single adjustment date.

Capital: Money used to create income, either as investment in a business or income property.

Capital expenditures: Money spent on property improvements and modifications that add to the property's value or prolong its life.

Capital gains: Gains realized from the sale of capital asset; generally, the difference between costs and selling price, less certain deductible expenses. Used mainly for income tax purposes.

Capital improvement: Any improvement to real property that is designed to become a permanent part of the property or that will have the effect of significantly prolonging the property's life.

Capital loss: A loss derived from the sale of a capital asset.

Capital markets: Markets (including informal markets as well as organized markets and exchanges) where long-term loanable funds in the form of mortgages, stocks, and bonds are bought and sold.

Capital market security: Financial instrument, including both debt and equity securities, with maturities greater than one year. Those instruments with maturities of less than a year are traded in the money markets.

Capitalization: The process of converting into present value a series of anticipated future installments of net income by discounting them into a present worth using a specific desired rate of earnings.

Capitalization rate: A desired rate of return for an investment, which is divided into the net income to determine a property's value.

Capital recapture: The return of an investment; the right of the investor to get back the amount invested at the end of the term of ownership or over the productive life of the improvements.

Capitalized value method of depreciation: A method of computing depreciation by determining loss in a rental value attributable to a depreciated item and applying a gross rent multiplier to that figure.

Carryback loan: A loan in which a seller agrees to finance a buyer in order to complete a property sale.

Cash: Money or its equivalent (checks, bank notes, etc.). Ready money.

Cash basis: A system or recognizing revenue and expense items only at the time cash is received or paid out.

Cash delivery: The submission of a whole mortgage or a participation to an investor in exchange for cash rather than a mortgage-backed security.

Cash equivalency technique: Method of adjusting a sales price downward to reflect the increase in value due to assumption or procurement by buyer of a loan at an interest rate lower than the prevailing market rate.

Cash flow: The income from an investment after gross income is subtracted from all operating expenses, loan payments, and the allowance for the income tax attributed to the income.

Cash flow option loan: See flexible payment ARMS.

Cash-out refi: Refinancing for an amount in excess of the balance on an old loan plus settlement costs. This allows the borrower to get cash from the equity in his/her home. Loan products may vary on how much can be borrowed on a cash-out refinance. This way of raising cash is usually an alternative to taking out a home equity loan.

Cash sale: A sale for full payment in cash, as opposed to a credit sale. A payment by check is considered cash. May be qualified, as "cash to new loan", "cash to existing loan", etc.

Cash-on-cash return: Derived by dividing net income before depreciation by the owner's cash investment.

Cashier's check: A check drawn by a bank on itself rather than on an account of a depositor. A cashier's check is generally acceptable to close a sale without waiting for the check to clear.

Caveat emptor: "Let the buyer beware;" the buyer is duty bound to examine the property he is purchasing, and he assumes conditions which are readily ascertainable.

CC&Rs (Covenants, Conditions, and Restrictions): A term used in some areas to describe the restrictive limitations which may be placed on property. In other areas, simply called restrictions.

Census tracts: Demographic areas that have similar economic characteristics as determined by the Bureau of the Census.

Central bank: A bank of last resort. In the United States, this is the Federal Reserve System.

Central business district (CBD): An agglomeration of businesses and services in the center of a city; "downtown".

Certificate of Deposit (CD): A savings arrangement in which a depositor agrees to leave money on deposit for a specified period, or pay a penalty for early withdrawal.

Certificate of Eligibility: The document which verifies the entitlement of a veteran to a VA loan.

Certificate of Occupancy: Written authorization given by a local municipality that allows a newly completed or substantially completed structure to be inhabited.

Certificate of Reasonable Value: An appraisal that has been performed on a property that is being paid for through a VA guaranteed loan. After the property has been appraised, the Veterans Administration issues a CRV.

Certificate of Sale: The document given to the purchaser at a sheriff's sale instead of a deed, and which is replaced with a sheriff's deed only after the statutory redemption period expires.

Certificate of Title: A statement furnished by an abstract or title company or an attorney to a client stating that the title to real estate is legally vested in the present owner.

Certificate of Veteran Status: A document issued by the Department of Veterans Affairs, indicating a veteran's eligibility for an FHA-insured loan.

Certification: A requirement of the Uniform Standards of Professional Appraisal Practice (USPAP).

Certified appraiser: An appraiser that holds a license at the state certification level. Certified Appraisers may appraise any property without limitation.

Certified mortgage banker (CMB): A professional designation of the mortgage banking industry.

Chain: A surveyor's unit of measurement equal to four rods or 66 feet, consisting of 100 links of 7.92 inches each; ten square chains of land are equal to one acre.

Chain of Title: The history of all the documents transferring title to a parcel of real property starting with the earliest existing document and ending with the most recent.

Change, Principle of: The principle that no physical or economic condition ever remains constant.

Charter: A written instrument granting a power or a right of franchise.

Chattel: Personal property.

Chattel mortgage: A personal property mortgage.

Chattel real: All estates in real property less than fee estates, such as a lease.

Civil action: Any action which is not a criminal action.

Civil Rights Act of 1866: A federal law that makes it illegal to discriminate by race in the sale of real estate.

Civil Rights Act of 1968: An extension of the 1866 act that outlaws discrimination on the basis of sex, religion, or ethnicity, as well as race.

Class action: An action brought on behalf of a group of people having a similar claim. Has become increasingly popular in the consumer movement, and is a strong weapon against unfair pricing when the price of overcharging in one instance would be too minor to bring suit.

Clear title: A title that is free of liens or any legal questions as to the ownership of the property.

Client: Traditionally one who employs an attorney. Has loosely been used to refer to the principal of a real estate agent, insurance agent, stock broker, etc.

Closed mortgage: A loan that cannot be paid off early.

Closing: Also known as settlement. Closing is the finalization of the process of purchasing or refinancing real estate. On a home purchase, the process of transferring ownership from the seller to the buyer, the disbursement of funds from the buyer and the lender to the seller, and the execution of all the documents associated with the sale and the loan are encompassed. On a refinance, there is no transfer of ownership; however, the closing does include repayment of the old lender.

Closing costs: Closing costs are fees paid by the borrower that are due at closing in addition to the purchase price of the property. These costs normally include, but are not limited to, origination fees, discount points, attorney's fees, costs for title insurance, surveys, recording documents, and prepayment of real estate taxes and insurance premiums held by the lender. Sometimes the seller will help the borrower pay some of these costs. All closing costs are separated into "non-recurring," and "pre-paid." Non-recurring charges are any items that are paid only once because a loan was obtained or a property bought, such as a loan origination fee. Pre-paid charges are those that recur over time, like insurance and property taxes. These are summarized in the Good Faith Estimate.

Closing date: The date on which the closing occurs. See Mortgage Closing Date.

Closing statement: An accounting of the debits and credits incurred at closing. All FHA, VA and Conventional financing loans use a Uniform Closing or Settlement Statement commonly referred to as the HUD-1.

Cloud: An outstanding claim or encumbrance which, if valid, would affect or impair the owner's property title.

CMG plan: A technique for repaying a loan early that involves using the mortgage as a substitute for a checking account.

CMT: The Constant Maturity Treasury (CMT) is published by the Federal Reserve Board based on the average yield of a variety of Treasury securities adjusted to a one-year maturity. The CMT is offered as an index for setting rates on adjustable rate mortgage programs.

Co-Borrower: A party who signs a mortgage note with the primary borrower, shares title to the subject real estate, and is equally responsible for repaying the loan. Unmarried co-borrowers who live together are advised to agree beforehand on what happens if they split.

Code of Ethics: Rules of ethical conduct, such as those given that govern the actions of members of a professional group.

Codicil: A modification or addition to an existing will.

COFI: Cost of funds index. One of many interest rate indexes used to determine interest rate adjustments on an adjustable rate mortgage.

Co-insurance: A sharing of insurance risk between insurer and insured depending on the relation of the amount of the policy and a specified percentage of the actual value of the property insured at the time of loss.

Collapsible corporation: A corporation designed to exist only during the course of constructing a large project. After completion, it is dissolved.

Collateral: Property, real or personal, pledged as security for a debt. For example, real estate that secures a mortgage. Collateral can be repossessed if the loan is not repaid according to the terms of the mortgage or deed of trust.

Collateralized mortgage obligation (CMO): Issuer guarantees that a minimum repayment schedule will be met.

Collection: Procedure followed to bring the mortgage account current and to file the necessary notices to proceed with foreclosure when necessary.

Collusion: An agreement of two or more people to do something unlawful. Generally, an agreement between people who represent different interests and "sell out" these interests for personal gain.

Color of title: That which appears to be good title, but which is not in fact good title, such as title held under a defective deed.

Combined loan-to-value (CLTV): The mathematical relationship between the total of all loan amounts (first mortgage plus subordinate liens) and the value of the subject property.

Commercial bank: A type of financial institution that traditionally has emphasized commercial lending, but which also makes many residential mortgages.

Commercial leasehold insurance: Insurance available to developers that guarantees the payment of rent in the event of a rent default.

Commercial Leasehold Insurance Corporation (CLIC): Owned by Mortgage Guarantee Insurance Corporation (MGIC), this company provides leasehold insurance for commercial and industrial properties, lease payments and leasehold improvement loans.

Commercial loan: A mortgage loan on property that produces income.

Commercial paper: Short-term unsecured promissory notes of large firms sold to meet short-term capital needs.

Commercial property: Property which is zoned "commercial" (for business use). Property such as stores, restaurants, etc., falling between residential and industrial.

Commingling: Mixing money belonging to clients with personal funds.

Commission: An agent's fee for negotiating a real estate or loan transaction.

Commitment: A written letter of agreement detailing the terms and conditions by which the lender will lend and the borrower will borrow funds to finance a home.

Commitment, Conditional: A conditional approval of a loan that requires fulfillment of certain conditions.

Commitment fee: Any fee paid by a borrower to a lender for the lender's promise to lend money at a specified date in the future. The lender may or may not expect to fund the commitment.

Commitment, Firm: A lender's approval of a loan without any conditions.

Common area: The area owned in common by the owners of condominiums or planned unit development homes in a subdivision.

Common-area fees: In condominiums, the charge for taxes, insurance, maintenance and so forth, apportioned to each owner, and, in shopping centers, to each tenant.

Common elements: Parts of a property that are in common use by all of the residents of a cooperative or a condominium. All condominium owners have an undivided ownership interest in the common elements.

Common law: An unwritten body of law based on general custom in England and used to an extent in the U.S.

Common things: Things which are not owned by anyone and can be freely used by everyone, such as air and the high seas.

Community property: Property accumulated after the marriage (generally) by husband and wife. Community property is owned equally in undivided halves of each.

Community Reinvestment Act: This federal act requires financial institutions to meet the credit needs of their local community, including low and moderate-income sections. The CRA also requires banks to make reports concerning their investment in the areas where they do business.

Community shopping center: A type of center that is larger than a neighborhood center, smaller than a regional center.

Community support statement: Federally required documentation from lenders that shows the amount of loans and to whom they are made in the local area.

Co-Mortgager: A cosigner on a loan.

Comparables: Also "comps", an abbreviation for comparable properties used for comparative purposes in the appraisal process; facilities of approximately the same size and location with similar amenities; properties that have been recently sold, that have characteristics similar to property under consideration, thereby indicating the approximate fair market value of the subject property.

Comparative unit method: Cost estimation based on square footage or cubic footage of a structure.

Compatibility: A building in harmony with its use and environment.

Compensating balance: A demand deposit usually required by a commercial bank as a condition for extending a line of credit or a bank loan.

Competition, Principle of: An appraisal principle which holds that profits tend to encourage competition, and excess profits tend to result in ruinous competition.

Competitive market analysis (CMA): An estimation of the value of a property by a real estate agent. Based on comparable properties that are for sale, recently sold, and expired.

Completion bond: A surety bond posted by a landowner or developer to guarantee that a proposed development will be completed according to specifications, free and clear of all mechanics' liens.

Complete appraisal: The act or process of estimating value or an estimate of value, performed without invoking the Department Rule of the Uniform Standards of Professional Appraisal Practice.

Component: A fixture; personal property that has been converted to real property.

Component depreciation: A tax-saving method of depreciating the components of a building separately. Eliminated by TRA '86

Compound interest: Interest paid on original principal and on the accrued and unpaid interest that has accumulated.

Concession: A granting of a right, by government or privately, usually to use of land or area in a building to carry on a business.

Condemnation: The process by which property of a private owner is taken for public use, with just compensation to the owner, under the right of eminent domain.

Condition: A provision in an agreement that make the parties' rights and obligations depend on the occurrence (or nonoccurrence) of a particular event. Also called a contingency clause.

Condition precedent: A condition to be performed before an agreement becomes effective or some right vests or accrues.

Condition subsequent: A condition following an agreement, the happening of which changes the estate.

Conditional commitment: A conditional approval of a loan that requires fulfillment of certain conditions.

Conditional use permit: Approval of a property use inconsistent with present zoning because it is in the public interest. For example, a church or hospital may be allowed in a residential district.

Conditions, Covenants, and Restrictions (CC&Rs): Private limitations on property use placed in the deed received by a property owner, typically by reference to a Declaration of Restrictions.

Condominium: A form of property ownership in which the homeowner holds title to an individual dwelling unit, an undivided interest in common areas of a multi-unit project, and sometimes the exclusive use of certain limited common areas. All condominiums must meet certain investor requirements.

Conduit: An entity that issues mortgage-backed securities backed by mortgages that were originated by another, probably one or more of the traditional originators.

Conforming mortgage: A loan with a mortgage amount that does not exceed that which is eligible for purchase by FNMA or FHLMC. All loans are considered as conforming or non-conforming. A conforming loan may be one for up to $417,000 in the continental United States (Alaska and Hawaii limits are higher).

Conformity, Principle of: An appraisal principle which holds that property achieves its maximum value when there is a reasonable degree of social and economic homogeneity in the neighborhood.

Congregant living: A form of housing, usually for the elderly, in which tenants have access to a central dining area, physical and social amenities and, often, a health care center.

Consideration: Valuable consideration, a promise or an act of legal value bargained for and received in return for a promise; good consideration, love and affection.

Constant: The percentage of the original loan paid in equal annual payments that provides for interest and principal reduction over the life of the loan.

Construction contract: An agreement between a general contractor and an owner-developer stating the specific duties the general contractor will perform according to blueprints and specifications at a stipulated price and terms of payment.

Construction financing: The method of financing used when a borrower contracts to have a house built, as opposed to purchasing a completed house.

Construction loan: A short term loan for funding the cost of construction. The lender advances funds to the builder as the work progresses.

Construction loan agreement: A written agreement between a lender and a builder or borrower in which the specific terms and conditions of a construction loan, including the schedule of payments, are spelled out.

Construction loan draw: The partial disbursement of the construction loan, based on the schedule of payments in the loan agreement. Also called take-down.

Constructive eviction: When a landlord performs an act depriving the tenant of enjoyment of the premises, thereby causing the tenant to move. The tenant evicts himself.

Constructive notice: Notice given by the public records. Recording gives constructive notice.

Contiguous: Adjacent; in actual contact; touching.

Contingent interest: A lender's share of the appreciation on a Sam loan.

Contract: A legal agreement between competent parties for consideration to perform, or refrain from performing certain acts.

Contract for Deed: A contract under which the purchase price is paid in installments over a period of time during which the purchaser has possession of the property but the seller retains title until the contract terms are completed; usually drawn between individuals. Also called land contract, installment contract or agreement of sale.

Contract knavery: Inserting provisions into a loan contract that severely disadvantages the borrower, without the borrower's knowledge, and sometimes despite oral assurances to the contrary. Prepayment penalties are perhaps the most frequently cited subject of such an abuse.

Consulting: The process of providing information, analysis of real estate data and recommendations and/or conclusions.

Consumer price index: An index that tracks changes in the cost of goods and services for a typical consumer. Formerly called the cost of living index.

Contiguous: Near or close to, whether actually touching or not. Generally refers to actual touching or bordering on.

Contingency: Commonly, the dependence upon a stated event which must occur before a contract is binding. For example: The sale of a house, contingent upon the buyer obtaining financing.

Contingent beneficiary: One who, under the terms of a will or trust, may or may not share in the estate upon the happening of an uncertain event. Example: **A** leaves property to **B** when **B** reaches 30, stipulating that if **B** dies before 30, property goes to **C**. **C** is the contingent beneficiary.

Contingent interest: A lender's share of the appreciation on a SAM loan.

Contract: A legal agreement between competent parties for consideration to perform, or refrain from performing certain acts.

Contract for Deed: Also known as land contract or installment contract. Buyer gets title when house is substantially paid for. Until then, seller retains title.

Contract of Sale: In some areas of the country, synonymous with land contract. In other areas synonymous with purchase agreement.

Contract Rent: Rent paid under a lease. The actual rent as opposed to the market rental value of the property.

Contribution, Principle of: An appraisal principle which holds that the value of real property is greatest when the improvements produce the highest return commensurate with their cost. Some improvements add more to the property's value than they cost, and others cost more than they add.

Conventional mortgage: A mortgage loan that is obtained without any additional guarantees for repayment, such as FHA insurance, VA guarantees, or private insurance. This type of mortgage is usually maximized at an 80% loan-to-value ratio.

Conversion: (1) To change to another use, as changing rental apartments to condominiums or lofts to apartments. (2) The appropriation of property that belongs to another.

Conversion option: Options to convert an adjustable rate mortgage or balloon loan to a fixed rate mortgage under specified conditions at some point during its life. These loans are likely to carry a higher rate or more points than ARMs that do not have the option. The possible options are as follows: (1) not available - borrower may not convert this loan; (2) must requalify - borrower may convert but must requalify; or (3) auto-qualify - borrower may convert and is automatically qualified.

Convertible mortgage: An adjustable-rate mortgage whereby the mortgagor can convert the mortgage to a fixed-rate mortgage during a predetermined time period.

Conveyance: The transfer of the title of land from one person to another; also, the instrument which transfers the interest from one person to another.

Cooperative: Property owned by a corporation and leased to shareholders. Allows corporation to restrict occupancy of building.

Cooperative apartment: Also called a stock cooperative or a co-op. A structure of two or more units in which the right to occupy a unit is obtained by the purchase of stock in the corporation which owns the building. Difficult to obtain financing because there is not individual ownership of each unit. A forerunner of the condominium.

Cooperative Farm Credit System: A national banking network composed of several types of specialty banks, each owned by its members and created to aid farm and ranch owners, operators and investors in financing their activities.

Corner influence: The effect a corner location has on value.

Corner lot: A lot contiguous to two intersecting streets, and, for purposes of value, having access to both streets.

Corporation: An artificial person created by law with certain rights, privileges, and duties or natural persons.

Corporeal: Concerning material objects or property, rather than non-material things, such as ideas. A machine would be corporeal; the patent for it would be incorporeal.

Correction lines: A system of compensating for inaccuracies in the rectangular survey system due to the curvature of the earth. Every fourth township line (24-mile intervals) is used as a correction line on which the intervals between the north and south range lines are re-measured and corrected to a full six miles.

Correspondent: A lender who delivers loans to a wholesale lender, usually larger, against prior price commitments the wholesaler has made to the correspondent. The commitment protects the correspondent against pipeline risk.

COSI: Cost of savings index. One of many interest rate indexes used to determine interest rate adjustments on an adjustable rate mortgage.

Co-signer: A person who signs a legal instrument and therefore becomes individually and jointly liable for repayment or performance of an obligation.

Co-signing a note: A party who signs a mortgage note along with the borrower, but who does not own or have any interest in the title to the property. The co-signer assumes responsibility for someone else's loan in the event that that party defaults. This risk is not to be taken lightly.

Cost: The expenditures to acquire or develop.

Cost approach: An appraisal technique used to establish value by estimating the cost to reproduce the improvement, allowing for depreciation, then adding in the fair market value of the land.

Cost, Replacement: In appraisal, the current cost of constructing a building with the same utility as the subject property, using modern materials and construction methods.

Cost, Reproduction: In appraisal, the cost of constructing a replica (an exact duplicate) of the subject property, using the same materials and construction methods that were originally used, but at current rates.

Cost Approach to Value: One of the three main methods of appraisal (along with the income approach and the sales comparison approach), in which an estimate of the subject property's value is arrived at by estimating the cost of replacing the improvements, then deducting the estimated accrued depreciation and adding the estimated market value of the land.

Cost of Funds Index: An index that is used to determine interest rate changes for some ARMs. It represents the weighted average cost of savings, borrowings, and advances of members of the 11th District of the Federal Home Loan Bank of San Francisco.

Cost Index: Figure representing construction cost at particular time in relation to construction cost at an earlier time, prepared by a cost reporting or indexing service.

Cost recovery deductions: Real estate investors may take other deductions from their income taxes, such as deducting depreciation of investment property.

Cost-to-cure method: Determining the amount of depreciation by the cost to cure the deficiencies.

Cost trend indexing: Estimating reproduction cost by applying the construction index to the cost when the structure was built and the current index.

Counter offer: A new offer made in response to an offer received from an offeror. This has the effect of rejecting the original offer, which cannot thereafter be accepted unless revived by the offeror's repeating it.

Coupon rate: The annual interest rate on a debt instrument. In mortgage lending, the term is used to describe the contract interest rate on the face of the note or bond. The interest rate of a security that will be less than the rate of the underlying mortgages. GNMA MBSs have a coupon which is 50 basis points less than the single-family mortgages in the pool.

Covenant: An agreement written into deeds and other instruments which promises or guarantees that something shall or shall not be done. A written promise.

Creative financing: A general term which encompasses any method of financing property going beyond traditional real estate lending.

Credit: On a settlement statement, a payment receivable (owed to one of the parties), as opposed to a debit, which is a payment due (owed by one of the parties).

Credit loan: A credit loan is a mortgage that is issued on only the financial strength of a borrower, without great regard for collateral.

Credit rating: A rating given by lenders to a borrower, whether person or company, to establish credit-worthiness based upon present financial condition, experience and past credit history. Credit ratings are expressed as letter grades such as A-, B, or C+. These ratings are based on various factors such as a borrower's payment history, foreclosures, bankruptcies and charge-offs. There is no exact science to rating a borrower's credit, and different lenders may assign different grades to the same borrower.

Credit-related expenses: The sum of foreclosed property expenses plus the provision for losses.

Credit-related losses: The sum of foreclosed property expenses plus charge-offs.

Credit report: A document completed by a credit-reporting agency providing information about the buyer's credit cards, previous mortgage history, bank loans and public records dealing with financial matters. This report is supplied to a prospective lender on the credit standing of a prospective borrower. Information regarding late payments, defaults, or bankruptcies will appear here.

Creditor: A person to whom a debt is owed by another person, the "debtor".

Creditor, secured: A creditor with a lien on specific property, which enables him or her to foreclose and collect the debt from the sale proceeds if the debtor does not pay.

Credit report: A report prepared by a credit reporting agency outlining the credit history of an individual, showing the amount of debt and a record of repayment.

Credit score: A single numerical score, based on an individual's credit history that measures that individual's credit worthiness. Credit scores are as good as the algorithm used to derive them. The most widely used credit score is called FICO after the Fair Isaac Co. which developed it.

Credit union: A type of financial institution that serves only the members of a particular group, such as a professional organization or a labor union. Credit unions have traditionally emphasized consumer loans, and now also make residential mortgage loans.

Crown molding: A large molding used on a cornice or to cover a wide gap or angle.

CRV: A certificate of reasonable value; an appraisal form used by the VA.

Cubic-foot method: A method of estimating reproduction cost by multiplying the number of cubic feet of space a building encloses by the construction cost per cubic foot.

Cumulative interest: The sum of all interest payments to date or over the life of the loan. This is an incomplete measure of the cost of credit to the borrower because it does not include up-front cash payments, and it is not adjusted for the time value of money.

Curable depreciation: Depreciation which can be economically corrected.

Cure: To remedy a default, by paying money that is overdue or by fulfilling other obligations.

Current index value: The most recently published value of the index used to adjust the interest rate on an indexed ARM.

Current-production loan: A newly originated loan. Compare with Seasoned Loan.

Curtesy: The right which a husband has in his wife's estate at her death.

Custodial account: A bank account that the servicer of a mortgage must establish to hold funds on behalf of the borrower and investor.

Custodian: Usually a commercial bank that holds for safekeeping mortgages and related documents backing an MBS. Custodian may be required to examine and certify documents.

Customer: A buyer of goods or services.

Cycles: Events that repeat themselves on a predictable basis; may be a business cycle, an economic cycle or a real estate cycle.

D

Data: Information pertinent to a specific appraisal assignment. Data may be general (relating to the economic background, the region, the city, and the neighborhood) or specific (relating to the subject property and comparable properties in the market).

Dation En Paiement: The giving by a debtor to a creditor of something other than money to cancel a debt. Usually a dation is made of mortgaged property to the mortgage holder in exchange for cancelling a debt.

Datum line: A horizontal line from which heights and depths are measured. Varies with the area but is usually set forth in the local building code.

DBA (Doing Business As): An identification of the owner or owners of a business and the business name. Not a partnership or corporation.

Deadbeat: A borrower who doesn't pay.

Debenture: An unsecured debt instrument backed only by the general credit standing and earning capacity of the issuer.

Debit: An accounting term used to designate a payment or owing, as opposed to a credit which is a receiving or being owed.

Debt consolidation: Rolling short-term debt into a home mortgage loan, either at the time of home purchase or later.

Debt elimination: Scams designed to relieve you of your money by promising to eliminate your mortgage debt.

Debt investors: Investors who take a relatively conservative approach, typically taking a passive role in investment management while demanding a security interest in property financed.

Debt service: (1) The periodic payment of mortgages or trust deeds on a specific property. (2) The interest payments of said mortgages or trust deeds. (3) Sometimes loosely used for the total amount owing on said mortgages or trust deeds.

Debt service: The amount of money required to make the periodic payments of principal and interest on an amortized debt, such as a mortgage.

Debt to housing gap ratio: The difference between a loan applicant's debt to income ratio and housing expense to income ratio.

Debt to income ratio (DTI): The ratio of aggregate monthly debt to aggregate monthly income.

Debtaholic: A borrower who cannot handle debt except by complete abstinence.

Debtor: One who owes money to another.

Decedent: Originally, one who was dying. Modernly, one who is dead.

Declaration of Restrictions: Document filed by a subdivision developer and referenced in individual deeds to subdivision lots that lists all restrictions that apply to subdivision properties.

Declining-balance method: A method of computing depreciation whereby the undepreciated cost of a building is multiplied by a fixed percentage rate. Its application is limited under TRA '86.

Decreasing returns, laws of: The situation in which property improvements no longer bring a corresponding increase in property income or value.

Dedication: The giving of land by its owner for some public use, and acceptance for such use by authorized public officials. Streets and parks may be dedicated to a city.

Deduction: An amount a taxpayer is allowed to subtract from his or her income before the tax on the income is calculated.

Deed: A legal document which affects the transfer of ownership of real estate from the seller to the buyer.

Deed in Lieu of Foreclosure: A means by which the lender is deeded property upon default of payment without court action as an alternative to foreclose.

Deed of Reconveyance: A document which acknowledges that a deed of trust has been paid in full, releasing the security property to the lender to satisfy the debt and avoid foreclosure.

Deed of Trust: Synonymous to a mortgage. A deed of trust or mortgage is obtained, depending on the state in which the borrower will reside.

Deed Restrictions: Limitations on the use of property placed in the conveyancing deed by the grantor, which bind all future owners.

Default: Failure of the borrower to make payments on a loan or honor the terms of the loan agreement. Lenders, and law, usually view borrowers delinquent 90 days or more as in default.

Defeasance: A deed, made collaterally with a conveyancing deed, which imposes conditions which, if met, will defeat the conveyance.

Defeasance clause: The clause in a mortgage that gives the mortgagor the right to redeem his property upon the payment of his obligation to the mortgagee, and declares the instrument null and void upon payment of debt when due.

Defeasible title: Title which is not absolute, but possibly may be annulled or voided at a later date. For example: Title conveyed to **A** with condition that if **A** marries before age 30, title will go to **B**. **A's** title may be good (doesn't marry) or may be defeated (marries before 30).

Deferred exchange: A time-delayed trading of like properties.

Deferred interest: See negative amortization.

Deferred maintenance: Depreciation resulting from physical wear and tear.

Deficiency judgment: A judgment for the balance of a debt, issued when the difference between the amount owed and the sale price obtained at the foreclosure sale, is less than the debt.

Deflation: A decrease in the supply of money and credit. The value of money is increased in relation to what it will buy (price drop). Opposite of inflation.

Delinquency: A mortgage payment that is more than 30 days late

Delivery: The legal, final, and absolute transfer of a deed from seller to buyer in such a manner that it cannot be recalled by the seller; a necessary requisite to the transfer of title. In mortgage banking, the physical delivery of loan documents to an investor or agent in conformance with the commitment.

Demand: Desire to own, coupled with the ability to afford it; this is one of the four elements of value, along with scarcity, utility, and transferability.

Demand clause: A clause in the note that allows the lender to demand repayment at any time for any reason.

Demand deposit: A deposit in a financial institution that the depositor can withdraw at any time, without notice, such as a deposit in a checking account.

De Minimus value: Minimum value for federally-related loans requiring an appraisal.

Demise: A lease or conveyance for life or years. Loosely used to describe any conveyance, whether in fee, for life, or for years.

Demography: The statistical study of human populations, especially in reference to size, density, and distribution. Demographic information is of particular importance to people involved in market analyses and highest and best use analyses in determining potential land uses of sites.

Department of Housing and Urban Development (HUD): The department of the federal government that is responsible for administering government housing and urban development programs.

Department of Veterans Affairs (VA): A federal agency that, since 1944, has guaranteed the top portion of eligible veterans' loans. Now has cabinet status.

Deponent: One who makes a sworn written statement (deposition). If the statement is an affidavit, the maker is called an affiant.

Deposit: A sum given in advance as security with an offer to purchase. In mortgage and real estate terms, this is called the "earnest money deposit."

Deposit Insurance Fund: The federal fund that controls the Bank Insurance Fund (BIF) and the Savings Association Insurance Fund (SAIF), which insure customer deposits in banks and savings banks.

Depository Institutions Deregulation Committee (DIDC): A committee established by the U.S. Congress in 1980 to oversee the orderly phasing out of interest rate ceilings in depository institutions.

Depreciated cost: For appraisal purposes the reproduction or replacement cost of a building, less accrued depreciation to the time of appraisal.

Depreciation: In real estate and mortgage terms, the decline in property value.

Depreciation, curable: Depreciation (resulting from deferred maintenance or functional obsolescence) that a prudent property owner would ordinarily correct, because the cost of correction could be recovered in the sales price when the property is sold.

Depreciation, incurable: Depreciation that is either impossible to correct, or not economically feasible to correct, because the cost could not be recovered in the sales price when the property is sold.

Depth factor: An adjustment factor applied to the value per front foot of lots that vary from the standard depth.

Depth table: An appraisal table showing value of each portion of a property's depth.

Dereliction (or reliction): Land which is created by the recession of water. It belongs to the adjacent landowners.

Designated agency: A form of agency that allows a broker to designate one salesperson or associate broker within the brokerage to represent a seller in a transaction and another salesperson or associate broker in the brokerage to represent the buyer in the same transaction. The client has an agency relationship only with the agent specified in the designated agency agreement. Absent a designated agency agreement, the client has an agency relationship with the broker and all affiliated licensees in the brokerage firm. See *agency*.

Direct capitalization: Selection of a capitalization rate from a range of overall rates computed by analyzing sales of comparable properties and applying the formula $I \div V = R$ to each

Direct costs: Costs of erecting a new building involved with either site preparation or building construction, including fixtures.

Direct endorsement lender: A lender that has been approved to make loans that are insured/guaranteed directly by the federal government.

Direct lender: See lender.

Descent: Technically, to pass by succession (operation of law). Modernly, the term includes passing by will.

Desktop underwriter's property inspection report: A drive-by inspection (no value estimate).Chronological Age.

Determinable fee estate: A fee simple estate in which the property automatically reverts to the grantor upon the occurrence of a specified event or condition.

Developer: A person or entity who prepares raw land for building sites and sometimes builds on the sites.

Development cost: Cost to create a project.

Development loan: A loan made for the purpose of preparing raw land for the construction of one or more buildings. Development may include grading and installation of utilities and roadways. See Construction Loan.

Development method: A method for land evaluation that deducts cost of improvements (for highest and best use) from total value property would have if developed.

Development state: First stage of real estate cycle.

Devise: A gift of real estate by will.

Devisee: One to whom real estate is given by will.

Direct costs: Cost of labor and material for an improvement.

Direct endorser: A lender authorized to underwrite its own FHA loan applications, rather than having to submit them to the FHA for approval.

Direct reduction mortgage: An amortized mortgage with principal and interest paid at the same time and with interest calculated only on the remaining balance.

Disbursements: The payment of monies on a previously agreed upon basis. Used to describe construction loan draws.

Disclosure: A written statement that details for a buyer/borrower all the information involved in the transaction. Real estate agents, lenders, and appraisers are all required to provide disclosure statements.

Discount: Difference between the face amount of a note or mortgage and the price at which the instrument is sold in the secondary market

Discount mortgage broker: A mortgage broker who claims to be compensated entirely by the lender rather than by the borrower.

Discount points: A term used in government subsidized loans, such as FHA insured and VA guaranteed loans. The term refers to any "points" (one percent of the loan amount) paid in addition to the one percent loan origination fee.

Discount rate: The interest rate a Federal Reserve Bank charges on loans to member banks that borrow funds on a short-term basis.
Compare: Federal Funds Rate.

Discounted cash flows: The present worth of a series of receipts over time.

Discounting: The process of converting future income into present value.

Discretionary ARM: An adjustable rate mortgage on which the lender has the right to change the interest rate at any time subject only to advance notice. Discretionary ARMs are found abroad, not in the US.

Discretionary funds: Money available for investment, in excess of that needed for necessities.

Discretionary trust: A trust that may be changed at the will of its owners.

Disintegration: Final stage of real estate cycle cause by age.

Disintermediation: The flow of funds out of savings institutions into short-term investments in which interest rates are higher. This shift normally results in a net decrease in the amount of funds available for long-term real estate financing. Also, the market condition that exists when this shift occurs.

Disposable portion: That amount of a decedent's estate that can be freely disposed of and is not forced by the state.

Dissolution: A cancellation or annulment of a contract or business association, such as a partnership or corporation.

Diversification: The practice of investing in a variety of different sectors of the economy, to make a portfolio safer.

Dividend: A dividing into shares of a fund of money or property for distribution, as among shareholders of a corporation. The money or property distributed is the dividend.

Documentation requirements: The set of lender requirements that specify how information about a loan applicant's income and assets must be provided, and how it will be used by the lender.

Domicile: A legal term signifying a place where a person has his permanent home. The most accurate meaning is the laymen's understanding of the place where a person "lives", since this takes into consideration the intent of the person to make a particular property his "home".

Dominant estate: An estate attached to and benefiting from the servient estate; e.g., an easement runs over the servient estate and serves the dominant estate; also called dominant tenement.

Donee: A person to whom a gift is made.

Donor: A person who makes a gift.

Double-entry bookkeeping: An accounting technique in which an item is entered in the ledger twice, once as a credit and once as a debit; used for settlement statements.

Dower: A wife's common-law right in the estate of her deceased husband.

Down payment: The difference between the value of the property and the loan amount, expressed in dollars, or as a percentage of the price. This is money paid by a buyer from his own funds, as opposed to that portion of the purchase price which is financed. For example, if the house sells for $100,000 and the loan is for $80,000, the down payment is $20,000 or 20%.

Downzoning: A change in the allowable use of land by the appropriate zoning authority to a lesser (usually less valuable) use. Example: Eight units per acre to four units per acre.

Draws: A system of payments made by a lender to a contractor as designated stages of a building's construction are completed.

Dual apper: A borrower who submits applications through two loan providers, usually mortgage brokers.

Dual index mortgage: A mortgage on which the interest rate is adjustable based on an interest rate index, and the monthly payment is adjusted based on a wage and salary index.

Due on Sale Clause (alienation clause): A provision of a loan contract that stipulates that if the property is sold, the loan balance must be repaid. This bars the seller from transferring responsibility for an existing loan to the buyer when the interest rate on the old loan is below the current market. A mortgage containing a due-on-sale clause is not an assumable mortgage.

Duplex: A two-family dwelling with the units placed either side by side or one above the other.

Duress: Forcing one to do that which he would not voluntarily do.

E

Earnest money deposit: A deposit made by a potential home buyer to show that they are serious about purchasing the property.

Easement: A right that grants persons, other than the owner, access to a property.

Easement appurtenant: An easement that is attached to and runs with the land; it cannot exist apart from the particular land to which it is attached.

Easement by prescription: A method of acquiring a right to a portion of property by lapse of time, in the manner of adverse possession. See acquisitive prescription.

Easement in gross: An easement which does not attach to the land, usually given to a quasi-public corporation, such as the electric or phone company.

Easement of necessity: An easement granted by a court when it is determined that said easement is absolutely necessary for the use and enjoyment of the land. Commonly given to landlocked parcels.

Easy money: When interest rates are low and funds for loans are plentiful.

Economic base: The level of business activity in a community-particularly activity that brings income into the community from surrounding areas.

Economic life: The period of time over which a property may be profitably used.

Economic obsolescence: A decline in value caused by forces extraneous to the property itself, such as a one-way street or city dump nearby.

Economic rent: The rental warranted to be paid in the open real estate market based upon current rentals being paid for comparable space.

Economic value: The valuation of real property based on its earning capabilities.

EDI. Electronic data interchange: Transmission of information, including completed appraisal forms or other documents, via modem from one computer to another.

Effective age: Functional age based on actual condition.

Effective demand: Demand coupled with purchasing power.

Effective gross income (EGI): (1) Gross income less a factor for vacancy and collection loss. (2) Personal: Normal annual income including over-time that is regular or guaranteed. It may be from more than one source. Salary is generally the principal source, but other income may qualify if it is significant and stable.

Effective income: In FHA underwriting, the loan applicant's gross monthly income from all sources that can be expected to continue; the FHA equivalent of stable monthly income.

Effective interest rate: The actual rate of interest after all discounting, fees, and points have been paid.

Effective rate: A term used in two ways. In one context, the effective rate refers to a measure of interest cost to the borrower that is identical to the APR except that it is calculated over the time horizon specified by the borrower. The APR is calculated on the assumption that the loan runs to term, which most loans do not. In most texts on the mathematics of finance, the "effective rate" is the quoted rate adjusted for intra-year compounding. For example, a quoted 6% mortgage rate is actually a rate of .5% per month, and if interest received in the early months is invested for the balance of the year at .5%, it results in a return of 6.17% over the year. The 6.17% is called the "effective rate" and 6% is the "nominal" rate.

Egress: Means of leaving property; an exit road.

Elements of comparison: In the sales comparison approach to appraisal, considerations taken into account in selecting comparables and comparing them to the subject property; they include the date of sale, location, physical characteristics, and terms of sale.

Emblements: Crops that are cultivated annually.

Eminent domain: The government's right to take private property for public use dependent on the payment of its fair market value.

Encroachment: A building or fixture which extends partly or wholly onto the property of another.

Encumber: To place a lien or other encumbrance against the title to a property.

Encumbrance: Any lien against a property or any restriction in its use, such as an easement; a right or interest in a property held by one who is not the legal owner.

Endorsement: When the payee of a negotiable instrument (such as a check or a promissory note) assigns the right to payment to another, usually by signing the back or the face of the instrument.

Energy efficiency ratio (EER): A measure of energy efficiency usually associated with heating and cooling systems.

Entitlement: The loan amount that the VA will provide for a veteran based on their military service.

Entrepreneurial profit: The amount of profit attributable to the development function.

Environmental Protection Agency (EPA): The federal agency concerned with the protection of our resources of land, water, and air.

Equal Credit Opportunity Act (ECOA): The act declaring the elimination of discrimination on the basis of race, color, religion, national origin, age, receipt of public assistance money, and marital status in finance.

Equalization: The raising or lowering of assessed values for tax purposes in a particular county or taxing district to make them equal to assessments in other counties or districts.

Equilibrium: In the life cycle of a property, a period of stability during which the property undergoes little, if any, change.

Equitable interest: Under a land contract (contract for a deed), the buyers' (vendees') interest in the property.

Equitable Right of Redemption: A borrower's right to redeem a property during the foreclosure process.

Equity: In connection with real property, the difference between the value of the property including improvements and the balance of outstanding mortgage loans on that property.

Equity capitalization rate: A rate that reflects the relationship between a single year's before-tax cash flow and the equity investment in the property. The before-tax cash flow is the net operating income less the annual debt service payment; and the equity is the property value less any outstanding loan balance. The equity capitalization rate, when divided into the before-tax cash flow, gives an indication of the value of the equity. Also called cash on cash rate, cash flow rate, or equity dividend rate.

Equity exchange: When a buyer gives a seller real or personal property in addition to or instead of cash for the purchase price.

Equity grabbing: A type of predatory lending where the lender intends for the borrower to default so the lender can grab the borrower's equity.

Equity Investors: Investors making use of what is termed venture capital to take an unsecured and thus relatively risky part in an investment.

Equity line of credit: A combination of a line of credit and equity loan. A maximum loan amount is established based on credit and equity. A mortgage (deed of trust) is recorded against the potential borrower 's property for said maximum loan amount. The potential borrower has the right to borrow, as needed, up to the amount of the mortgage.

Equity of Redemption: The common law right to redeem property during the foreclosure period. In some states the mortgagor also has a statutory right to redeem property after a foreclosure sale.

Equity participation: Partial ownership of income property, given by the owner to the lender as part of the consideration for making the loan.

Equity stripping: A predatory loan practice where a lender charges high fees for repeat re-financing that eat into a homeowner's equity.

Erosion: The gradual wearing away of land due to natural causes of wind and water.

Escalator clause: A clause in a loan providing for increases in payments or interest based on pre-determined schedules or on a specific economic index, such as the consumer price index.

Escheat: The reverting of property to the state when there are no heirs.

Escrow: An agreement that money or other objects of value be placed with a third party for safe keeping, pending the performance of some promised act by one of the parties to the agreement. It is common for home mortgage transactions to include an escrow agreement where the borrower adds a specified amount for taxes and hazard insurance to the regular monthly mortgage payment. The money goes into an escrow account out of which the lender pays the taxes and insurance when they come due. Escrow may also be implied as an account or third party that receives, holds, and/or disburses certain funds or documents upon the performance of certain conditions. For example, an earnest money deposit is put into escrow until the transaction is closed. Only then can the seller receive the deposit.

Escrow abuse: The practice of using escrow accounts inappropriately to generate more income from hapless borrowers.

Escrow account (impound account): An account that a borrower can hold with a lender once a purchase transaction is closed. This requires borrowers to pay more than the principal and interest each month. The overage is put into escrow, which the lender uses to pay items like property taxes and homeowner's insurance when they are due. This eliminates the actual number of payments that a homeowner has to worry about, but not the amount that actually has to be paid.

Escrow agent: A third party who holds things of value (such as money or documents) on behalf of parties to a transaction until specified conditions have been fulfilled.

Escrow analysis: An analysis performed by a lender each year to escrow account holders to ensure that the correct amount of money is being collected to cover anticipated payments.

Escrow fee: Costs that cover the preparation and transmission of all home purchased-related documents and funds. Escrow fees range from several hundred to over a thousand dollars, based on the purchase price of a home. Not all states require funds to be put into escrow accounts for closing.

Escrow payment: The portion of a mortgagor's monthly payment held by the lender to pay for taxes, hazard insurance, mortgage insurance, lease payments, and other items as they become due. Known as impounds or reserves in some states.

Estate: The ownership interest an individual holds in real property. This is also the sum total of all the real property and personal property owned by an individual at time of death.

Estate at will: An estate for an undetermined time period. Lessee has possession at the will of lessor.

Estate for life: A freehold interest whereby a person has property for his or her life or the life of some other-named person.

Estate for years: An interest for a certain, exact period of time; a lease with a definite ending date.

Estate in land: The degree, quantity, nature, and extent of interest a person has in real estate.

Estate in remainder: The party (other than the grantor) who is to receive the estate upon the termination of a life estate.

Estate in reversion: The estate of the grantor who receives the life property upon the death of a party designated under a life estate.

Estoppel: A doctrine which bars one from asserting rights which are inconsistent with a previous position or representation.

Estoppel letter: A statement that in itself prevents its issuer from later asserting different facts.

Et Al: And others.

Et Con: And husband.

Ethics: With regard to professions, a code of professional standards, containing aspects of fairness and duty to the profession and the general public.

Et Ux: And wife.

Et Vir: Latin: meaning "and husband".

Eviction: The legal removal of real property occupants for unlawful actions carried out by those occupants.

Excess Rent: Rent in excess of market rent.

Exchange: A reciprocal transfer of real property which has certain tax advantages over a sale. Definite procedures must be followed in order to qualify the transfer as an exchange.

Exclusion of gain on sale of home: A tax-payer may exclude from taxation any gain on the sale of a principal residence, up to a limit of $250,000 (or $500,000 if filing jointly).

Exclusive Agency: A written instrument giving one agent the right to sell property for a specified time, but reserving the right of the owner to sell the property himself without the payment of a commission.

Exclusive Agency Listing: Exclusive Listing. A listing or agreement protecting the listing broker's commission against the sale of the property by another agent but not against the sale by the principal. The term is not universal, as some areas use the term, nonexclusive listing, to describe this agreement.

Exclusive Right to Sell: A written agreement between an owner and an agent giving the agent the right to collect a commission if the property is sold by anyone, including the owner, during the term of his agreement.

Exculpatory: Holding free from or limiting guilt or liability.

Execute: To complete; to fulfill a purpose, such as to execute an instrument, meaning to sign, seal (modernly, to notarize), and deliver.

Execution, Order of: A court order directing a public officer (such as the sheriff) to seize and sell property to satisfy a debt; also called a writ of execution.

Executor: A male person named in a will to carry out its provisions.

Executory contract: A contract not yet fully performed.

Executrix: A female person named in a will to carry out its provisions.

Expense: The cost of goods and services required to produce income.

Expenses, fixed: Recurring property expenses, such as general real estate taxes and hazard insurance.

Expenses, maintenance: Cleaning supplies, utilities, tenant services, and administrative costs for income-producing property.

Expense, operating: For income-producing property, the fixed expenses, maintenance expenses, and reserves for replacement; does not include debt service.

Expense-stop clause: Lease provision to pass increases in building maintenance expenses on to tenants on a pro rata basis.

Expenses, variable: Expenses incurred in connection with property that do not occur on a set schedule, such as the cost of repairing a roof damaged in a storm.

Express: Clear and definite; set forth, as opposed to implied.

Express contract: A contract which is stated verbally or in writing, as opposed to an implied contract where it is understood, but not stated.

Expropriation: A taking, as under eminent domain. The word has come to be used in connection with a foreign location, such as a foreign government taking an American industry located in the foreign country.

External obsolescence: A loss of value in a property because of external factors generally beyond the control of the owner, for example, a municipality's lack of funds to improve deteriorated roadways. Also called economic obsolescence.

Externalities: The principle that outside influences may have a positive or negative effect on property value.

Extraction method: An evaluation method for land where the value of the improvements is deducted from total value (may also be used for improvement value where land value is known).

F

Face value: The value of notes, mortgages, etc., as stated on the face of the instrument, and not considering any discounting.

Factoring: Securities sold or pledged as collateral to generate cash flow.

Fair Credit Reporting Act: A law that protects consumers by regulating the reporting of consumer credit by agencies and establishing procedures for correcting errors on an individual's record. A law that protects consumers by regulating the reporting of consumer credit by agencies and establishing procedures for correcting errors on an individual's record.

Fair Housing Act: A federal law prohibiting discrimination in residential property transactions, including lending, on the basis of race, color, national origin, religion, sex, disability, or familial status.

Fair market value: The price at which property is transferred between a willing buyer and a willing seller, each of whom has a reasonable knowledge of all pertinent facts and neither of whom is under any compulsion to buy or sell.

Fallout: Loan applications that are withdrawn by borrowers, sometimes because they have found a better deal.

Fallout risk: The risk incurred by the lender that a borrower will not close on a loan after filing an application or that an investor will renege on a contract to purchase the loan.

Fannie Mae: One of two Federal agencies that purchase home loans from lenders. The other is Freddie Mac. Both agencies finance their purchases primarily by packaging mortgages into pools, then issuing securities against the pools. The securities are guaranteed by the agencies. They also raise funds by selling notes and other liabilities. The Federal National Mortgage Association is a congressionally chartered, shareholder-owned company. This organization is the nation's largest supplier of home mortgage funds.

Fannie Mae's Community Home Buyer's Program: A program that offers flexible underwriting guidelines to subsidize a low- to moderate-income family's purchase of a home. The program usually decreases the total amount of cash needed to purchase a home.

Farmers Home Administration (FmHA): An agency within the Department of Agriculture that operates principally under the Consolidated Farm and Rural Development Act of 1921 and Title V of the Housing Act of 1949. This agency provides financing to farmers and other qualified borrowers who are unable to obtain loans elsewhere. Funds are borrowed from the U.S. Treasury.

Fascia: A flat, long finishing band or board, used at the outer edge of a cornice, or to conceal rafter ends.

Feasibility study: An analysis of a proposed subject or property with emphasis on the attainable income, probable expenses and most advantageous use and design.

Federal Deficit: A shortfall in funds that occurs when the federal government spends more money than it collects in a particular year.

Federal Deposit Insurance Corporation (FDIC): Federal insurer for banks and savings and loans.

Federal Funds Rate: The interest rate that banks charge one another for overnight loans; set by the Federal Reserve. See - Discount Rate.

Federal Home Loan Mortgage Corporation (FHLMC): A federal agency which buys mortgages in the secondary market from commercial banks and federally insured savings and loan associations; "Freddie Mac."

Federal Housing Administration (FHA): An agency under the U.S. Department of Housing and Urban Development (HUD) that insures loans made by approved lenders to qualified borrowers, in accordance with its regulations.

Federal Housing Finance Board (FHHB): A board created by FIRREA to take over the duties of the Federal Home Loan Bank board.

Federal National Mortgage Association (FNMA): A part public, part private corporation that buys and sells mortgages in the secondary market; "Fannie Mae."

Federal Open Market Committee: The Federal Open Market Committee is a board that makes decisions regarding open market operations by the Federal Reserve.

Federal Reserve Bank: There are twelve Federal Reserve Banks, one for each Federal Reserve District, owned by the commercial banks within that district.

Federal Reserve Board: The Federal Reserve System is controlled by a seven-member Board of Governors, known as the Federal Reserve Board. Each member is appointed from a different district to a 14-year term.

Federal Reserve System: A federal agency which regulates the money supply, interest rates, and reserve requirements of member banks. There are 12 federal reserve districts.

Federal Savings and Loan Insurance Corporation (FSLIC): A federal corporation which insured deposits of thrift (savings and loan) associations. The Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA) transferred all such insurance to the Federal Deposit Insurance Corporation (FDIC).

Federal tax lien: A lien attaching to property for nonpayment of a federal tax (estate, income, etc.). A federal tax lien differs from other liens in that it is not automatically wiped out by foreclosing on a mortgage or trust deed recorded before the tax lien (except by judicial foreclosure).

Federally related transaction: Any transaction that involves an institution that is federally regulated.

Fee option: An option allowing lenders to pay a one-time commitment fee in exchange for a reduction in Fannie Mae's required yield. Also called "fee/yield tradeoff".

Fee packing: A predatory loan practice where a lender charges points or processing fees that are higher than usual and not justified by the services provided.

Fee Simple: The best title that one can obtain; unqualified and conveys the highest bundle of rights.

Fee Simple Absolute: Ownership of real property, in which the owner has the greatest power over the title which it is possible to have.

Fee Simple Defeasible: Any limitation on property use that could result in loss of the right of ownership.

Fee Simple Qualified: Ownership of property that is limited in some way.

Fees: The sum of all upfront cash payments required by the lender as part of the charge for the loan. Origination fees and points are expressed as a percentage of the loan. Junk fees are expressed in dollars.

FHA (Federal Housing Administration): A federal agency which insures first mortgages, enabling lenders to loan a very high percentage of the sale price.

FHA Mortgage: A mortgage on which the lender is insured against loss by the Federal Housing Administration, with the borrower paying the mortgage insurance premium. The major advantage of an FHA mortgage is that the required down payment is very low, but the maximum loan amount is also low.

FHA-Insured Loan: A loan made by an institutional lender with mortgage insurance provided by the Federal Housing Administration, protecting the lender against losses due to borrower default.

FHLMC: The Federal Home Loan Mortgage Corporation (Freddie Mac).

Fiat money: Literally, money by decree. Money that has no backing other than government's decree that it is money.

FICO Score: See credit scores.

Fiduciary: A person in a position of great trust, as the relationship between principal and agent. In real estate, a broker is a fiduciary of a seller.

Final prices: The prices paid by the borrower, as opposed to posted prices.

Final value estimate: The appraiser's estimate of the defined value of the subject property, arrived at by reconciling (correlating) the estimates of values derived from the sales comparison, cost, and income approaches.

Finance charge: The total dollar amount your loan will cost you. It includes all interest payments for the life of the loan, any interest paid at closing, your origination fee and any other charges paid to the lender and/or broker. Appraisal, credit report and title search fees are not included in the finance charge calculation.

Finance company: A limited purpose financing entity organized and controlled by a builder for the purpose of facilitating the issuance of bonds.

Financial Institutions Reform, Recovery and Enforcement Act (FIRREA): An act requiring appraisal licensing or certifications for designated federally related lending as well as appraisal standards.

Financial intermediary: A financial institution that acts as an intermediary between savers and borrowers by selling its own obligations or serving as a depository and in turn lending the accumulated funds to borrowers.

Financial statement: An accounting statement showing assets and liabilities of a person or company. Used generally for large loans or other instances when the credit report (history of payment of debts) in itself is not sufficient.

Financing package: The total of all financial interest in a project. It may include mortgages, partnerships, joint venture capital interests, stock ownership, or any financial arrangement used to carry a project to completion.

Financing points: Included points in the loan amount.

Financing statement: Under the Uniform Commercial Code this is a prescribed form filed by a lender with the registrar of deeds or secretary of state to perfect a security interest. It gives the name and address of the debtor and the secured party (lender) along with a description of the personal property securing the loan. It may show the amount of indebtedness.

Finder's fee: A fee or commission paid to a broker for obtaining a mortgage loan for a client or for referring a mortgage loan to a broker. It may also refer to a commission paid to a broker for locating a property.

Firm commitment: A lender's agreement to provide a loan to a specific borrower on a specific property.

FIRREA: The Financial Institutions Reform, Recovery and Enforcement Act was enacted in 1989 in response to a crisis in the S&L industry. The legislation governs lending activity for all federally related transactions.

First lien position: The position of lien priority held by a mortgage or deed of trust that has higher priority than any other mortgage or deed of trust against the property.

First mortgage: A mortgage that has a first-priority claim against the property in the event the borrower defaults on the loan. For example, a borrower defaults on a loan secured by a property worth $100,000 net of sale costs. The property has a first mortgage with a balance of $90,000 and a second mortgage with a balance of $15,000. The first mortgage lender can collect $90,000 plus any unpaid interest and foreclosure costs. The second mortgage lender can collect only what is left of the $100,000.

First refusal right: A right, usually given by an owner to a lessee, which gives the lessee a first chance to buy the property if the owner decides to sell. The owner must have a legitimate offer which the lessee can match or refuse. If the lessee refuses, the property can then be sold to the offeror.

Fiscal policy: The government's actions in raising revenue through taxation, spending money, and financing budget deficits.

Fiscal year: Any twelve-month period used as a business year for accounting, tax, and other financial purposes, as opposed to a calendar year. For example, the federal government's fiscal year runs from October 1 through September 30.

Fixed expenses: Expenses that do not depend on occupancy and do not vary.

Fixed-rate mortgage: A mortgage on which the interest rate and monthly mortgage payment remain unchanged throughout the term of the mortgage.

Fixed-Markup UML: An Upfront Mortgage Lender who discloses his wholesale price and markup.

Fixity: Real Estate that is permanently attached to the ground.

Fixture: An article of personal property which has been attached to land or a building in such a manner that it is now considered to be part of the real estate.

Flexible payment ARM: See Option ARMS.

Float: Allowing the rate and points to vary with changes in market conditions. The borrower may elect to lock the rate and points at any time but must do so a few days before the closing. Between the time of application and closing, a borrower may choose to bet on interest rates decreasing by electing to float. Floating is essentially choosing not to lock the interest rate. Since it is the borrower's responsibility to lock his or her rate before (or at) closing, choosing to float is considered risky and may result in a higher interest rate.

Float-down: A rate lock, plus an option to reduce the rate if market interest rates decline during the lock period; also called a cap. A float-down costs the borrower more than a lock because it is more costly to the lender. Float-downs vary widely in terms of how often the borrower can exercise (usually only once), and exactly when the borrower can exercise.

Flood insurance: Insurance indemnifying against loss by flood damage. Required by lenders (usually banks) in areas designated (federally) as potential flood areas. The insurance is private but federally subsidized.

FNMA: See Federal National Mortgage Association (Fannie Mae). A private corporation dealing in the purchase of first mortgages at discounts.

Footing: Concrete poured on the ground that bears the weight of the structure.

Forbearance: The postponement for a limited time of a portion or all the payments on a loan when a borrower is delinquent.

Forbearance agreement: An agreement by the lender not to exercise the legal right to foreclose in exchange for an agreement by the borrower to a payment plan that will cure the borrower's delinquency.

Foreclosure: The legal process by which a lender acquires possession of a property securing a mortgage loan when the borrower defaults. This procedure allows the lender to sell the real estate to pay the defaulting borrower's debt.

Foreclosure, Judicial: A court-supervised foreclosure, beginning with a lawsuit filed by a mortgagee or beneficiary to foreclose on property on which a borrower has defaulted.

Foreclosure, Nonjudicial: Foreclosure by a trustee under the power of sale in a deed of trust.

Foreign corporation: A corporation incorporated in another state. In New York, for example, a Delaware corporation would be a foreign corporation.

Forfeiture: Loss of a right or something of value as a result of failure to perform an obligation or condition.

Form report: A standardized appraisal form used by lenders.

Forward delivery: The delivery of mortgages or mortgage-backed securities to satisfy cash or future market transactions of an earlier date.

Forward sale: An agreement in which a lender agrees to sell to an investor a specified amount of mortgages or securities at an agreed-upon price at a specified future date. A mandatory delivery commitment is a type of forward sale.

Foundation: Wall (usually concrete) resting on a footing which supports the floor system.

401(k)/403(b): An investment plan sponsored by employers that allows individuals to set aside tax-deferred income for retirement or emergency purposes. A 401(k) applies to private corporations while a 403(b) applies to non-profit organizations.

401(k)/403(b) loan: A loan that can be taken against the amount accumulated in the 401(k)/403(b) plans, if so allowed by the plan administrator. Loans against these plans are an acceptable source of down payment for most types of other loans.

Fractional appraisal: An appraisal of a portion of a property, such as the value of a leasehold interest, value of an improvement without land, etc.

Franchise: A private contractual agreement to run a business using a designated trade name and operating procedures.

Freddie Mac: One of two Federal agencies that purchase home loans from lenders. The other is Fannie Mae.

Free and clear ownership: Ownership of real property completely free of any mortgage liens.

Freehold: An estate in real property for an indefinite and uncertain time. As opposed to leasehold.

Freehold estate: An estate in real estate that could last forever.

Frequency distribution: The arrangement of data into groups according to the frequency with which they appear in the data set.

Friable: Easily reduced to powder or crumbled. Non-pliable.

Front foot cost: A determination of the value of real property based on a value per foot as measured along the frontage of a parcel. Usually used with commercial property.

Frontage: The linear measurement along the front of a parcel, that is, the portion facing a road, waterway, walkway, etc. that would be considered the most valuable measurement of the property.

Front-end fee: Mortgage broker income paid by the borrower, as distinguished from the fee paid by the lender, which is "back-end".

Front-end money: Funds required to start a development and generally advanced by the developer or equity owner as a capital contribution to the project.

Fructus: Fructus is the portion of the bundle of rights regarding the fruits or incomes from Louisiana real estate.

Fructus industriales: Those things created by the labor (industry) of man rather than by nature alone. For example: A planted crop rather than an iron ore deposit. Important because fructus industriales is treated as personal property.

Fructus naturales: Produced by nature alone, such as trees (not planted by man), or minerals in the ground. Considered real property.

Full bath: Toilet, washbasin and tub.

Fully amortizing loan: A loan of equal, regular payments which cause the principal and interest to be completely paid by the due date.

Fully amortizing payment: The monthly mortgage payment which, if maintained unchanged through the remaining life of the loan at the then-existing interest rate, will pay off the loan over the remaining life. On fixed rate mortgages the payment is always fully amortizing, provided the borrower has made no prepayments. If the borrower makes prepayments, the monthly payment is more than fully amortizing. On GPMs, the payment in the early years is always less than fully amortizing. On ARMs, the payment may or may not be fully amortizing, depending on the type of ARM.

Fully indexed interest rate: The current index value plus the margin on an ARM. Usually, initial interest rates on ARMs are below the fully indexed rate. If the index does not change from its initial level, after the interest rate period ends the interest rate will rise to the fully indexed rate after a period determined by the interest rate increase cap. For example, if the initial rate is 4% for 1 year, the fully indexed rate 7%, and the rate adjusts every year subject to a 1% rate increase cap, the 7% rate will be reached at the end of the third year.

Functional obsolescence: A loss in value of an improvement due to functional inadequacies, often caused by age or poor design.

Functional obsolescence-curable: Physical or design features that are no longer considered desirable by property buyers but could be replaced or redesigned at relatively low cost.

Functional obsolescence-incurable: Currently undesirable physical or design features that are not easily remedied or economically justified.

Funding: The disbursement of funds to complete a transaction. In mortgage finance, it occurs when the lender provides money to close a real estate sale.

Funding fee: A charge paid by a VA borrower at closing, which the lender submits to the VA.

Futures contract: A contract purchased on an organized market (e.g., Chicago Board of Trade) either for the purchase of a GNMA certificate at a specified price on a specified future date or for the sale of the certificate on a specified future date.

G

GEM: A growth equity mortgage is characterized by gradually increasing payments over the term of the loan. The interest rate is constant.

GIS. Geographic Information Systems: Various types of software that make use of a computerized database to produce maps based on satellite imaging derived reference points on the earth's surface.

Gable roof: Roof where two sides slope from the ridgeboard to the eaves.

Gap financing: (1) Interim financing. (2) A loan between the floor amount and full amount of a take out loan.

Garnishment: A proceeding that applies specified monies, wages, or property to a debt or creditor by proper statutory process against a debtor.

Garn-St. Germain Depository Institutions Act: A 1982 act which removed lending restraints from the savings and loan industry.

General certification: An appraiser certification for all types of property.

General contractor: One who contracts for the construction of an entire building or project, rather than for a portion of the work. The general contractor hires subcontractors, such as plumbing contractors, electrical contractors, etc., coordinates all work, and is responsible for payment to the said subcontractors.

General data: Data as to real estate values in general.

General lien: A lien which attaches to all property owned by the debtor.

General obligation bonds: System of financing in which the community is held responsible for making payments for capital improvements, usually included in property taxes.

General partner: A member of a partnership who has authority to bond the partnership and shares in the profits and losses. A partnership must have at least one general partner and may have more as well as limited partners.

General warranty deed: A type of deed used to convey the highest form of ownership in a property. Used in the eastern states.

Generic prices: Prices that assume a more or less standardized set of transaction characteristics that generally command the lowest prices. Generic prices are distinguished from transaction specific prices, which pertain to the characteristics of a specific transaction.

G.I. Bill: The federal legislation that provided for VA loan insurance.

Gift: A voluntary transfer of property without valuable consideration.

Gift funds: Money given to a buyer who otherwise would not have enough cash to close the transaction.

Gift letter: A letter to HUD from the donor (giver) stating that a gift of money has been made to the buyer in order to purchase specific property. The relationship of the donor and donee is stated, as well as the amount of the gift.

Gift of equity: A sale price below market value, where the difference is a gift from the sellers to the buyers. Such gifts are usually between family members. Lenders will usually allow the gift to count as down payment.

GNMA (Ginnie Mae): Government National Mortgage Association. A federal association, working with FHA, which offers special assistance in obtaining mortgages, and purchases mortgages in a secondary capacity.

GNMA Futures Market: A regulated central market in which standardized contracts for the future delivery of GNMA securities are traded.

GNMA II: Similar to GNMA certificates except that the mortgages within the pool may have interest rates that vary within 100 basis points.

GNMA Mortgage-backed Securities: Securities guaranteed by GNMA that are issued by mortgage banker, commercial banks, savings and loan associations, savings banks, and other institutions. The GNMA security holder is protected by the "full faith and credit of the U.S." GNMA securities are backed by FHA, VA, or FmHA mortgages.

GNMA-backed Bond: A "mortgage-backed bond" using GNMA certificates as the collateral rather than the individual mortgages.

Going concern value: The value of an ongoing business or project.

Good fairy syndrome: A belief that somewhere out there is a good fairy that will solve all our financial (and other) problems.

Good faith: Something done with good intentions, without knowledge of fraudulent circumstances, or reason to inquire further.

Good faith estimate: The form that lists an estimate of settlement charges the borrower must pay at closing. The lender is obliged to provide the borrower with the good faith estimate within three business days of receiving the loan application.

Government loan: A type of mortgage insured by the FHA (Federal Housing Authority), guaranteed by the VA (Veteran's Administration), or RHS (Rural Housing Authority).

Government lots: Irregularly shaped parcels of land, usually fronting on water, which could not practically be divided into sections under government survey.

Government National Mortgage Association (GNMA): A Federal agency that guarantees mortgage securities that are issued against pools of FHA and VA mortgages. GNMA provides funds for government loans and takes over special assistance and liquidation functions of Fannie Mae.

Government-Sponsored Enterprise (GSE): An entity that is privately owned and functions as a private corporation, but is created, chartered, and supervised by the government.

Government survey: The survey from which our present system of townships, sections, etc., was developed.

Grace period: The period after the payment due date, usually fifteen days, during which the borrower can pay without being charged late fees. Grace periods apply only to mortgages on which interest is calculated monthly. Simple interest mortgages do not have a grace period because interest accrues daily.

Graduated lease: A lease calling for a varying rental, usually based on periodic appraisal or simply the passage of time.

Graduated payment mortgage (GPM): A mortgage on which the payment rises by a constant percent for a specified number of periods, after which it levels out over the remaining term and amortizes fully. For example, the payment might increase by 0.75% every 12 months for 60 months, after which it is constant for the remaining term at a fully amortizing level.

Graduated payment term: The number of years during which payments may be adjusted in a GPM.

Graduation period: The interval at which the payment rises on a GPM.

Graduation rate: The percentage increase in the payment on a GPM.

Grant deed: A type of deed in which the grantor warrants that he or she has not previously conveyed the estate being granted to another, has not encumbered the property except as noted in the deed, and will convey to the grantee any title to the property the grantor may later acquire.

Grantee: The person to whom an interest in real property is conveyed.

Grantor: The person conveying an interest in real property.

Green lumber: Unseasoned lumber, having a higher content of moisture than that of seasoned or air-dried lumber.

Greenbelt: A landscaped area surrounding a development to separate and protect it from a neighboring incompatible use, such as separating office buildings from an industrial park.

Gross building area: All enclosed floor areas, as measured along a building's outside perimeter.

Gross income: The scheduled (total) income, either actual or estimated, derived from a business or property.

Gross income multiplier: A figure which, when multiplied by the annual gross income, will theoretically determine the market value. A general rule of thumb which varies with specific properties and areas.

Gross lease: A lease of property in which the lessor meets all property charges incurred through ownership.

Gross leasable area: Total space designed for occupancy and exclusive use of tenants, measured from outside wall surfaces to the center of shared interior walls.

Gross living area: Total finished, habitable, above-grade space, measured along the building's outside perimeter.

Gross monthly income: The total amount the borrower earns per month, not counting any taxes or expenses. This amount is often used in calculations to determine whether a borrower qualifies for a particular loan.

Gross profit: The total profit before deductions. A general term which varies, depending upon accounting procedures.

Gross rent multiplier: (GRM) A number (factor) which is used to determine approximate selling price for income property by multiplying the gross monthly income times this number: (income x multiplier = selling price). If calculated using annual income, it's called Gross Income Multiplier.

Ground lease: A lease for the use of land, usually providing for improvements to be placed on the land by the user.

Ground rent: The earnings of improved property allocated to the ground itself after allowance is made for earnings of the improvement. Also, payment for the use of land in accordance with the terms of a ground lease.

Ground rent capitalization: The rent under a ground lease is capitalized to determine land value.

Ground water: Water in the subsoil or of a spring or shallow well.

Grout: (1) Thin mortar used in masonry work to fill joints between bricks, blocks, tiles, etc. (2) A variety of plaster used to finish ceilings of superior quality.

Growing equity mortgage (GEM): Residential mortgage that has monthly payments increasing according to an agreed-upon schedule. This increased payment reduces principal, allowing the loan to be paid off sooner than a traditional mortgage.

Growth management: Policies that control growth of a community.

Guaranteed loan: A loan guaranteed by VA. FmHA, or any other interested party.

Guaranteed Mortgage Price Agreement: A proposal by HUD in 2002 to allow lenders and others to offer packages of loans and settlement services at a single price.

Guarantor: One who makes a guaranty.

Guaranty: An arrangement in which one party accepts liability to another party for the payment of a third party's obligations, if the third party fails to pay them. See also: VA Guaranty.

Guaranty fee: A guarantor's charge to lenders for guaranteeing to an investor the timely payment of principal and interest from all the mortgages underlying a Fannie Mae mortgage-backed security.

H

Habendum: The clause in a deed, following the granting clause, which defines the extent of the estate of the grantee.

Habendum clause: The "to have and to hold" clause that defines the ownership being transferred in a deed.

Habitability: The condition of a property that is fit for people to live in; the absence of any condition in the property that would threaten the health or safety of an occupant. Landlord and tenant laws require landlords to maintain the habitability of their leased premises. In some localities, builders and developers of new properties are assumed to provide a warrant of habitability to buyers.

Half-bath: Toilet and washbasin.

Hard money mortgage: Cash loan to a borrower.

Hazard insurance: Insurance purchased by the borrower, and required by the lender, to protect a property against certain losses, such as fire, vandalism, storms and certain other natural causes. *See homeowners' insurance.*

Header (Lintel): A horizontal beam over a wall opening, such as a doorway, fireplace, etc. The header is attached to vertical framing members, and spreads the weight from above to these members.

Hectare: A French unit of measurement, equaling 10,000 square meters (2.471 acres).

Hedging: In mortgage lending, the purchase or sale of mortgage futures contracts to offset cash market transactions to be made at a later date.

Heir: One who by law, rather than by will, receives the estate of a deceased person.

Hereditaments: (1) Anything which could be considered real property. (2) Anything which may be inherited.

Heterogeneous: An appraisal term describing an area composed of buildings of varied styles or uses. Not as desirable as homogeneous property.

High water line: The line on the shore to which high tide rises under normal weather conditions.

Highest and best use: The available present use or series of future uses that will produce the highest present property value and develop a site to its full economic potential.

High-rise apartment building: An apartment building considered "high" in the area where it is built. There is no national height standard.

Hip roof: Roof where sloping surfaces rise from the eaves on all sides.

Historical cost: Actual cost of a property at the time it was constructed.

Historical rent: Scheduled (or contract) rent paid in past years.

Historical scenario: The assumption that the index value to which the rate on an ARM is tied follows the same pattern as in some prior historical period. In meeting their disclosure obligations in connection with ARMs, some lenders show how the mortgage payment would have changed on a mortgage originated some time in the past.

Hobby tax rules: Rules that limit allowable deductions on enterprises that do not clearly show a profit motive.

Holdback: Portion of a loan held back by the lender until a contingency is met. In the sale of a home insured by VA or FHA, funds may be held back to make necessary improvements to bring the property to VA or FHA standards.

Holder in Due Course (HDC): A third party purchaser of a promissory note who purchased the note for value and in good faith. An HDC is entitled to payment by the maker or drawer of the check or note.

Holdover clause: A clause in a lease which provides for a very high rent, should the tenant fail to vacate at the end of a lease. It makes a holdover situation unlikely.

Holdover tenancy: A tenancy created when a tenant with a leasehold estate for years remains in possession of the leased premises after lease expiration. In the absence of a new lease agreement, the holdover tenancy becomes a *periodic tenancy*.

Hold over tenant: A tenant who retains possession after the expiration of a lease.

Holographic will: An unwitnessed will written in hand by the person leaving the will.

Home Equity Conversion Mortgage (HECM): A reverse mortgage program administered by FHA.

Home Equity Line of Credit: A mortgage loan in second position that allows a borrower to obtain cash drawn against home equity, up to a certain amount.

Home Equity Loan: Same as second mortgage.

Home inspection: A thorough assessment by a professional regarding the structural and mechanical condition of a property.

Home keeper: A reverse mortgage program administered by Fannie Mae.

Home Mortgage Disclosure Act: A federal law requiring institutional lenders to report on residential loans originated or purchased from other lenders; the intent of the law is to detect redlining and other unlawful lending practices.

Home mortgage interest deduction: Tax-payers may deduct from their taxable income interest paid on home mortgages, up to a limit of $500,000 (or $1,000,000 for married couples filing jointly).

Homeowner's insurance: Insurance coverage on a residential property to protect the owner against financial loss from fire, lightning, windstorms and hail, property theft and destruction, public liability, vandalism, and other risks. Lenders require homeowners to obtain such insurance at the time a home loan is secured. Also known as *hazard insurance*.

Home Owners Loan Corporation (HOLC): A Federal Government agency established by Congress in 1933 to help families avoid having their homes foreclosed.

Homebuyer Protection Plan: A plan purporting to protect FHA homebuyers against property defects.

Homebuyer's Summary: An FHA document that must be presented to the borrower by the lender. It lists all property defects found by the FHA appraiser.

Homeowner's Association: A nonprofit association made up of homeowners in a subdivision, responsible for enforcing the restrictive covenants and managing other community affairs.

Homeowner's equity: See Equity

Homeowners policy: A multiple-peril policy commonly called a "package policy". It is available to owners of private dwellings and covers the dwelling and contents in the case of fire or wind damage, theft liability for property damage, and personal liability.

Homeowner's warranty: An insurance policy that is purchased by a buyer that covers certain repairs, should they be necessary over a certain period.

Home Ownership and Equity Protection Act: A federal law applicable to high-cost home equity loans that requires certain disclosures and prohibits certain predatory lending practices.

Homestead: A home on which a declaration of homestead has been filed, which protects the home from unsecured creditors up to a statutory amount ($25,000 in LA).

Homestead estate: In some states, the home and property occupied by an owner are protected by law up to a certain amount from attachment and sale for the claims of creditors.

Homestead exemption from property tax: Louisiana exempts from property tax typically $7,500 of a property's assessed value.

Homogeneous tenants: Business tenants that offer similar or complementary goods or services.

Horizontal regime: A legal term for a highrise condominium.

Hoskold sinking fund table: A table that supplies a factor by which a property's annual net income may be multiplied to find the present worth of the property over a given period at a given rate of interest.

Housing bank: A government-owned or affiliated housing lender. With minor exceptions, the government in the U.S. has never loaned directly to consumers, but housing banks are widespread in many developing countries.

Housing bubble: A marked increase in house prices fueled partly by expectations that prices will continue to rise.

Housing expense: The sum of mortgage payment, hazard insurance, property taxes, and homeowner association fees.

Housing expense-to-income ratio: The ratio of housing expense to borrower income that is used, along with the total expense ratio and other factors, in qualifying borrowers.

Housing ratio: The ratio of the monthly housing payment to total gross monthly income. Also called Payment-to-Income Ratio or Front-End Ratio.

HUD: Department of Housing and Urban Development; regulates Fannie Mae and Ginny Mae.

HUD-1 form: The form a borrower receives at closing that details all the payments and receipts among the parties in a real estate transaction, including borrower, lender, home seller, mortgage broker and various other service providers.

Hybrid ARM: An ARM on which the initial rate holds for some period, during which it is "fixed-rate," after which it becomes an adjustable rate. Generally, the term is applied to ARMs with initial rate periods of three years or longer.

Hypothecate: To give a mortgage as security without giving up possession of the house.

I

Implied Agency: An agency which is not expressly set out but must be deduced from the circumstances and other facts. It is an actual agency as opposed to an ostensible agency or agency by estoppel.

Implied contract: A binding contract created by the actions of the principals, rather than by written or oral agreement of the parties.

Impound: The portion of a mortgagor's monthly payment held by the lender to pay for taxes, hazard insurance, mortgage insurance, lease payments, and other items as they become due. Known as impounds or reserves in some states. Escrow payment.

Impound account: Account held by a lender for payment of taxes, insurance, or other periodic debts against real property. The mortgagor or trustor pays a portion of, for example, the yearly taxes, with each monthly payment, The lender pays the tax bill from the accumulated funds.

Improved land: Real Property made suitable for building by the addition of utilities and publicly owned structures, such as a curb, sidewalk, street-lighting system, and/or sewer.

Improvements: Generally, buildings, but may include any permanent structure or other development, such as a street, utilities, etc.

Inchoate: Not yet vested or completed. Right to dower is inchoate until the husband dies.

Income approach: Value determination based on income generated by a property.

Income approach to value: The appraisal technique used to estimate real property value by capitalizing net income. See Capitalization.

Income property: Real estate developed or improved to produce income.

Income ratio: A test applied in qualifying a buyer for a loan, to determine whether he or she has sufficient income. The buyer's proposed housing expense and other debt should not exceed a specified percentage of his stable monthly income.

Incompetent: One who is mentally or physically unable to handle his property without help. A court will appoint someone to handle the financial affairs of such a person.

Incorporeal rights: Rights to intangibles, such as legal actions, rather than rights to property (rights to possession or use of land).

Increasing Returns, Law of: The situation in which property improvements increase property income or value.

Incremental taxes: Additional taxes generated as a result of new industry moving into an area.

Incubator industrial building: A structure designed to encourage growth of a new company.

Incurable depreciation: A depreciated item that would be impossible or too expensive to restore or replace.

Indemnity obligation: An obligation by a VA borrower to pay back the loan, even in the case of default by a subsequent purchaser.

Independent contractor: A person who contracts to do work for another by using his or her own methods and without being under the control of the other person regarsing how the work should be done. Unlike an employee, an independent contractor pays all of his or her expenses, personally pays income and social security taxes, and receives no employee benefits. Many real estate salespeople are independent contractors.

Independent fee appraiser: An appraiser who is self-employed or an employee of an appraisal firm.

Index: A published interest rate against which lenders measure the difference between the current interest rate on an adjustable rate mortgage and that earned by other investments, such as one- three-, and five-year U.S. Treasury Security yields; the monthly average interest rate on loans closed by savings and loan institutions; and the monthly average Costs-of-Funds incurred by savings and loans, which is then used to adjust the interest rate on an adjustable mortgage up or down.

Index lease: A lease tied to an index, such as the consumer price index.

Indexed ARM: An ARM on which the interest rate adjusts mechanically based on changes in an interest rate index, as opposed to a "discretionary ARM" on which the lender can change the rate at any time subject only to advance notice. All ARMs in the U.S. are indexed.

Index method: An appraisal technique used to estimate reproduction of replacement cost. The appraiser multiplies the original cost of construction by a price index for the geographic area to allow for price changes.

Indirect costs: Costs other than labor or material such as overhead, financing, design costs, permit fees, etc.

Industrial development bonds: Securities issued to pay for the development of a new industry, usually in the form of general obligation bonds.

Industrial park: A subdivision in the pattern of residential subdivision, except catering to the needs of industry. Off-site improvements may have stronger roads, heavy plumbing and wiring, wider streets for trucks, rail spurs, and other necessities for industry.

Infant industries: Newly formed businesses.

Inflation: The expanse or increase in an economy over its natural growth. Usually caused by over printing money and over-extending credit. Marked by a rapid increase in the price of goods.

Infrastructure: Public improvements which support a property.

Ingress: An entrance to property.

Ingress and Egress: A right to enter upon and pass through land.

Inheritability: Under our allodial system, the ability to leave property to heirs.

Inheritance tax: A tax imposed on the estates of deceased persons by the federal government and most states. The federal estate tax exemption is currently at the level of $600,000 net value per person plus an additional $750,000 per farm owner.

Initial interest rate: The interest rate that is fixed for some specified number of months at the beginning of the life of an ARM. The initial rate is sometimes referred to as a "teaser" when it is below the fully indexed interest rate.

Initial rate period: The number of months for which the initial rate holds, ranging from one month to ten years.

Injunction: A court order forbidding a defendant from doing something or allowing a plaintiff to do something.

In perpetuity: Of endless duration; forever.

In personam: Directed at specific persons rather than against property or generally for all people.

In rem: Pertaining to property or people in general.

Inside lot: Not a corner lot.

Installment: The regular periodic payment that a borrower agrees to make to the mortgagee.

Installment contract: A contract which provides for payment of a house in installments.

Installment factor: Gain divided by equity and applied to annual portions of principal received as payments on an installment contract to determine taxable amount.

Installment sale: A method of reporting income received from the sale of real estate when the sales price is paid over time. If the sale meets certain requirements, a taxpayer can postpone reporting such income to future years.

Institutional lender: A financial institution that invests in mortgages carried in its own portfolio. Savings banks, life insurance companies, commercial banks, pension and trust funds, and savings and loan associations are examples.

Instrument: A legal document; usually one that transfers title, creates a lien, or establishes a right to payment.

Insurable value: Value an insurance company is willing to reimburse.

Insurance: A contract for indemnification against loss.

Insured loan: A loan insured by FHA or a private mortgage insurance company.

Integration: In a property's life cycle, the earliest stage, when the property is being developed; also called the development stage.

Inter vivos: Between living persons. Property transferred between living persons would fall under different laws than property transferred after death or in contemplation of death.

Interest: Consideration in the form of money paid for the use of money, usually expressed as an annual percentage; a right, share, or title in property.

Interest accrual period: The period over which the interest due the lender is calculated. If the interest accrual period on a 6 % mortgage for $100,000 is one year, as it is on some loans in the UK and India, the interest for the year is .06($100,000) = $6,000. If interest accrues monthly, as it does on most mortgages in the U.S., the monthly interest is .06/12($100,000) = $500. If interest accrues biweekly, as on a few programs in the U.S., the biweekly interest is .06/26($100,000) = $230.77. And if interest accrues daily, as HELOCs and some other mortgages in the U.S. do, the daily interest is .06/365($100,000) = $16.44.

Interest, Compound: Interest calculated as a percentage of both the principal and any accumulated unpaid interest. Compare - Interest, Simple.

Interest, Deferred: Interest that accumulates over the course of one or more payment periods but is not payable until some later time; a feature of some adjustable-rate loans.

Interest, Prepaid: Interest on a new loan that must be paid at closing; it covers the interest due for the first month of the loan term; also called interim interest.

Interest, Simple: Interest calculated as a percentage of the principal balance only. Compare - Interest, Compound.

Interest cost: A time-adjusted measure of cost to a mortgage borrower. It is calculated in the same way as the APR except that the APR assumes that the loan runs to term, and is always measured before taxes. Interest cost is measured over the individual borrower's time horizon, and it may be measured after taxes at the individual borrower's tax rate. In addition, the cost items included in interest cost may be more or less inclusive than those included in the APR.

Interest due: The amount of interest, expressed in dollars, computed by multiplying the loan balance at the end of the preceding period by the annual interest rate and then dividing by the interest accrual period. It is the same as interest payment except when the scheduled mortgage payment is less than the interest due, in which case the difference is added to the balance and constitutes negative amortization.

Interest factor (IF): The proportion that determines the time value of money.

Interest only: A term loan arrangement calling for payments of interest only, not to include any amount for principal.

Interest only mortgage: A term loan arrangement calling for payments of interest only, not to include any amount for principal.

Interest payment: The dollar amount of interest paid each month. It is the same as interest due so long as the scheduled mortgage payment is equal to or greater than the interest due. Otherwise, the interest payment is equal to the scheduled payment.

Interest rate: The rate charged to the borrower each period for the loan of money, by custom quoted on an annual basis. A rate of 6%, for example, means a rate of 1/2% per month. A mortgage interest rate is a rate on a loan secured by a specific property.

Interest rate adjustment period: The frequency of rate adjustments on an ARM after the initial rate period is over. The rate adjustment period is sometimes but not always the same as the initial rate period. As an example, a 3/3 ARM is one in which both periods are 3 years while a 3/1 ARM has an initial rate period of 3 years after which the rate adjusts every year.

Interest rate cap: A provision in an ARM that limits the amount that the interest rate may be increased (and in some cases, decreased).

Interest rate ceiling: The highest interest rate possible under an ARM contract; same as "lifetime cap." It is often expressed as a specified number of percentage points above the initial interest rate.

Interest rate floor: The lowest interest rate possible under an ARM contract. Floors are less common than ceilings.

Interest rate increase cap: The maximum allowable increase in the interest rate on an ARM each time the rate is adjusted. It is usually one or two percentage points, but may be up to five points if the initial rate period is five years or longer.

Interest rate decrease cap: The maximum allowable decrease in the interest rate on an ARM each time the rate is adjusted. It is usually one or two percentage points.

Interest rate index: The specific interest rate series to which the interest rate on an ARM is tied, such as "Treasury Constant Maturities, 1-Year," or "Eleventh District Cost of Funds". All the indices are published regularly in readily available sources.

Interest rate risk: The risk that, after a loan is made for a specified term at a fixed interest rate, market interest rates will rise and the lender will miss the opportunity to invest the loaned funds at a higher rate.

Interest rate swap: A transaction between two parties, in which each agrees to exchange payments tied to different interest rates or indices for a specified period of time.

Interest shortfall: When more interest accrues on a loan than the lender collects during a particular period; this can occur with adjustable-rate mortgages that have certain features.

Interim financing: Temporary financing, usually for construction.

Interim loan: A construction loan.

Interim refinance: An ill-advised scheme to avoid a prepayment penalty by refinancing twice instead of once.

Interim use: A temporary property use awaiting transition to its highest and best use.

Interior function zone: Relationship of interior sleeping, living and working areas.

Intermediary: An individual or entity who originates and/or services loans on behalf of another.

Intermediate-term mortgage: A mortgage loan with a stated maturity at the time of purchase that it is equal to or less than 20 years.

Internal rate of return (IRR): The rate at which the present worth of an annuity plus reversion exactly equals the investment price.

Internet mortgages: Mortgages delivered using the internet as a major part of the communication process between the borrower and the lender.

Interstate Land Sales Full Disclosure Act: A federal law that regulates interstate land sales by requiring registration of real property with HUD's Office of Interstate Land Sales Registration. The act requires disclosure of full and accurate information regarding the property to prospective buyers before they decide to buy.

Intestate: Dying without a will, or having left a will that is defective in form.

Inure: To take effect, to result.

Inventory: The loans a lender has closed but has not yet delivered to an investor.

Investment: When someone makes a sum of money (investment capital) available for use by another person or entity, in the expectation that it will generate a return (profit) for the investor.

Investment, Debt: An investment where temporary use of an investor's funds is exchanged for interest payments, in accordance with an agreement requiring repayment of the funds or allowing withdrawal of the funds.

Investment, Liquid: An investment that can be quickly and easily converted into cash.

Investment, Ownership: An investment where an investor's funds are used to purchase an asset or a property interest in an asset.

Investment capital: A sum of money made available to fund business enterprises or other ventures.

Investment property: Generally, any property purchased for the primary purpose of profit. The profit may be from income or from resale.

Investment quality loan: A loan that meets the guidelines of the secondary market.

Investment trust: A trust designed to act as an investment conduit for small investors that enables them to pool their resources.

Investment value: Value to a particular investor having a specific goal.

Investor: In real estate, a borrower who owns or purchases a property as an investment rather than as a residence.

Involuntary lien: A lien imposed against property without consent of an owner; e.g., taxes, special assessments, federal income tax liens, etc.

Inwood annuity table: A table that supplies a factor to be multiplied by the desired yearly income (based on the interest rate and length of time of the investment) to find the present worth of the investment.

Irrevocable trust: A permanent arrangement that cannot be changed until the goals of the trust have been met.

J

Joint and several: A liability which allows the creditor to sue any one of the debtors (sever one from the others) or sue all together (jointly).

Joints: Horizontal beams supporting floor and ceiling.

Joint tenancy: Ownership of real estate between two or more parties who have been named in one conveyance as joint tenants. Upon the death of one of the owners, his share goes to the other owners by the "right of survivorship."

Joint venture: An association between two or more parties to own or develop real estate. It may take a variety of legal forms including partnership, tenancy in common, or a corporation. It is formed for a specified purpose and duration.

Judgment: That which has been adjudicated, allowed, or decreed by a court.

Judgment lien: A lien upon the property of a debtor resulting from the decree of a court.

Judicial foreclosure: A court procedure used by lenders to secure clear title to a property under a defaulted real estate loan.

Jumbo mortgage: A mortgage larger than the maximum eligible for purchase by the two Federal agencies, Fannie Mae and Freddie Mac, $333,700 in 2004. Some lenders use the term to refer to programs for even larger loans; e.g., greater than $500,000. A loan for $417,001 or more in the continental United States (Alaska and Hawaii limits are higher). These limits are set by the Federal National Mortgage Association and the Federal Home Loan Mortgage Corporation. Because jumbo loans cannot be funded by these two agencies, they usually carry a higher interest rate.

Junior lienholder: A secured creditor whose lien is lower in priority than another's lien against the same property.

Junior mortgage: A lien subsequent to the claims of the holder of a prior (senior) mortgage.

Junk fees: A derogatory term for lender fees expressed in dollars rather than as a percent of the loan amount.

K

Key lot: A lot located two or three lots from an important commercial corner.

L

Labor-intensive: A business depending more on labor than on machines.

Laches: Delay or negligence in asserting one's legal rights.

Land: The earth's surface extending downward to the center of the earth and upward infinitely into space.

Land bank: Land purchased and held for future development.

Land capitalization rate: The rate of return, including interest, on land only.

Land contract: An installment contract for sale with the buyer receiving equitable title (right to possession) and the seller retaining legal title (record title).

Landlocked parcel: A parcel of land without any access to a public road or way.

Landlord: Owner or lessor of real property.

Land patent: An instrument conveying government owned lands to individuals.

Land residual method: The land evaluation method which capitalizes the value of the improvements to find the income attributable to the improvements. The remaining income would be attributable to the land.

Land residual value: A method of determining land value where the property value is determined and the building value (cost approach is deducted to obtain residual land value).

Land trust: A trust originated by the owner of real property in which real estate is the only asset. Because the interest of a beneficiary is considered personal property and not real estate, a judgment against the beneficiary will not create a lien against the real estate. Thus land trusts are popular when there are multiple owners who seek protection against the effects of divorce, judgments, or bankruptcies of each other.

LASER: Fannie Mae's computerized delivery and reporting system for lenders.

Last updated: The Last Update column on a quotes results table tells you when the information was last provided by the lender to a website. New listings are usually placed at the top of each table so that a borrower may have immediate access to timely information. Unless otherwise noted, most times are provided as Eastern Standard Time.

Late charge: A penalty for failure to pay an installment payment on time. Usually not allowed as interest for tax deductions. May or may not be included as usury. If not, the amount of late charge is either set by statue or must be "reasonable".

Late fees: These are fees that lenders are entitled to collect from borrowers who don't pay within the grace period. Most mortgage notes offer borrowers a 10 or 15-day grace period, with a late charge of about 5% on payments received on the 16th day or later.

Late payment: A payment received after the grace period stipulated in the note. Most mortgage grace periods are 10 or 15 days.

Latent defect: A structural defect in a property, hidden and not readily discoverable by inspection, that is a threat to health or safety and is known to the seller or broker but not to the buyer. Failure to disclose such a defect is a form of *misrepresentation*.

Law of supply and demand: The basic law of economics stating that prices rise when supply decreases or demand increases, and that prices fall when supply increases or demand decreases.

Lead-generation site: A mortgage web site designed to provide leads, potential customers, to lenders. Where a referral site provides information about lenders to consumers whereby consumers may contact the lenders, a lead-generation site provides information about the consumers to the lenders, allowing the lenders to contact the consumers. These sites are also called "auction sites" because lenders post their prices directly to the consumer.

Lease: A written agreement between a property owner and a tenant that stipulates the payment and conditions under which the tenant may possess the real estate for a specified period of time.

Leaseback: A technique in which a seller deeds property to a buyer for a consideration and the buyer simultaneously leases the property back to the seller, usually on a long-term basis. Also called sale-leaseback.

Leased fee: The lessor's interest and rights in the real estate being leased.

Leasehold: An interest in real property held by virtue of a lease.

Leasehold estate: An estate for a fixed length of time, established when a landlord gives up possession of real estate to a tenant, giving the tenant an equitable interest in the property, as defined by lease terms.

Leasehold improvements: Improvements made by the lessee. The term is used in condemnation proceedings to determine the portion of the award to which the lessee is entitle.

Leasehold interest: The tennant's legal interest in a property.

Leasehold mortgage: A loan to a lessee secured by a leasehold interest in a property.

Lease option: A rental agreement indicating a tenant's option to purchase a property. Monthly payments consist not only of rent, but an overage that can be applied towards a down payment on an already established down payment of a purchase price.

Lease with option to purchase:: A transaction in which a hopeful home buyer leases a home with an option to buy it within a specified period.

Lease/purchase: A variation on the lease/option, in which the parties sign a purchase contract (instead of an option) and the prospective buyer leases the property for an extended period before closing.

Legal description: A description of a piece of real property that is acceptable by the courts of the state where the property is located for use in real property conveyance documents by which land may be known with certainty.

Legal lists: A term describing investments that life insurance companies, mutual savings banks, or other regulated investors may make under a state charter or court order.

Legal tender: Lawful money. U.S. banknotes are legal tender for payment of any debt.

Legatee: A successor who receives something through a will (testate).

Lender: The bank, mortgage company, or mortgage broker offering the loan. Many institutions only "originate" loans and then resell the obligation to third parties.

Lesion beyond moiety: The harm suffered by a seller who does not receive at least one-half the value of the property he has sold; one year to reclaim property.

Lessee (tenant): The person(s) holding rights of possession and use of property under terms of a lease.

Lessee's interest: An interest having value only if the agreed-on rent is less than the market rent.

Lessor (landlord): The one leasing property to a lessee.

Lessor's interest: The value of lease rental payments plus the remaining property value at the end of the lease period.

Letter of transmittal: Cover letter for appraisal report.

Letter report: A letter opinion as to value less detailed than narrative report.

Levee: An embankment constructed along a river or stream to prevent flooding.

Level payment loan: A loan that is repaid with equal periodic (usually monthly) payments; the payment amount does not change over the entire term. Compare - Graduated Payment Mortgage; Growing Equity Mortgage.

Leverage: Using someone else's money for the purchase of property.

Levy: To impose or assess a tax on a person or property; the amount of taxes to be imposed in a given district.

Liability: (1) A debt or obligation. (2) Legal responsibility.

Liability insurance: Insurance that protects property owners against claims that allege negligence or inappropriate action that have resulted in bodily injury or property damage to another party.

Liable: Obligated, responsible.

LIBOR: The London Interbank Offered Rate Index (LIBOR) is an average of the interest rates that major international banks charge each other to borrow U.S. dollars in the London money market. Like the U.S. Treasury's CD indexes, LIBOR tends to move and adjust quite rapidly to changes in interest rates.

License: (1) The revocable permission for a temporary use of land-a personal right that cannot be sold. (2) Formal permission from a constituted authority (such as a state agency) to engage in a certain activity or business (such as real estate appraisal).

Licensed Appraiser: An appraiser whose practice is limited to conforming loans and SFRs valued at under $1,000,000.00.

Lien: The lender's right to claim the borrower's property in the event of a borrower default. If there is more than one lien, the claim of the lender holding the first lien will be satisfied before the claim of the lender holding the second lien, which in turn will be satisfied before the claim of a lender holding a third lien, etc. A lien that is specific to a property must be paid off when a property is sold. A mortgage or a first trust deed is considered a lien.

Lien, etc.: A lien that is specific to a property must be paid off when a property is sold. A mortgage or a first trust deed is considered a lien.

Lienholder: A secured creditor who has a lien against a debtor's real property.

Lien priority: The order in which liens will be paid off out of the proceeds of a foreclosure sale.

Lien theory: A theory followed in several states that assumes a mortgage has only a lien on the mortgage property, and the mortgagor has legal title.

Life care: A form of congregant living for the elderly that includes total care for the balance of a resident's life.

Life estate: An estate or interest in real property held for the duration of the life of a certain person. Upon the expiration of that life, the estate will automatically be vested in a remainderman or reversioner.

Life of loan cap: The maximum interest rate that can be charged during the life of the loan. Also called Lifetime Cap. This value is often expressed as an increment above the initial loan rate. For example, an adjustable rate loan with an initial rate of 7.25% and a 6% lifetime cap will never adjust above a rate of 13.25% (7.25% + 6.0%).

Limited appraisal: The act or process of estimating value, or an estimate of value, performed under and resulting from invoking the Departure Provision of the Uniform Standards of Professional Appraisal Practice.

Limited partnership: A partnership that consists of one or more general partners who are fully liable and one or more limited partners who are liable only for the amount of their investment.

Limiting conditions: A statement or explanation which limits the application of an appraisal report.

Line of credit: An agreement by a commercial bank or other financial institution to extend credit up to a certain amount for a certain time to a specific borrower.

Lineal: Concerning a line. A lineal measure is a distance measure rather than an area measure.

Liquidated damages: An amount predetermined by the parties to an agreement, as the total amount of compensation an injured party should receive, if the other party breaches a specified part of the contract. Earnest money is liquidated damages.

Liquidating plan: A relief provision that allows borrowers to make additional payments to cure a delinquency.

Liquidation value: Value based on a sale within a relatively short period of time.

Liquidity: Cash position based on assets that can readily be converted to cash.

Lis Pendens: A legal document giving constructive notice that a law suit is pending.

Listing: An agreement between an owner of real property and a real estate agent, whereby the agent agrees to secure a buyer or tenant for specific property at a certain price and terms in return for a fee or commission.

Littoral: Concerning the shore of lakes and oceans, as opposed to rivers and streams, for which the word riparian is used.

Littoral rights: Right of a property owner to reasonable use of lake, pond, or ocean water bordering the property. Ownership extends to the water's high water mark.

Living trust: A trust which is in effect during the life of the settlor, rather than upon his death (testamentary trust).

Loan: The principal or amount of total money borrowed, that is repaid with interest.

Loan amount: The amount the borrower promises to repay, as set forth in the mortgage contract. This amount differs from the amount of cash disbursed by the lender by the amount of points and other upfront costs included in the loan. Subtracting the down payment from the purchase price of the home will provide you with the loan amount.

Loan Application: A document filled out by a borrower that details the amount to be borrowed and information regarding the borrower's credit and employment history.

Loan "churning": The process of raising cash periodically through successive cash-out refinancing. It is a scam initiated by mortgage brokers that victimizes wholesale lenders, with the connivance of borrowers.

Loan constant: The yearly percentage of interest, which remains the same over the life of an amortized loan based on the monthly payment in relation to the principal originally loaned.

Loan correspondent: An intermediary who arranges loans of an investor's money to borrowers and then services the loans.

Loan discount fee: The term used to describe points on the Good Faith Estimate.

Loan fee: A one-time fee charged by the lender for origination of a loan; often a percentage of the loan amount; also called a loan service fee or loan origination fee.

Loan guaranty: An arrangement where a third party guarantor accepts secondary liability for a loan and will reimburse a lender for any losses from a borrower's default.

Loan modification: A change in the terms of a loan, usually the interest rate and/or term, in response to the borrower's inability to make the payments under the existing term.

Loan officer: Employees of lenders or mortgage brokers, who find borrowers, sell and counsel them, and take applications. An intermediary between lending institutions and borrowers, loan officers solicit loans, represent creditors to borrowers, and represent borrowers to creditors.

Loan origination: What the process of obtaining new loans is called.

Loan origination fee: A one time set up fee charged by the lender.

Loan provider: A lender or a mortgage broker.

Loan servicing: A service performed by a lender to protect a mortgage investment, including collecting monthly payments from borrowers and dealing with delinquencies.

Loan submission: A package of pertinent papers and documents regarding specific property of properties. It is delivered to a prospective lender for review and consideration for the purpose of making a mortgage loan.

Loan-to-Value (L/V) Ratio: The loan amount divided by the lesser of the selling price or the appraised value; also referred to as LTV. The LTV and down payment are different ways of expressing the same set of facts. The relationship between the amount of the mortgage loan and the appraised value of the property expressed as a percentage. A LTV ratio of 90 means that a borrower is borrowing 90% of the value of the property and paying 10% as a down payment. For purchases, the value of the property is assumed to be the purchase price, for refinances the value is determined by an appraisal.

Loan underwriting: The process of determining if a loan may be made that will provide minimum risk for the investor.

Location/Situs: An indispensable component for an evaluation analysis.

Lock: An option exercised by the borrower, at the time of the loan application or later, to "lock in" the rates and points prevailing in the market at that time. The lender and borrower are committed to those terms, regardless of what happens between that point and the closing date.

Lock *noun*: The period, expressed in days, during which a lender will guarantee a rate. Some lenders will lock rates at the time of application while others will allow the borrower to lock the rate after the application is taken. A borrower should request information from his/her lender regarding lock procedures.

Lock *verb*: The act of committing to a mortgage rate. This action, taken by a borrower some time between the application and the closing dates, is sometimes accompanied by a payment by the borrower to the lender.

Lock commitment letter: A written statement from a lender verifying that the price and other terms of a loan have been locked. Borrowers who lock through a mortgage broker should always demand to see the lock commitment letter.

Lock failure: The inability or unwillingness of a lender to honor a mortgage price that a borrower had believed was guaranteed.

Lock-in clause: Clause in a loan agreement that states that the borrower cannot repay a loan prior to a specified date.

Lock jumper: A borrower, usually refinancing rather than purchasing a home, who allows a lock to expire when interest rates go down in order to lock again at the lower rate.

Lock period: The number of days for which any lock or float-down holds. Ordinarily, the longer the period, the higher the price to the borrower.

Loft building: A large, warehouse-type building usually located in a central city area.

Loss payable clause: A clause in a fire insurance policy listing the priority of claims in the event of destruction of the property insured. Generally, a mortgagee, or beneficiary under a deed of trust, is the party appearing in the clause being paid the amount owed under the mortgage or deed of trust before the owner is paid.

Lot, block, and subdivision: The levels of identification of lots in a subdivision plat. Individual lots are numbered, identified in a particular block of lots, and the subdivision is named.

Love and affection: Loosely called consideration. However, only valid where a valuable consideration is not required, such as a gift. Most contracts to be binding require "valuable consideration".

Low appraisal: An appraisal where the appraised value is lower than the agreed-upon sales price, which may affect financing and terminate the transaction.

LTV: The loan-to-value ratio is the percentage of a property's market value that a lender is willing to loan, with the property offered as collateral.

MAI (Member, Appraisal Institute): The highest professional designation awarded by the American Institute of real Estate Appraisers.

Maintenance expenses: Costs incurred for day-to-day upkeep, such as management, wages and benefits of building employees, fuel, utility services, decorating, and repairs.

Maker: In a promissory note, the party who promises to pay; the debtor or borrower. Compare - Payee.

Mall: The common walking areas of large shopping centers.

Mandamus: Latin for "we command". A writ issued by a superior court ordering an inferior court, corporation, or individual, to do or refrain from doing specific acts. The main importance to real estate is that it is a writ commanding a governmental body to do something, such as issue a building permit.

Mandatory delivery commitment: An agreement that a lender will deliver loans or securities to an investor by a certain date at an agreed-upon price and yield. Compare with Optional commitment.

Mandatory disclosure: The array of laws and regulations dictating the information that must be disclosed to mortgage borrowers, and the method and timing of disclosure.

Manufactured housing: Factory-built housing as defined by the National Manufactured Housing Construction and Safety Standards Act of 1976 and that conforms to HUD (Dept. of Housing and Urban Development) standards. Manufactured housing may be considered real property or personal property, depending on whether it is permanently affixed to the ground, and according to state law.

Margin: The amount a lender adds to the quoted index rate, generally from two to three percentage points, on an adjustable rate mortgage to determine the full interest rate.

Market: A place or condition suitable for selling and buying.

Market niche: A particular combination of loan, borrower, and property characteristics that lenders use in setting prices and underwriting requirements. These characteristics are believed to affect the default risk or cost of the loan. Examples: borrowers who don't intend to occupy the house they purchase pay more than those who do, and borrowers who refinance only the balance on their existing loan pay less than those who take "cash out".

Marketable title: Good or clear salable title reasonably free from risk of litigation over possible defects; also referred to as merchantable title.

Market approach to value: In appraising, the market value estimate is predicated upon actual prices paid in market transactions. It is a process of correlation and analysis of similar recently sold properties. The reliability of this technique is dependent upon the degree of comparability of each property with the subject property, the time of sale, the verification of the sale date, the absence of unusual conditions affecting the sale, and the timers of the sale.

Market data approach: An approach to estimating value based on the principle of substitution-- a buyer will pay no more for the subject property than would be sufficient to purchase a *comparable* property-- and on the principle of contribution-- specific characteristics add value to a property. Also known as the *sales comparison approach*, it serves as the basis for a broker's opinion of value.

Market interest rates: The rates that are paid on particular types of investments or charge for particular types of loans under current economic conditions.

Market price: The price for which a property actually sold; the final sales price.

Market rent: The price a tenant pays a landlord for the use and occupancy of real property based upon current prices for comparable property.

Market value: The highest price a ready, willing and able buyer, not forced to buy, will pay to a ready, willing and able seller, not forced to sell, allowing a reasonable time for exposure in the open market. Both parties well informed or well advised, and each is acting in what he or she considers his or her own best interest.

Master agreement: A vehicle designed by an investor or insuror to help lenders deliver mortgages into standard and negotiated cash and MBS commitments. Also known as a "master commitment."

Master servicer: For MBS's, the master servicer is responsible for servicing and administering mortgage loans in a mortgage pool. This function may be contracted to the originator of each mortgage loan under the supervision of the master servicer.

Maturity: The period until the last payment is due or the "Due Date" of a loan.

Maximum loan amount: The largest loan size permitted on a particular loan program. For programs where the loan is targeted for sale to Fannie Mae or Freddy Mac, the maximum will be the largest loan eligible for purchase by these agencies. On FHA loans, the maximums are set by the Federal Housing Administration, and vary somewhat by geographical area. On other loans, maximums are set by lenders.

Maximum loan to value ratio: The maximum allowable loan-to-value ratio on a selected loan program.

Maximum lock: The longest period for which the lender will lock the rate and points on any program. The most common maximum lock period is 60 days, but on some programs the maximum is 90 days; very few go beyond 90 days.

MBS: Mortgage-backed securities of all types.

Mean: The average of all items included within a group, calculated by dividing the sum of the individual items, or variates, by the number of variates.

Measures of central tendency (or central location): Numerical values that are indicative of the central point or the greatest frequency concerning a set of data. The most common measures of central location are the mean, median, and mode.

Mechanic's lien: A statutory lien created in favor of contractors, subcontractors, material men and laborers to secure payment for materials supplied and services rendered in the improvement, repair, or maintenance of real property.

Meeting of the minds: A legal term meaning the mutual agreement necessary to form a contract. It is not based on what may actually be in the minds of the parties, but rather based on whether the acts of the parties and circumstances of the contract indicate that the parties agree.

Megacenter: Center that includes highrise apartments and offices in its design, as well as shops and many department stores.

Merged credit report: A credit report that reports data from two or more major credit repositories.

Meridians: Government surveyors' north-south lines which intersect base lines. Land is measured from the intersection of these lines.

Metes and bounds: A method of locating real property; metes are measures of length, and bounds are boundaries; a description starting with a well-marked point of beginning and following the boundaries of the land until it returns once more to the point of beginning.

Mile: A measurement of distance, being 1,760 yards or 5,280 feet.

Military indulgence: A relief provision that can be made available to a borrower who is in the military service.

Mill: One-tenth of one cent. Used in some states to compute property taxes. 1000 mills = $1.00; 10 mills = $.01

Mineral rights: The ownership of the minerals (coal, gold, iron, etc.) under the ground, with or without ownership of the surface of the land.

Minimum credit: The field on a table that refers to the minimum credit rating a borrower must have in order to qualify for the listed loan.

Minimum down payment: The minimum allowable ratio of down payment to sale price on any program. If the minimum is 10%, for example, it means that you must make a down payment of at least $10,000 on a $100,000 house.

Minimum property requirements (MPRs): A lender's requirements concerning the physical condition of a building, which must be met before a loan can be approved.

Ministerial acts: Acts, mostly of a clerical nature, that do not require a real estate license. Licensed and unlicensed assistants may assist brokers and salespersons in the performance of these tasks. Typical examples include making appointments, handling correspondence, assisting at open houses, and placing signs.

Miniwarehouse: Neighborhood storage facilities usually designed as individual cubicles; accessible daily.

MIP: The mortgage insurance premium collected by FHA for insuring the mortgage. Do not confuse with PMI.

Mixed-use property: A property that has two or more uses, such as a combination of residential and commercial use.

Mobile-home mortgage: A mortgage loan on a large mobile home considered to be real property; usually drawn for a shorter period than a conventional real estate mortgage.

Modification: Any change to the original terms of a mortgage.

Modified pass-through: A variation of the "pass-through security" that guarantees and pays the investor the scheduled monthly principal and interest payment, irrespective of what amounts are collected from the pool mortgages.

Modular home: A factory built home delivered on a flatbed truck.

Monetary policy: Government action in controlling the supply and cost of borrowing money.

Money: From the Latin word moneta. Money is a medium of exchange. It is portable, in the form of currency or coins, and is accepted by the public due to its legal tender status. The U.S. dollar is the world's most acceptable form of money.

Money market funds: Noninsured, private market investment funds.

Monthly debt service: Monthly debt service includes payments required on credit cards, installment loans, home equity loans, and other debts; but not the payment of the loan applied for.

Monthly housing expense: Total principal, interest, taxes, and insurance paid by the borrower on a monthly basis. This is used with gross income to determine affordability.

Monthly total expenses: Same as total housing expense.

Monument: A point on a metes and bounds description from which distances and angles are measured. Can be man-made (cement marker) or natural (rocks or trees).

Moratorium: A period during which a borrower is granted the right to delay fulfillment of an obligation.

MORNET: Fannie Mae's communications network, which enables customers to use a data terminal, personal computer, or mainframe to send and receive documents and reports electronically.

Mortgage: A written legal document evidencing the lien on a property taken by a lender as security for the repayment of a loan. The term "mortgage" or "mortgage loan" is used loosely to refer both to the lien and the loan. In most cases, they are defined in two separate documents: a mortgage and a note. Some states use the term First Trust Deeds to refer to mortgage loans.

Mortgage auction site: See lead-generation site

Mortgage-backed bonds: A "bond" or debt instrument that is backed by a pool of mortgages and for which the cash flow of the mortgages serves as the source of repayment.

Mortgage-backed Securities: Bond-type investment securities representing an undivided interest in a pool of mortgages or trust deeds. Income from the underlying mortgage is used to pay off the securities. See GNMA mortgage-backed securities.

Mortgage bank: Same as Mortgage Company.

Mortgage banker: A financial intermediary that originates or funds loans, collects payments, inspects the property, and forecloses if necessary. The main difference between a mortgage banker and a loan officer is a banker funds their own loans and sells them on the secondary market, usually to Fannie Mae, Freddie Mac, or Ginny Mae.

Mortgage banking: The packaging of mortgage loans secured by real property to be sold to a permanent investor with servicing retained for the life of the loan for a fee. The origination, sale, and servicing of mortgage loans by a firm or individual. The investor-correspondent system is the foundation of the mortgage banking industry.

Mortgage broker: An independent contractor who offers the loan products of multiple lenders, termed wholesalers. A mortgage broker counsels on the loans available from different wholesalers, takes the application and usually processes the loan. When the file is complete, but sometimes sooner, the lender underwrites the loan. In contrast to a correspondent, a mortgage broker does not fund a loan.

Mortgage company: A mortgage lender who sells all loans in the secondary market. A mortgage lender should be distinguished from a portfolio lender, who retains loans in its portfolio. Mortgage companies may or may not service the loans they originate

Mortgage constant: The factor used for rapid computation of the annual payment needed to amortize a loan.

Mortgage discount: The difference between the principal amount of a mortgage and the amount for which it actually sells. Sometimes called points, loan brokerage fee, or new loan fee. The discount is computed on the amount of the loan, not the sale price.

Mortgage formulas: Equations used to derive common measures used in the mortgage market, such as monthly payment, balance, and APR.

Mortgage Guarantee Insurance Corporation (MGIC): An independent insurance corporation that provides insurance for the top 5 to 25 percent of mortgage loans made by approved lenders to qualified borrowers.

Mortgage insurance: Insurance that covers the lender against losses incurred as a result of a default on a home loan. This is usually required on all loans that have a loan-to-value higher than eighty percent. Mortgages that have an 80% LTV and do not require mortgage insurance usually have higher interest rates. In addition, FHA loans and some first-time homebuyer programs require mortgage insurance regardless of the loan-to-value ratio.

Mortgage insurance premium (MIP): The up-front and/or periodic charges that the borrower pays for mortgage insurance. There are different mortgage insurance plans with differing combinations of up-front, monthly and annual premiums. The most widely used premium plan is a monthly charge with no upfront premium.

Mortgage insurance cancellation: Canceling a mortgage insurance policy. .

Mortgage lead: A packet of information about a consumer that a loan provider might be able to convert into a borrower. A person becomes a lead when he/she fills out a questionnaire about himself/herself in response to an ad.

Mortgage lender: The party who disburses funds to the borrower at the closing table. The lender receives the note evidencing the borrower's indebtedness and obligation to repay, and the mortgage which is the lien on the subject property.

Mortgage life insurance: A type of term life insurance often bought by mortgagors. The amount of coverage decreases as the mortgage balance declines. In the event that the borrower dies while the policy is in force, the debt is automatically satisfied by insurance proceeds.

Mortgage loan: A loan secured by a mortgage or deed of trust that creates a lien against real property.

Mortgage note: A written promise to pay a sum of money at a stated interest rate during a specified term. It is secured by a mortgage.

Mortgage payment: The monthly payment of interest and principal made by the borrower.

Mortgage payment cap: A provision in an ARM that limits the amount the monthly payment can be increased, either during a given year, or over the entire life of the loan.

Mortgage portfolio: The aggregate of mortgage loans held by an investor or serviced by a mortgage lender.

Mortgage price: The interest rate, points and fees paid to the lender and/or mortgage broker. On ARMs, the price also includes the fully indexed rate and the maximum rate.

Mortgage program: A bundle of mortgage characteristics that lenders see fit to distinguish as a distinct instrument. These include whether it is an FRM, ARM, or Balloon; the term; the initial rate period on an ARM; whether it is FHA-insured or VA-guaranteed; and if it is not FHA or VA, whether it is "conforming" (eligible for purchase by Fannie Mae or Freddie Mac) or "non-conforming".

Mortgage referrals: Advice on where to go to get a mortgage.

Mortgage scams: Deceptive and exploitative schemes by lenders, brokers, home sellers and sometimes even borrowers.

Mortgage servicing: Controlling the necessary duties of a mortgagee, such as collecting payments, releasing the lien upon payment in full, foreclosing if in default, and making sure the taxes are paid, insurance is in force, etc. Servicing may be done by the lender or a company acting for the lender, for a servicing fee.

Mortgage shopping: Trying to find the best deal on a mortgage.

Mortgage spam: Offers for great mortgage deals that appear unbidden in your email.

Mortgage suitability: The doctrine that mortgage lenders should be held liable for providing loans that are not suitable for the borrower.

Mortgage warehousing: A system whereby a mortgage company will hold loans, which would ordinarily be sold, in order to sell later at a lower discount. These mortgages are used as collateral security with a bank to borrow new money to loan.

Mortgagee: The lender in a *mortgage* contract.

Mortgaging clause: A clause in a mortgage that describes the security interest given to the mortgage.

Mortgagor: The borrower in a *mortgage* contract.

Multi-dwelling units: Properties that provide separate housing units for more than one family, although only a single mortgage is secured.

Multi-family housing: Buildings with five or more residential units.

Multiple regression analysis: A statistical procedure that attempts to assess the relationship between a dependent variable and two or more independent variables.

Mutual fund: A company that invests its capital in a diversified portfolio of securities on behalf of its investors, who own shares in the fund.

Mutual Mortgage Insurance Fund: One of four FHA insurance funds into which all mortgage insurance premiums and other specified revenue of the FHA are paid and from which the losses are met.

Mutual savings bank: A savings bank originally organized as a mutual company, owned by and operated for the benefit of its depositors (as opposed to stockholders).

Mystic will: A will that is written by hand, sealed in an envelope, and then the envelope is signed by the maker, witnessed and notarized.

N

Naked owner: The holder of the right of abusus when usus and fructus are held by someone else.

Narrative report: The most detailed appraisal report.

Necessary goods: Food, clothing, drugs and so forth.

Negative amortization: A rise in the loan balance when the mortgage payment is less than the interest due. The loan balance increases as a result. This is sometimes called "deferred interest." Negative amortization arises most frequently on ARMs.

Negative amortization cap: The maximum amount of negative amortization permitted on an ARM, usually expressed as a percentage of the original loan amount (e.g., 110%). Reaching the cap triggers an automatic increase in the payment, usually to the fully amortizing payment level, overriding any payment increase cap.

Negative cash flow: Cash expenditures of an income-producing property in excess of the cash receipts.

Negative homeowner's equity: The condition of owing more on the house than the house is worth.

Negative Points: Points paid by a lender for a loan with a rate above the rate on a zero point loan. For example, a wholesaler quotes the following prices to a mortgage broker. 8%/0 points, 7.5%/3 points, 8.75%/-3 points. On mortgage web sites, negative points are usually referred to as "rebates" because they are used to reduce a borrower's settlement costs. When negative points are retained by a mortgage broker, they are called a "yield spread premium".

negligent misrepresentation: A false statement about a material fact resulting from an agent's failure to perform an expected task or to acquire customary information about a property. An agent can be held liable for failure to disclose facts the agent was not aware of if it can be demonstrated that the agent should have known such facts. See *misrepresentation*.

Negotiable instrument: According to the Uniform Negotiable Instruments Act, an instrument is negotiable when it is in writing and signed, containing an unconditional promise or order to pay a certain amount of money, on demand, or at a definite future date, to the bearer, to order, or to a named or certain drawee.

Negotiated transaction: A secondary market transaction in which the terms and conditions of a loan swap or sale are negotiated between the lender and an investor. Compare with Standard commitment.

Neighborhood: A residential or commercial area with many similar types of properties; defined by natural boundaries, such as highways or rivers, land use, average value or age of homes and income level of residents.

Neighborhood life cycle: The period during which most of the properties in a neighborhood undergo the stages of development, equilibrium, decline, and revitalization.

Neighborhood shopping center: The smallest kind of planned center.

Net effective income: Gross income less federal income tax.

Net equity: The market value of a property, minus any liens against the property and all anticipated selling expenses.

Net income: The difference between effective gross income and expenses including taxes and insurance. The term is qualified as net income before depreciation and debt service.

Net jumping: Using a broker's time and expertise to become informed and creditworthy, and then jumping to the internet to get the loan.

Net lease: A lease in which the tenant pays rent for occupancy, plus maintenance and operation expenses, and usually including taxes and insurance.

Net listing: A listing which provides that the agent may keep anything the property sells for over a certain price.

Net operating income: Gross income less expenses (depreciation, principal and interest payments are not deducted).

Net worth: The value of all assets, including cash, less total liabilities. It is often used as an underwriting guideline to indicate an individual's credit-worthiness and financial strength.

Net yield: The part of gross yield that remains after the deduction of all costs, such as servicing, and any reserves for losses.

Niche: See Market niche.

Nichification: Proliferation in the number of loans, borrowers and property characteristics used by lenders to set mortgage prices and underwriting requirements.

No asset loan: A documentation requirement where the applicant's assets are not disclosed.

No cash-out refinance: A refinance transaction that is not intended to put cash in the hand of the borrower, but instead calculates a new balance to cover the balance due on a current loan and any costs with obtaining a new mortgage.

No change scenario: On an ARM, the assumption that the value of the index to which the rate is tied does not change from its initial level.

No-cost mortgage: A mortgage on which all settlement costs except per diem interest, escrows, homeowners insurance and transfer taxes are paid by the lender and/or the home seller. A no-cost loan can either be: 1). a loan that has no "lender costs" associated with it or, 2). a loan that also covers purchases or refinancing costs, which may be incurred in buying a home, obtaining and/or refinancing a loan, but are not directly charged by the lender. The interest rate on this type of loan is higher.

No income loan: A documentation requirement where the applicant's income is not disclosed.

No ratio loan: A documentation requirement where the applicant's income is disclosed and verified but not used in qualifying the borrower. The conventional maximum ratios of expense to income are not applied.

No-surprise adjustable rate mortgage: An ARM with a preset graduated payment combined with variable term.

Nominal consideration: Consideration in name only, and not related to the market value of the property. Still considered valuable consideration and the purchaser is considered a purchaser for value.

Nominal interest rate: A quoted interest rate that is not adjusted for either intra-year compounding, or for inflation. A quoted rate of 6% on a mortgage, for example, is nominal. Adjusted rates are called "effective".

Non-agent: A licensee working with parties in a transaction without having established an *agency* relationship with any party. Instead, the licensee may enter into a binding non-agency personal services contract with buyer or seller to help complete the transaction. This contract expressly states that the broker is not an agent of the buyer or seller, is not acting in a fiduciary capacity, and is not working for the benefit of either party. See *agency*, *agent*.

Non-conforming use: A use which is contrary to zoning laws, but which is permitted because the use was allowed before the zoning law came into effect.

Non-conforming mortgage: A mortgage that does not meet the purchase requirements of the two Federal agencies, Fannie Mae and Freddie Mac, because it is too large or for other reasons such as poor credit or inadequate documentation.

Non-disturbance agreement: An agreement that permits a tenant under a lease to remain in possession despite any foreclosure.

Non-exclusive listing: A listing under which the real estate broker has an exclusive listing as opposed to other agents, but the owner may sell the property without using an agent, and not be liable to pay a commission; also called an agency agreement.

Non-freehold estate: A leasehold interest.

Non-institutional lender: A lender that is not a depository institution.

Non-judicial foreclosure: Foreclosure of a trust deed without judicial proceedings by means of a trustee's sale.

Non-permanent resident alien: A non-citizen without a green card who is employed in the U.S. The non-permanent resident alien is distinct from a permanent resident alien, who has a green card and who lenders do not distinguish from U.S. citizens. Non-permanent resident aliens are subject to somewhat more restrictive qualification requirements than US citizens.

Non-possessory interests: Encumbrances.

Non-recourse loan: A loan not allowing for a deficiency judgment. The lender's only recourse in the event of default is the security (property), and the borrower is not personally liable.

Non-traditional mortgage investors: Those investors, such as pension funds, traditionally had not invested in mortgages but instead booked to stocks and bonds.

Non-warrantable condo: A condominium that does not meet lender requirements

Notary Public: One who is authorized by the state or federal government, to administer oaths, and to attest to the authenticity of signatures. A federal authorization may extend the authority to attest to the authenticity of certain documents, and to act as a notary in foreign countries.

Note: A document that evidences a debt and a promise to repay. A mortgage loan transaction always includes both a note evidencing the debt and a mortgage evidencing the lien on the property, usually two separate documents.

Note, Demand: A promissory note that is due whenever the holder of the note demands payment.

Note, Installment: A promissory note that calls for regular payments of principal and interest until the debt is paid off, as used for an amortized loan.

Note, Joint: A promissory note signed by two or more persons with equal liability for payment.

Note, Promissory: A written, legally binding promise to repay a debt; may or may not be a negotiable instrument.

Note, Straight: A promissory note that calls for regular payments of interest only.

Note rate: The stated interest rate on a mortgage note.

Notice of Default: A notice recorded after the occurrence of a default under a deed of trust or mortgage, or a notice required by an interested third party insuring or guaranteeing a loan.

Notice of Sale: A notice stating that foreclosure proceedings have been commenced against a property.

Notice of Value (NOV): A document issued by the Department of Veterans Affairs, setting forth a property's current market value, based on a VA-approved appraisal. Previously referred to as a Certificate of Reasonable Value (CRV).

Novation: The creation of a new *contract* to replace a cancelled, renounced, or terminated contract, or to substitute a new party for a party in an existing contract. The new contract must be intended to discharge the obligations of the original contract, must have its own consideration, and must comply with the other requirements for contract *validity*.

Nuisance: A use of property which interferes with the use and enjoyment of other property by excessive noise, odors, fumes, or other harmful or unpleasant emissions.

Null contract: A contract with no legal force.

Nuncupative will: An oral will. Usually done in expectation of dying, and good only for less than $1,000 in personal property.

O

Obligatory advances: Disbursements of construction loan funds that the lender is obligated to make (by prior agreement with the borrower) when the borrower has completed certain phases of construction.

Observe condition method: Appraiser estimates the amount of each type of deprecation separately.

Obsolescence: The loss of value of a property occasioned by going out of style, by becoming less suitable for use, or by other economic influences.

Occupancy: Possession and use of property as owner or tenant.

Occupancy rate: A percentage of the total amount of space occupied.

Offeree: One to whom an offer is made.

Offeror: One making an offer.

Off-street parking: Parking spaces on private land, as in shopping centers.

1 Month Option ARM: Same as Flexible Payment ARM.

100% loan: A loan equal to a property's value, requiring no down payment.

Open-end mortgage: A mortgage containing a clause which permits the mortgagor to borrow additional money up to the original amount of the loan after the loan has been reduced, without rewriting the mortgage.

Open listing: A listing given to any number of brokers without liability to compensate anyone except the one who first finds a buyer.

Open market operations: The Federal Reserve adjusts the money supply by engaged in open market operations, buying and selling government securities and therefore changing the amount of money available in circulation.

Open mortgage: A mortgage that can be prepaid without penalty.

Operating expense ratio method: Estimating operating expenses are determined as a percentage of effective gross income for similar properties and applied to subject property.

Operating expenses: Periodic and necessary expenses essential to the continuous operation and maintenance of an income property.

Operating statement: The written record of a business's gross income, expenses, and resultant net income.

Operating statement ratio: Relationship of a property's expenses to income, found by dividing total operating expenses by effective gross income.

OPM: Other People's Money; a way to describe leverage.

Opportunity cost: The amount of money that could be earned through alternative investments.

Option: An agreement to keep open, for a set period, an offer to sell or lease real property.

Option ARM: An adjustable rate mortgage with flexible payment options, monthly interest rate adjustments, and very low minimum payments in the early years. They carry a risk of very large payments in later years.

Option fee: An upfront fee paid by the buyer under a lease-to-own purchase, usually 1% to 5% of the price, which is credited to the purchase price when the option is exercised but is lost if it is not.

Optional commitment: A commitment that gives the lender the option to sell loans to an investor under specified terms. The lender pays a nonrefundable fee to obtain the commitment, but, because delivery is not mandatory, suffers no penalty for not fulfilling the commitment. Compare with Mandatory delivery commitment.

Optionee: The one obtaining the option right.

Option money: The consideration paid by a buyer/optionee that makes an option to purchase binding on the seller/optionor.

Optionor: The one granting the option to another.

Option to purchase: An option giving the optionee the right to buy property owned by the optionor at an agreed price during a specified period.

Oral report: A verbal appraisal report.

Ordinance: A law or statue. The term used to designate the enactments of the legislative body of a municipal corporation or a county.

Ordinary income: Income earned from regular employment or business ownership, as distinguished from capital gains. Now called active income.

Orientation: Positioning a structure on its lot with regard to exposure to the sun, prevailing winds, privacy, and protection from noise.

Origination: The process of originating mortgages. Solicitation may be from individual borrowers, builders, or brokers.

Origination fee: An upfront fee charged by some lenders, usually expressed as a percent of the loan amount in connection with making a loan. It should be added to points in determining the total fees charged by the lender that are expressed as a percent of the loan amount. Unlike points, an origination fee does not vary with the interest rate.

Originator: A person who solicits builders, brokers, and others to obtain applications for mortgage loans. Origination is the process by which the mortgage lender brings into being a mortgage secured by real property.

Ostensible Agency: An agency created by law when a principal acts (intentionally or negligently) as if one is an agent who in fact is not.

Overage: The difference between the price posted to its loan officers by a lender or mortgage broker, and the price charged the borrower.

Overage Rent: Rent paid over a base amount in a percentage lease.

Overall capitalization rate: A rate of investment return derived by comparing the net income and sales prices of comparable properties.

Overall rate: The direct ratio between a property's annual net income and its sales price.

Overcollateralization: Sufficient mortgages must be placed into a collateral pool so that their discounted value is sufficient to cover the bond, plus a reserve. Overcollateralization is usually defined as a percentage of the bond, such as 110 percent.

Overimprovement: An improvement that is more expensive than the value of the land justifies.

Owner financing: A property purchase that is partly or wholly financed by the seller.

Owner's Title Policy: A policy protecting the buyer for the amount of the purchase price in the event of a future title dispute.

Ownership in Severalty: Individual ownership of real estate, not to be confused with the use of the word several to mean "more than one"; also called tenancy in severalty, sole tenancy, or separate ownership.

P

P&I (Principal and Interest): That portion of a home buyer's monthly payments to the lender that composes the debt service on the mortgage. See also T&I.

Package mortgage: A mortgage that includes equipment and appliances located on the premises in addition to the real property itself.

Paired data analysis: Using comparables to determine the effect on value of a single element.

Pair-off: A transaction whereby Fannie Mae allows a lender to "buy back" the mortgages it previously agreed to sell by means of a mandatory delivery commitment.

Par: The principal amount of a mortgage with no premium or discount.

Parameter: A single number or attribute of the individual things, persons, or other entities in a population.

Parol: Verbal. Usually refers to evidence in a court of law. The "Parol Evidence Rule" governs when such evidence is admissible.

Parol evidence rule: Once a contract is written, anything spoken before the writing cannot be used in evidence.

Partial entitlement: Under VA loans, the amount of guarantee still available to an eligible veteran who has used his previous entitlement.

Partial interest: Any property interest that is less than full fee simple ownership of the entire property.

Partial payment: A payment that is less that the scheduled monthly mortgage payment.

Partial prepayment: Making a payment larger than the scheduled payment as a way of paying off the loan earlier. A payment that is not sufficient enough to cover the monthly payment. During times of economic hardship, a borrower can make this request of the loan servicing collection department.

Partial release: A release of a portion of property covered by a mortgage. A subdivider will obtain a partial release as each lot is sold, upon payment of an agreed upon amount. In areas where the subdivider is not usually the builder, it may be necessary to sell groups of lots to obtain a partial release. In areas where deeds of trust are used instead of mortgages, a "partial reconveyance" is the document used.

Partial release clause: A clause in a security instrument allowing one or more of the parcels of property under a blanket lien to be released from the lien while other parcels remain subject to it.

Partially amortized loan: A loan where monthly payments include both principal and interest but where the loan balance is not fully paid off at the end of the loan term.

Partially modified pass-through: A variation of the "pass-through security" that guarantees, to a certain extent, that monthly principal and interest payments will be made to the investor, even if not collected from the mortgage pool.

Participation certificate (PC): Mortgage-backed security issued by FHLMC that consists of mortgages purchased from eligible sellers. Called PC because seller retains some interest (5 or 10 percent) in the mortgages sold to FHLMC.

Participation financing: A loan in which more than one mortgagee or more than one mortgagor harbors an interest. It can also be a loan in which the mortgagee receives partial ownership of the property being financed.

Participation loan: A mortgage made by one lender, known as the lead lender, in which one or more other lenders, known as participants, own a part interest, or a mortgage originated by two or more lenders.

Partition action: A court order to break up joint ownership.

Partnership: A contract between two or more persons to carry on as co-owners of a business, and to share the profits in certain proportions.

Party wall: A wall erected on a property boundary as a common support to structures on both sides, which are under different ownerships.

Pass-through rate: The rate at which interest is paid to an investor for a mortgage. It is the lower of an investor's required yield or the mortgage interest rate after a minimum servicing fee has been deducted.

Pass-through security: A form of a "mortgage-backed bond" for which the monthly collections on the mortgage pool are "passed through" to the investor.

Passive income: Income from real estate investments, as defined under TRA '86.

Patent: Instrument of conveyance of title to public (government) land.

Paydown magic: Belief that there is a special way to pay down the balance of a home mortgage faster, if you know the secret.

Payee: In a promissory note, the party who is entitled to be paid; the creditor or lender. Compare - Maker.

Payment adjustment interval: The period between payment changes on an ARM, which may or may not be the same as the interest rate adjustment period. In loans where the payment adjusts less frequently than the rate, there may be negative amortization.

Payment adjustment period: The minimum interval between adjustments of the monthly payment amount on an ARM.

Payment cap: The upper limit on the periodic payment amount of an *adjustable rate mortgage* loan. If the payment cap is lower than the full amount the lender requires, the difference is added to the loan balance.

Payment change date: The date when a new monthly payment amount takes effect on an adjustable rate mortgage (ARM) or a graduated payment mortgage (GPM). The payment change date occurs the month immediately after the interest rate adjustment date.

Payment decrease cap: The maximum percentage decrease in the payment on an ARM at a payment adjustment date.

Payment increase cap: The maximum percentage increase in the payment on an ARM at a payment adjustment date. A 7.5% cap is common

Payment period: The period over which the borrower is obliged to make payments. On most mortgages, the payment period is a month, but on some it is biweekly.

Payment power: A program begun by Fannie Mae in 2003-4 that allows a borrower to skip up to two mortgage payments in any twelve month period, and up to ten over the life of a loan.

Payment rate: The interest rate used to calculate the mortgage payment, which is usually but not necessarily the interest rate.

Payment shock: A very large increase in the payment on an ARM that may surprise the borrower; also used to refer to a large difference between the rent being paid by a first-time home buyer, and the monthly housing expense on the purchased home.
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Payoff: The payment in full of an existing loan or other lien.

Payoff month: The month in which the loan balance is paid down to zero. It may or may not be the term.

Pay-through security: A form of a "mortgage-backed bond" that is secured by a mortgage pool and for which the payment features closely resemble those of a "modified pass-through security." The bond is fully amortizing with scheduled principal and interest payments that closely track the scheduled collections on the collateral mortgage pool.

Percentage lease: A lease of property in which the rental amount includes a percentage of the business income.

Per Diem: Daily.

Per diem interest: Interest from the day of closing to the first day of the following month. In some cases, the borrower can get a credit at closing by making the first payment a month early.

Perimeter: (1) The boundary lines of a parcel of land. (2) The length of said boundary lines.

Periodic payment cap: The limit on the amount that payments can increase or decrease during any one adjustment period for an adjustable-rate mortgage (ARM) where the interest rate and principal fluctuate independently of one another.

Periodic rate cap: The limit on the amount that payments can increase or decrease during any one adjustment period in an ARM (adjustable rate mortgage), regardless of how high or low the index fluctuates.

Periodic refinancing: An ill-advised scheme to tap into equity for cash advances through periodic refinancing.

Periodic tenancy: Tenancy of property for an indefinite period which can be terminated by either party with proper notice; a lease from period to period.

Permanent buydown: Paying points as a way of reducing the interest rate.

Perpetuity: Continuing forever. Legally, pertaining to real property, any condition extending the inalienability of property beyond the time of a life or lives in being plus twenty-one years.

Per Se: By itself; of itself; inherently.

Personal property: Movable property that does not fit the definition of realty.

Physical deterioration: Loss in value because of wear and tear factors dealing with age.

Physical deterioration-curable: Loss of value due to neglected repairs or maintenance that are economically feasible and, if performed, would result in an increase in appraised value equal to or exceeding their cost.

Physical deterioration-incurable: Loss of value due to neglected repairs or maintenance of short-lived or long-lived building components that would not contribute comparable value to a building if performed.

Physical life: The normal life of an improvement, if properly maintained.

Physical obsolescence: An appraisal term that describes the ordinary aging process of a building.

Pick a payment ARM: Same as Flexible Payment ARM.

Piggyback mortgage: A combination of a first mortgage for 80% of property value, and a second for 5%, 10%, 15%, or 20% of value. These combinations are designated as 80/5/15, 80/10/10, 80/15/5, and 80/20/0, respectively. Piggybacks are a substitute for mortgage insurance for borrowers who cannot put 20% down.

Pipeline: The aggregate of loans in process for eventual sale in the secondary market. The term encompasses both loans that are in production and those that have been closed but have not yet been delivered to an investor.

Pipeline risk: The lender's risk between the time a lock commitment is given to the borrower and the time the loan is closed. If interest rates rise, the lender will take a loss on selling the loan.

PITI: Shorthand for principal, interest, taxes and insurance, the components of the monthly housing expense. An "impounded" loan signifies that the monthly payment covers all of these, and perhaps mortgage insurance, if the loan calls for it. If one does not have an "impounded" account, the lender still calculates these amounts separately and uses it as part of determining one's debt-to-income ratio.

PITI reserves: A cash amount that a borrower must have on hand after making a down payment and paying all closing costs for the purchase of a home. The PITI (principal, interest, taxes, and insurance) must equal the amount that the borrower would have to pay for PITI for a determined number of months.

Planned Unit Development (PUD): A type of ownership where individuals actually own the building or unit they reside in, but shared areas are owned jointly with the other members of the development or established association.

Plans and specifications: Architectural and engineering drawings and specifications for construction of a building or project including a description of materials to be used and the manner in which they are to be applied.

Plat: A plan or map of a certain piece or pieces of land, such as a subdivision plat.

Pledge: When a debtor transfers possession of property to the creditor as security for repayment of the debt, as when an item of personal property is pawned. Compare - Hypothecation.

Pledge account mortgage (PAM): Combines GPM (graduated payment mortgage) with a subsidizing savings account to provide the borrower with a low payment plan, the lender with amortizing payments, and the seller with cash.

Plottage: An increase in value resulting from combining several contiguous properties for a single use.

PMI: Private mortgage insurance, as opposed to insurance provided by the government under FHA and VA.

Points: An upfront cash payment required by the lender as part of the charge for the loan, expressed as a percent of the loan amount; e.g., "3 points" means a charge equal to 3% of the loan balance. It is common today for lenders to offer a wide range of rate/point combinations, especially on fixed rate mortgages (FRMs), including combinations with negative points. On a negative point loan the lender contributes cash toward meeting closing costs. Positive and negative points are sometimes termed "discounts" and "premiums," respectively. Points are broken out for Discount and Origination. The definitions for each are as follows. (1) Discount Points = Interest Charges paid up-front when a borrower closes a loan. A point is equal to 1 percent of the loan amount (e.g. 1.5 points on a $100,000 mortgage would cost the borrower $1,500). Generally, by paying more points at closing, the borrower reduces the interest rate of his loan and thus reduces future monthly payments and (2) Origination Points = A fee imposed by a lender to cover certain processing expenses in connection with making a real estate loan. Usually a percentage of the amount loaned, such as one percent.

Point estimate: Appraisal value as a set dollar amount.

Point of beginning: The starting point for a metes and bounds description.

Point of diminishing return: At some point, benefits from increased production will start to decline.

Police power: The inherent right of a government to enact such legislation as may be deemed necessary to protect and promote the health, safety and general welfare of the public.

Pool: A group of mortgages that back an issue of mortgage-backed securities; also, the act of packaging loans, with similar characteristics for sale in the secondary mortgage market.

Pool insurance: Pool insurance represents various forms of insurance that provide investors with additional safety by insuring against default by homeowners to a certain percent of initial principal amount.

Portable mortgage: A mortgage that can be moved from one property to another. These were introduced in the US by E*TRADE Mortgage in 2003.

Portfolio: Investments (including mortgages and mortgage securities) held by an individual or institution. In mortgage lending, the term variously refers to mortgages held by a lender prior to their sale in the secondary market, to MBS's held by lenders for investment purposes, and to loans that a lender continues to service for investors.

Portfolio income: Income from interest, dividends and royalties, as defined in TRA '86.

Portfolio lender: A lender that holds the loans it originates in its portfolio rather than selling them, as a temporary lender does.

Portfolio mortgage: A loan that an originator places in its portfolio or an investor purchases for cash and holds as an asset.

Possession: The right of the owner to occupy property. When property is occupied by a tenant, the owner has constructive possession by right of title.

Possessory interests: An estate in real property.

Posted prices: The mortgage prices delivered by lenders to loan officers and mortgage brokers, as opposed to the final prices paid by borrowers.

Potable: Drinkable.

Potential gross income: Income based on 100 percent occupancy.

Power of attorney: A written instrument authorizing one person to act as the agent of another to the extent indicated in the instrument.

Power of issue: The legal right to issue or create money.

Power of sale: A provision in a deed of trust that gives the trustee the right to foreclose nonjudicially (sell the property without court supervision) in the event of default.

Pre-approval: A commitment by a lender to make a mortgage loan to a specified borrower, prior to the identification of a specific property. Pre-approval is designed to make it easier to shop for a house. Unlike a pre-qualification, the lender checks the applicant's credit.

Predatory lending: A variety of unsavory lender practices designed to take advantage of unwary borrowers.

Prefabricated home: Home that is site assembled of factory built components.

Preforeclosure sale: A procedure in which the borrower is allowed to sell his or her property for an amount less than what is owed on it to avoid foreclosure, fully satisfying the borrower's debt.

Premises: (1) Buildings and immediately surrounding areas. (2) In conveyancing, the part of a deed giving the names of the grantor and grantee, the consideration, and description of the property conveyed.

Premium: The amount, often stated as a percentage, paid in addition to the face value of a note or bond.

Prepaid interest: Interest paid before becoming due.

Prepaid items: Expenses such as taxes, insurance, and assessments, which are paid in advance of their due date, and on a prorated basis at closing.

Prepayment: A payment made by the borrower over and above the scheduled mortgage payment. If the additional payment pays off the entire balance it is a "prepayment in full"; otherwise, it is a "partial prepayment."

Prepayment (recovery of principal): Payment in full on a mortgage, due either to a sale of the property or to foreclosure and, in either case, before the loan has been fully amortized.

Prepayment assumption: A calculated guess of how a portfolio of single-family loans will perform over time, relative to the incidence of recoveries of principal. The assumption is expressed as a percentage of long-term FHA experience, or PSA.

Prepayment clause: A clause in a mortgage or trust deed that provides for a penalty to be levied against a borrower who repays a loan before the specified due date.

Prepayment fee: A consideration paid to the mortgagee for the prepayment privilege. Also know as prepayment penalty or reinvestment fee.

Prepayment penalty: A fee charged a mortgagor who prepays a loan before it is due. Not allowed for FHA or VA loans.

Prepayment privilege: The right given a borrower to pay all or part of a debt prior to its maturity. The mortgagee cannot be compelled to accept any payment other than those originally agreed to.

Prepayment provision: A clause allowing a lender to charge borrowers for prepaying on a loan, to compensate the lender for lost interest.

Prepayment risk: The risk that a loan will be paid off sooner than expected, reducing the lender's anticipated yield.

Prequalification: After a loan officer has made inquiries about a borrower's debt, income, and savings, he or she can write a written statement (pre-qualification) about the borrower's chances for qualifying for a home loan.

Prescription: A time period, the running of which creates or terminates rights. For example, a suit for wrongful injury usually must be brought within one year, or the right to suit is lost.

Prescriptive easement: The granting of an easement by a court, based on the presumption that a written easement was given (although none existed), after a period of open and continuous use of land.

Present worth: Discounting money to be received in the future to determine its value today.

Price: The amount actually paid.

Price-gouging: Charging interest rates and/or fees that are excessive relative to what the same borrowers could have found had they shopped the market.

Price risk: The risk that, because of a rise in the general level of interest rates, a loan will decrease in value between the time of commitment to originate and the time of commitment to sell.

Prima facie: At first sight; on the face of it. Presumed true unless disproved.

Primary loan insurance: Type of insurance for loans with minimal down payments, usually less than 20 percent. Typically, provided by the Federal Housing Administration or private mortgage insurance companies.

Primary mortgage market: The source of loan funds available directly to borrowers, whether for first or second mortgages.

Prime rate: Interest charged by financial institutions to top-rate borrowers.

Principal: The portion of the monthly payment that is used to reduce the loan balance. The amount of debt, not counting interest, left on a loan.

Principal balance: The outstanding balance of a mortgage, exclusive of interest and any other charges.

Principal limit: The present value of a house, given an elderly owner's right to live there until death or voluntary move-out, under an FHA reverse mortgage program.

Principal meridian: A meridian which serves as a reference for other meridians; a part of the rectangular method of survey.

Principal residence property: Real property that is the owner;s main dwelling. Under the federal income tax laws, a taxpayer can only have one principal residence at a time.

Principle of anticipation: Value will change based on anticipated future use and income.

Principle of balance: The benefits are maximized when the elements of production are in balance.

Principle of change: Real estate values do not remain constant.

Principle of competition: When extraordinary profits are being made, competition will enter the area and profits will drop.

Principle of conformity: A property will have its maximum value when it is in an area of similar properties.

Principle of consistent use: Both the land and improvements must be valued based on the same use.

Principle of contribution: The value of an improvement is equal to the increase of value added to the property.

Principle of dependency: The value of a parcel changes based on changes in the use of surrounding parcels.

Principle of diminishing returns: As demand is met, new units will result in a lower return.

Principle of substitution: A person will not pay more for a property than it would cost for a property of equal utility and desirability.

Principle of surplus productivity: The cost that exceeds the cost of labor, capital and management (coordination) is attributable to the land.

Priority: As applied to claims against property, priority is the status of being prior or having precedence over other claims. Priority is usually established by filing or recordation in point of time but may be established by statue or agreement.

Private mortgage insurance: Mortgage insurance provided by private mortgage insurance companies, or PMIs that is paid by a borrower to protect the lender in case of default. PMI is typically charged to the borrower when the Loan-to-Value Ratio is greater than 80%.

Probate: An action of the court to determine the validity and legality of last will and testament.

Processing: Compiling and maintaining a file containing information about a mortgage transaction, including but not limited to the credit report, appraisal, verification of employment and assets. The processing file is handed off to underwriting for the loan decision.

Procuring cause: A direct cause of an event, or the direct cause of a series of causes leading to an event. A broker is entitled to a commission under an open listing if proven to be the procuring cause of a sale.

Product risk: The risk that the market value of a particular loan will not respond as expected to changes in the general level of interest rates.

Profit a prendre: Right to take something from property (crops, timber, minerals, etc.).

Progression: The increased value of a less expensive home resulting from more expensive homes being around it.

Promissory note: A written promise to repay a specified amount over a specified period of time.

Property flipping: Successive sham home sales at progressively higher prices as part of a scheme to defraud the FHA.

Proprietary lease: Most commonly used in relation to stock cooperatives, whereby the owners of stock lease units (apartments).

Prorate: To divide or distribute proportionately, as to prorate certain things like insurance, taxes, etc. at the time of closing.

Proration: The allocation of charges and credits to the appropriate parties at a real estate sale and/or loan closing.

Public sale: Sale at auction, open to the public. May be a foreclosure sale, tax sale, excess state land sale, or other type. A "public" sale generally requires notice (advertising) and must be held in a place accessible to the general public.

Puffing: A statement of opinion given in a sale, often an exaggeration.

Punitive damages: Damages to punish (make an example of) the offender. This is done when the wrong is deliberate or grossly negligent and compensatory damages do not appear to be sufficient.

Pur autre vie: For the life of another. A life estate that is measured by the life of someone other than the grantor.

Purchase and sale agreement: A written contract signed by the buyer and seller stating the terms and conditions under which a property will be sold.

Purchase money mortgage: A mortgage offered by a house buyer as partial payment for a property. From the seller's point of view, it is seller financing.

Purchase-money transaction: The acquisition of property through the payment of money or its equivalent.

Purchaser's assignment of contract and deed: The instrument used to assign the vendee's equitable interest in a contract to another.

Put option: A hedging tool that gives the lender the right, but not the obligation, to deliver a loan or security at a prearranged price.

Pyramid zoning: Including more restrictive uses in less restrictive uses. Examples: Residential use (more restrictive) would be allowed in an area zoned commercial (less restrictive); commercial (more restrictive) would be allowed in an area zoned industrial (less restrictive).

Pyramiding: A method of acquiring additional properties through refinancing existing mortgages.

Q

Qualification: The process of determining whether a prospective borrower has the ability; i.e., sufficient assets and income, to repay a loan. Qualification is sometimes referred to as "pre-qualification" because it is subject to verification of the information provided by the applicant. Qualification is short of approval because it does not take into account the credit history of the borrower. Qualified borrowers may ultimately be turned down because, while they have demonstrated the capacity to repay, a poor credit history suggests that they may be unwilling to pay.

Qualification rate: The interest rate used in calculating the initial mortgage payment in qualifying a borrower. The rate used in this calculation may or may not be the initial rate on the mortgage. On ARMs, for example, the borrower may be qualified at the fully indexed rate rather than the initial rate.

Qualification ratios: Requirements stipulated by the lender as to the ratio of housing expense to borrower income, and housing expense plus other debt service to borrower income. These cannot exceed specified maximums; e.g., 28% and 36%. These may reflect the maximums specified by Fannie Mae and Freddie Mac. They may also vary with the loan-to-value ratio and other factors. Ratios are expressed as two numbers like 28/36 where 28 would be the Front-End Ratio and 36 would be the Back-End Ratio. The Front-End Ratio is the percentage of a borrower's gross monthly income (before income taxes) that would cover the cost of PITI (Mortgage Principal Payment + Mortgage Interest Payment + Property Taxes + Homeowners Insurance). In the case of a 28% Front-End Ratio a borrower could qualify if the proposed monthly PITI payments were 28% or less than the borrower's gross monthly income. The Back-End Ratio is the percentage of a borrower's gross monthly income that would cover the cost of PITI plus any other monthly debt payments like car or personal loans and credit card debt. Please note that qualifying ratios are only a rough guideline in determining a potential borrower's credit-worthiness. Many factors such as excellent or poor credit history, amount of down payment, and size of loan will influence the decision to approve or disapprove a particular loan.

Qualification requirements: Standards imposed by lenders as conditions for granting loans, including maximum ratios of housing expense and total expense to income, maximum loan amounts, maximum loan-to-value ratios, and so on. Less comprehensive than underwriting requirements, which take account of the borrower's credit record.

Qualifying standards: The rules (concerning income, net worth, credit history, loan-to-value ratios, etc.) that an underwriter applies in deciding whether or not to approve a loan application; also called underwriting standards.

Quality control: A system of safeguards to ensure that all loans are originated, processed, underwritten, closed, and serviced according to the lender's and an investor's standards.

Quantity survey: A detailed method to determine replacement cost by pricing out all elements of a structure in the same manner as a builder would estimate costs.

Quasi: Similar to but intrinsically different.

Quiet title suit: A court action brought to establish title or to remove a cloud on the title.

Quitclaim deed: A deed that transfers, without warranty, whatever interest or title a grantor may have at the time the conveyance is made.

R

Rafters: Diagonal boards supporting the roof.

Railroad spur: A branch line constructed to an industrial project for dockside loading and unloading.

Range: A strip of land six miles wide, determined by government survey, running north and south.

Range value: A value expressed by an appraiser as a price range that a sale is likely to fall within.

Rate: See Interest Rate.

Rate adjustment period: The minimum interval between adjustments of an ARM's interest rate.

Rate cap: The upper limit to which a lender can increase the loan rate of an *adjustable rate mortgage* loan, usually over a specified period or for the life of the loan.

Rate lock: A commitment issued by a lender to a borrower or other mortgage originator guaranteeing a specified interest rate for a specified period of time at a specific cost.

Rate of return: The percentage return on capital.

Rate/point breakeven: The period you must retain a mortgage in order for it to be profitable to pay points to reduce the rate.

Rate/point options: All the combinations of interest rate and points that are offered on a particular loan program. On an ARM, rates and points may also vary with the margin and interest rate ceiling.

Rate protection: Protection for a borrower against the danger that rates will rise between the time the borrower applies for a loan and the time the loan closes. This protection can take the form of a "lock" where the rate and points are frozen at their initial levels until the loan closes; or a "float-down" where the rates and points cannot rise from their initial levels but they can decline if market rates decline. In either case, the protection only runs for a specified period. If the loan is not closed within that period, the protection expires and the borrower will either have to accept the terms quoted by the lender on new loans at that time, or start the shopping process anew.

Rate sheets: Tables of interest rates and points that lenders distribute daily to their loan officer employees or mortgage brokers.

Ratification: Creation of an *agency* relationship when a person has acted as a principal's agent without authorization and the principal accepts the relationship after the fact. See *implied agency*.

Real estate: A portion of the earth's surface extending downward to the center of the earth and upward into space, including all things permanently attached thereto by nature or man and all legal rights therein.

Real estate agent: A person licensed to negotiate and transact the sale of real estate.

Real estate broker: Any person, partnership, association, or corporation that, for a compensation or valuable consideration, sells or offers for sale, buys or offers to buy, or negotiates the purchase, sale, or exchange of real estate; or that leases or offers to lease, or rents or offers for rent any real estate or the improvement thereon for others. Such a broker must secure a state license. For a license to be issued to a firm, it is usually required that all active partners or officers be licensed real estate brokers.

Real estate contract: An installment sales contract for the purchase of real estate.

Real estate cycle: The upward and downward movements of real estate prices created by the forces of supply and demand.

Real Estate Investment Trust (REIT): Unincorporated group of 100 or more investors who have limited liability. Taxed on retained earnings only under federal law.

Real Estate Mortgage Investment Conduit (REMIC): A type of mortgage-backed security that allows for income to be taxed only to the holders of the instrument.

Real Estate Mortgage Trust (REMT): A business trust, similar to a REIT, that invests in mortgage securities, rather than in real estate.

Real Estate Owned (REO): A term frequently used by lending institutions as applied to ownership of real property acquired for investment or as a result of foreclosure.

Real estate salesperson: Any person who, for a compensation or valuable consideration, is employed either directly or indirectly by a real estate broker to sell or offer to sell; or to buy or offer to buy; or to negotiate the purchase, sale, or exchange of real estate; or to lease, rent, or offer for rent any real estate; or to negotiate leases thereof or improvements thereon. Such a salesperson must secure a state license.

Real Estate Settlement Procedures Act (RESPA): An act requiring the revelation of all costs involved in a real estate closing to all participants.

Real property: Land appurtenances, including anything of a permanent nature such as structures, trees, minerals, and the interest, benefits, and inherent rights thereof.

Realized gain: Profit from the sale of an investment that is not taxable until it becomes a recognized gain. Postponement can be achieved through an IRS Section 1031 exchange or by a sale on an installment basis.

Realtist: A member of the National Association of Real Estate Brokers.

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

Realty: (1) Land and anything permanently affixed to the land, such as buildings, fences, and those things attached to the buildings, such as light fixtures, plumbing and heating fixtures, or other such items which would be personal property if not attached. The term is generally synonymous with real property, although in some states a fine distinction may be made. (2) May refer to rights in real property as well as the property itself.

Re-amortize: To recalculate level payments for a loan, either because the loan term has been changed or because the loan balance has increased (due to negative amortization).

Rebate: Same as negative points.

Recapture: Return of investment through depreciation.

Recapture rate: The percentage of a property's original cost that is returned to the owner as income during the property's remaining economic life.

Recast: Redesigning an existing loan balance into a new loan for the same period or longer, to reduce payments and help a distressed borrower.

Recast payment: Raising the mortgage payment to the fully amortized payment. Periodic recasts are sometimes used on ARMs in lieu of or in addition to negative amortization caps.

Reciprocity: A mutual exchange of privileges by states, allowing attorneys, real estate brokers, and others to practice in one state while being licensed in another.

Recognition clause: A clause included in a blanket contract for deed used to purchase a tract of land for subdivision and development; provides for the protection of the rights of buyers of small parcels in case of default by the developer/promoter.

Recognized gain: Profit from the sale of an investment that is taxable in the current year.

Reconciliation: Determining the final estimate of value by weighing the results of the various approaches in an appraisal.

Reconsideration of value: A request by an agent to a lender to increase the appraised value of a property, based on evidence provided by comparables other than those selected by the appraiser.

Reconstruction of the operating statement: The process of eliminating the inapplicable expense items for appraisal purposes and adjusting the remaining valid expenses, if necessary.

Reconveyance: The transfer of the title of land from one person to the immediately preceding owner. It is used when the performance of debt is satisfied under the terms of a deed or trust.

Reconveyance clause: The clause in a trust deed that gives the title back to the borrower when the loan is paid in full.

Recordation: Filing instruments for public record (and notice) with a recorder (usually a county official).

Record date: The date that determines who is the holder of record entitled to receive payment of principal, interest, and any prepayment from the servicer or custodian.

Recorded plat: A subdivision map filed as a matter of public record.

Recorder: The public official in a political subdivision who keeps records of transactions affecting real property in the area. Sometimes known as a registrar of deeds or county clerk.

Recording: The formal filing of documents affecting a property's title.

Recording Acts: State laws requiring that information regarding property transfers become part of the public record by being recorded by public authoriries.

Recourse: The right of the holder of a note secured by a mortgage or deed of trust to look personally to the borrower or endorser for payment, not just to the property. In the secondary mortgage market, the forced repurchase of a defaulted mortgage by the seller.

Rectangular survey: Government survey system of describing property.

Redemption: A period of time allowed by statute for a property owner to redeem his property from a foreclosure or tax sale by paying the outstanding debt. See equitable redemption and statutory redemption.

Redemption period: That period of time (in those states where it is allowed) in which a foreclosed mortgagor has to buy back his or her property by paying principal amount and interest and fees.

Redemption, Right of: The right allowed by law in some states whereby a mortgagor may buy back property by paying the amount owed on a foreclosed mortgage, including interest and fees.

Redhibition: The right to have a sale rescinded or the price reduced due to a hidden defect which, had the buyer known of it, would have caused him or her to offer a lesser price, or not buy the property at all.

Redlining: Refusing to make loans within designated areas. It is considered to be a violation of the Civil Rights Act of 1968.

Reduction-option mortgage: A fixed rate mortgage with an option to reduce the interest rate once during the life of the loan.

Reference point: A monument on a metes and bounds description.

Referral: In the real estate business, generally the act of a past client recommending a real estate broker or agent to one currently a buyer or seller; also, any recommendation by one real estate agent of another for a referral fee.

Referral fees: Payments made by service providers to other parties as quid pro quo for referring customers. For example, a title company provides something of value to a Realtor® or lender for sending a customer who requires title insurance.

Referral power: The ability to direct a client to a specific vendor. Referral power is based on information and authority of the referrer, and ignorance of the client.

Referral site: A mortgage web site that introduces potential borrowers to participating lenders, in some cases to multiple hundreds of them. The principal lure to the consumer is information on generic prices posted by the lenders.

Refinance: Paying off an old loan while simultaneously taking a new one. This may be done to reduce borrowing costs under conditions where the borrower can obtain a new loan at an interest rate below the rate on the existing loan. It may be done to raise cash, as an alternative to a home equity loan or it may be done to reduce the monthly payment.

Refinancing: The process of paying off one loan with the proceeds from a new loan, using the same property as security.

Regional center: A large agglomeration of shops and stores in one location. Includes more than one department store.

Regional multipliers: Adjustment factors by which standard cost figures can be multiplied to allow for regional price differences.

Regression: A loss in value because a home was placed in an area of less expensive homes.

Regulation Z: A truth-in-lending provision that requires lenders to reveal the actual costs of borrowing.

Reinstatement: The right of a defaulting borrower to prevent foreclosure by curing the default and costs. The loan is reinstated and repayment resumes.

REIT: A Real Estate Investment Trust is an association that invests in real estate mortgages. If the trust is properly constituted, there are tax advantages.

Relative comparison analysis: Comparison based on quality difference rather than dollars.

Relative scarcity: A situation in which the consumer perceives a shortage and bids up the value of the commodity accordingly.

Release: (1) To give up a legal right. (2) A document in which a legal right is given up.

Release clause: A clause in a blanket mortgage which gives the property owner the right to pay off a portion of the indebtedness, thereby freeing a portion of his property from the mortgage.

Release of lien: An instrument discharging secured property from a lien.

Relief provision: A formal arrangement designed to help a borrower resolve a delinquency.

Remainder: That part of an estate that remains after the termination of a prior estate.

Remainder interest: An interest that a third person has in property after the death of a life tenant.

Remainderman: A person who obtains a right of possession when a life estate terminates.

Remaining economic life: The number of years of useful life left to a building from the date of appraisal.

REMIC: A Real Estate Mortgage Investment Trust is an entity that can avoid double taxation when issuing collateralized mortgage obligations.

Remittance options: See Actual/actual, Scheduled/actual, and Scheduled/scheduled.

Renewal option: Lease provision that allows the lessee to renew the lease for the same term or some other stated period, usually with a rent increase at a stated percentage or based on an index or other formula.

Rent: Consideration paid for use or occupancy of property, buildings or dwelling units.

Rent control: The exercise of police power by local governments to establish equitable rental rates.

Rent credit provision: A provision in a lease/option or lease/purchase contract that allows part of the rent paid by the tenant to be applied to the purchase of the property.

Rent-loss insurance: Insurance that protects a landlord against loss of rent or rental value due to fire or other casualty, resulting in the tenant being excused from paying rent.

Rent premium: An increment above the rent paid on a lease-to-own home purchase, which is credited to the purchase price if the purchase option is exercised, but which is lost if the option is not exercised.

Rent schedule: Preestablished amounts for rent under a property lease.

Rental concessions: Perquisites offered to entice new tenants, such as free rent for a few months or build-outs in the form of partitions or paint.

Repayment period: The number of years over which a borrower will make payments on a loan. Also called the loan term.

Repayment plan: An agreement between a lender and a delinquent borrower regarding mortgage payments, in which the borrower agrees to make additional payments to pay down past due amounts while still making scheduled payments.

Replacement cost: Cost of replacing a structure of the same desirability and utility value.

Replacement cost method: A method of appraisal in which an estimate of the subject property's value is arrived at by estimating the cost of replacing the improvements, then deducting estimated depreciation, and adding the estimated market value of the land.

Repossession: The act of placing property into the hands of the holder of the security after foreclosure.

Reproduction cost: Cost to build an exact replica of a property using the same materials as the original.

Required cash: The total cash required of the home buyer to close the transaction, including down payment, points and fixed dollar charges paid to the lender, any portion of the mortgage insurance premium that is paid up-front, and other settlement charges associated with the transaction such as title insurance, taxes, etc. The total required cash is shown on the Good Faith Estimate of Settlement.

Required yield: An investor's required yield. It is quoted on a net basis - that is, it does not include the lender's servicing fee.

Rescission: The act of nullifying a contract. In many states, parties to certain contracts are allowed a statutory amount of time after entering into a contract, a "cooling period," to rescind the contract without cause. No reason need be stated for the cancellation, and the cancelling party incurs no liability for performance.

Reserves for replacement: Funds set aside to replace a short-lived component of a property.

Reserve requirements: The Fed requires commercial banks to hold a certain portion of their deposits on reserve for immediate withdrawal by depositors.

Residence: A place where someone lives.

Residential balance provision: A provision that allows a lender to deliver an additional mortgage to Fannie Mae against a remaining balance of at least $1.00 on a mandatory delivery commitment.

Residential certification: An appraiser certification for residential property only.

Residential home mortgage: A mortgage covering a one- to four-family dwelling. Mortgages for larger residential buildings are classified as multi-family housing loans.

Residential mortgage credit report: The more inclusive credit report required for mortgages sold into the secondary mortgage market. Verifies employment, address, and checks national repositories of credit.

Residual income: The amount of income that an applicant for a VA loan has left over after taxes, recurring obligations, and the proposed housing expense have been deducted from his or her gross monthly income.

Residual income analysis: A method used in qualifying VA loan applicants; the underwriter calculates the amount of residual income left over after deducting the proposed housing expense, recurring obligations, and taxes from the applicant's gross monthly income. Also called cash flow analysis.

Residual qualifying: Under a VA loan, using specified housing expenses to qualify for a loan payment.

RESPA (Real Estate Settlement Procedures Act): The Real Estate Settlement Procedures Act, a federal consumer protection statute first enacted in 1974. RESPA was designed to protect home purchasers and owners shopping for settlement services by mandating certain disclosures, and prohibiting referral fees and kickbacks.

Resolution Trust Corporation (RTC): Federal agency created by the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 to oversee management and liquidation of assets of failed savings and loan associates.

Restricted appraisal report: A report that restricts the use and reliance of the report.

Restrictions: Rules imposed on the use of real estate in an effort to preserve property values.

Restrictive covenants: Private restrictions whereby owners are restricted in the use of their property. Examples are minimum size, setbacks, height limitations, etc.

Retail lender: A lender who offers mortgage loans directly to the public, as distinguished from a wholesale lender who operates through mortgage brokers and correspondents.

Return of investment: When an investment generates enough money to replace the amount originally invested in it; also called recapture.

Return on investment: The profit an investment generates for an investor, over and above the amount of money originally invested in it.

Revenue Bonds: Bonds to be repaid by the fees charged for the use of the funded project.

Reverse Annuity Mortgage: A system developed for an elderly property owner in which regular monthly payments can be received from a lender.

Reverse Equity Mortgage: An arrangement in which a homeowner mortgages a home to a lender in exchange for a monthly payment from the lender. Also called a home equity conversion mortgage (HECM).

Reverse Mortgage: A loan to an elderly home owner on which the balance rises over time, and which is not repaid until the owner dies, sells the house, or moves out permanently.

Reverse price risk: Exposure to the risk of falling interest rates that occurs when a lender makes a commitment to sell a loan to an investor before making a loan commitment to the borrower. See also Price risk.

Reversion: A right to future possession retained by an owner at the time of a transfer of an owner's interest in real property.

Reversionary clause: A clause providing that any violations of restrictions will cause title to the property to revert to the party who imposed the restriction.

Reversionary interest: A present right to future possession of an estate.

Review: The process of critically studying a report prepared by another.

Revocable offer: An offer that can be revoked at any time by the offeror as long as the revocation is prior to acceptance by the offeree.

Revoke: To cancel, annul, reverse, take back, etc.

Revolving debt: A credit arrangement that allows a customer to borrow against a pre-approved line of credit used to purchase goods and services. The borrower is responsible for the actual amount borrowed plus any interest due.

Rezoning: The process of changing from one land use to another, usually more intensive and for the purpose of raising the land value.

Right of First Refusal: A provision that states that a property is to be offered to a specific person before it can be offered for sale or lease to other parties.

Right of Rescission: The right of refinancing borrowers, under the Truth in Lending Act, to cancel the deal at no cost to themselves within three days of closing.

Right of Survivorship: In joint tenancy, the right of survivors to acquire the interest of a deceased joint tenant.

Right-of-Way: A privilege operating as an easement upon land, whereby a land owner, by grant or agreement, gives another the right to pass over land. See Easement.

Riparian: Belonging or relating to the bank of a river or stream. Land within the natural watershed of a river or stream.

Riparian rights: The right of a landowner to the use of water on or adjacent to his land.

Rod: A measure of length, 16 ½ feet.

Rollover loan: A loan that includes a call date earlier than its normal amortization period.

Royalties: Profits secured from mineral rights, oil wells and publications.

Rule of 78: Calculates proportionate amount of interest due on a loan being paid in full before its maturity.

R-Value: A measurement of insulation.

Rural housing service: A federal agency within the department of Agriculture that subsidizes or guarantees loans for the purchase, development, or rehabilitation of property located in rural areas.

S

Sale-buyback: Financing arrangements in which an investor buys property from a developer and immediately sells it back under a long-term sales agreement, wherein the investor retains legal title.

Sale-leaseback: A financing arrangement whereby an investor purchases real estate owned and used by a business corporation, then leases the property back to the business.

Sales comparison approach: Value determination based on sales of similar properties.

Sales comparison method of depreciation: Way of estimating the value of property through depreciation by using sales prices of comparable properties to derive the value of a depreciated item. It is also called the market data method and the market extraction method.

Sales contract: Another name for a sales agreement, purchase agreement, etc. Not to be confused with a land contract, which is a conditional sales contract.

Sales price: The actual price that a buyer pays for a property.

Salvage value: The value of a building or portion of a building to be moved from one location for use at another site. Most often occurs in condemnation, especially for highway purposes, where large areas must be cleared.

SAM: A shared appreciation mortgage.

Sandwich lease: A leasehold interest of a sublessor which lies between the primary lease (owner) and the operating lease (user).

Satisfaction of mortgage: The recordable instrument given by the lender to evidence payment in full of the mortgage debt. Sometimes known as a release of deed.

Savings and loan association: A mutual or stock association chartered and regulated by either the federal government or a state. S&Ls accept time deposits and lend funds primarily on residential real estate.

Savings bank: A type of financial institution that has traditionally emphasized consumer loans and accounts for small depositors, but is now known for making home mortgage loans. It is also called a mutual savings bank or thrift.

Scarcity: When there is a limited or inadequate supply of something; one of the four elements of value (along with utility, demand, and transferability).

Scenario analysis: Determining how the interest rate and payment on an ARM will change in response to specified future changes in market interest rates, called "scenarios".

Scheduled/actual (S/A): A type of remittance requiring the lender to remit to Fannie Mae the scheduled interest due (whether or not it is collected from borrowers) and the actual principal payments collected.

Scheduled/scheduled (S/S): A type of remittance requiring the lender to remit to Fannie Mae the scheduled interest due and the scheduled principal due (whether or not payments are collected from borrowers).

Scheduled mortgage payment: The amount the borrower is obliged to pay each period, including interest, principal, and mortgage insurance, under the terms of the mortgage contract. Paying less than the scheduled amount results in delinquency. On most mortgages, the scheduled payment is a fully amortizing payment throughout the life of the loan. On some mortgages, the scheduled payment for the first 5 or 10 years is the interest payment. On option (flexible payment) ARMs, it can be the "minimum" payment as defined by the program.

Scheduled rent: Rent based on existing leases.

Seasoned loan: A loan on which a borrower has made payments for more than one year, as compared to newly originated or current production loans. For some investor, a loan may require three years before it is considered "seasoned."

Second mortgage: A loan with a second-priority claim against a property in the event that the borrower defaults. The lender who holds the second mortgage gets paid only after the lender holding the first mortgage is paid. Secondary Mortgage Market : A market where mortgage originators may sell mortgages, freeing up funds for continued lending and distribution of mortgage funds nationally from money-rich to money poor areas.

Secondary financing: Financing real estate with a loan or loans subordinate to a first mortgage or first trust deed.

Secondary liability: Liability that arises only in the event that the person who has primary liability for a debt fails to pay it.

Secondary markets: Markets in which mortgages or mortgage-backed securities are bought and sold.

Secondary market agency: One of the three government-created entities that purchase loans and issue mortgage-backed securities> Fannie Mae, Freddie Mac, and Ginnie Mae.

Secondary mortgage market: A market where existing mortgages are bought and sold. It contrasts with the primary mortgage market, where mortgages are originated. See also Primary mortgage market.

Section: A one mile square parcel of land created by government survey.

Secure option ARM: An option ARM on which the initial rate holds for five years rather than one month.

Secured loan: A loan that is backed by collateral.

Secured party: The party holding a security interest for lien; on real estate referred to as the mortgagee.

Securities: Investment instruments, such as stocks and bonds, that confer an interest or a right to payment, without allowing direct managerial control over the enterprise invested in.

Securities and Exchange Commission (SEC): The federal agency that regulates securities and the securities business. It is involved in real estate and mortgage lending when MBS's are issued.

Securities, Mortgage-Backed (MBS): Investment instruments that have pools of real estate loans as collateral; issued and sold to investors by the major secondary market agencies (Fannie Mae, Freddie Mac, and Ginnie Mae) and other companies.

Securitization: The process of converting mortgages into mortgage-backed securities.

Security: Something given, deposited, or pledged to make secure the fulfillment of an obligation, usually the repayment of a debt.

Security agreement: Under the Uniform Commercial Code, a document that creates a lien on personal property that is being used to secure a loan.

Security instrument: The mortgage or trust deed evidencing the pledge of real estate security as distinguished from the note or other credit instrument.

Security interest: According to the Uniform Commercial Code, security interest is a term designating the interest of the creditor in the property of the debtor in all types of credit transactions. It thus replaces such terms as chattel mortgage, pledge, trust receipt, chattel trust, equipment trust, conditional sale, and inventory lien. See Financing statement.

Security property: Property owned by a borrower that is serving as collateral (the lender's security) for a loan.

Self contained report: Appraisal report which contains all material necessary to fulfill the requirements of the Uniform Standards of Professional Appraisal Practice for an appraisal report.

Self-employed borrower: A borrower who must document income using tax returns rather than information provided by an employer. This can somewhat complicate the process.

Seller/servicer: A term for an approved corporation that sells and services mortgages for either FNMA or FHLMC.

Seller carry-back: An agreement in which the owner of a property provides financing, often in combination with an assumable mortgage.

Seller contribution: A contribution to a borrower's down payment or settlement costs made by a home seller, as an alternative to a price reduction.

Seller financing: Provision of a mortgage by the seller of a house, often a second mortgage, as a condition of the sale.

Seller second: Secondary financing from the seller, when a purchase money loan is used to supplement an institutional first mortgage.

Seller's market: When demand exceeds supply.

Selling price: The actual price that a buyer pays for a property.

Senior loan: A real estate loan in first priority position.

Senior pass-through: The principal amount of a pass-through.

Separate property: Under c*ommunity property* law, the property that belongs to one spouse; community property belongs to both spouses equally. Separate property is typically property owned by either spouse at the time of the marriage, acquired by either spouse through inheritance or gift during the marriage, acquired with separate-property funds, or received as income from separate property.

Servicer: An organization that collects principal and interest payments from borrowers and manages borrowers' escrow accounts. The servicer often services mortgages that have been purchased by an investor in the secondary mortgage market.

Servicing: Administering loans between the time of disbursement and the time the loan is fully paid off. This includes collecting monthly payments from the borrower, maintaining records of loan progress, assuring payments of taxes and insurance, and pursuing delinquent accounts.

Servicing agent: The party who services a loan, who may or may not be the lender who originated it.

Servicing fee: The compensation a lender receives from an investor each month for servicing loans on its behalf.

Servicing release premium: A payment made by the purchaser of a mortgage to the seller for the release of the servicing on the mortgage. It has no direct relevance to borrowers.

Servicing released: Sale of the rights to service a loan when the loan is sold in the secondary market.

Servicing retained: Retention of the rights to service a loan when the loan is sold in the secondary market.

Servicing transfer: When one servicing agent is replaced by another.

Servient estate: An estate of land over which an easement exists in favor of the dominant estate.

Servitude: In relation to easements, "easements" refer to the advantage of the dominant tenement, while "servitude" describes the burden of the servient tenement.

Setback: Zoning restrictions on the amount of land required surrounding improvements; the amount of space required between the lot line and the building line.

Settlement: Closing the final stage in a real estate transaction.

Settlement costs: Costs that the borrower must pay at the time of closing, in addition to the down payment. Monies deposited in advance in anticipation of satisfying a debt in the future.

Settlement statement: A document that presents a final, detailed accounting for a real estate transaction, listing each party's debits and credits and the amount each will receive or be required to pay at closing; also called a closing statement.

Severalty: Sole or independent ownership.

Severance damage: Damage to the remaining property in condemnation, caused by the partial taking and subsequent construction of the road, building, or other use for which the taking took place.

Shared Appreciation Mortgage (SAM): A mortgage on which the borrower gives up a share in future price appreciation in exchange for a lower interest rate and/or interest deferral.

Sheriff's deed: Deed given at sheriff's sale in foreclosure of mortgage. The giving of said deed begins a statutory redemption period. This is also given at court ordered sale, pursuant to the execution of a judgment.

Sheriff's sale: A public auction of property after judicial foreclosure.

Shopping site: A type of multi-lender web site that offers borrowers the capacity to shop among multiple competing lenders.

Short sale: A property sale in which the seller's loan obligation is greater than the sales price. Generally, the lender must approve the sale and may or may not forgive some of the borrower's remaining debt.

Signature: The act of putting one's name on an instrument. Although legally, a signature must not necessarily be hand written (may be typed, stamped, etc.), recording states may be very specific regarding allowable signatures, even as to the color ink used (must be capable of being photocopied).

Silent second: A second mortgage offered at preferential (subsidized) terms to those who qualify. For example, a labor union may offer members who are first-time home buyers a silent second to finance closing costs or the down payment. The second might bear no interest, and might not be repayable until the first mortgage is repaid or the property is sold.

Simple interest: Interest calculated as percentage of the principle only.

Simple interest mortgage: A mortgage on which interest is calculated daily based on the balance at the time of the last payment. The daily interest charge within the month is constant. Interest is not charged on the interest charges of prior days.

Simple interest biweekly mortgage: A biweekly mortgage on which the biweekly payment is applied to the balance every two weeks, rather than held in an account as on a conventional biweekly.

Single file mortgage insurance: A type of mortgage insurance on which the lender pays the premium and prices it in the interest rate.

Single-lender web site: A web site of an individual lender or mortgage broker who wants users to select a loan from them. They are easy to identify because the name of the lender or broker will be prominently displayed on the screens. Single-lender sites account for the majority of all mortgage web sites.

Single-purpose Issuer: An entity, such as a "finance company", whose single purpose is the accumulation of mortgages and the issuance and servicing of bonds.

Sinking fund: A compound interest savings account designed to accumulate funds in anticipation of a balloon payment.

Site: Land suitable for building purposes, usually improved by the addition of utilities or other services.

Siting: The placement of a structure on the lot.

Situs: Personal preference of an area.

Slab: Concrete floor poured directly on the ground.

Sole ownership: Similar to the Common Law term "ownership in severalty," it simply means the property is owned by one person or entity.

Sole proprietorship: Individual ownership of a business as opposed to a partnership or corporation.

Special assessment: A tax or levy customarily imposed against only those specific parcels of realty that will benefit from a proposed public improvement, as opposed to a general tax on the entire community.

Special hazard insurance: Special hazard insurance is a form of pool insurance that covers losses from such freaks of nature as earthquakes and floods. This insurance, typically 1 percent of the initial aggregate amount of the pool, is placed in a collateral pool as a whole.

Special limited obligation debt: Bonds issued by housing agency that are secured (as defined) only by the revenues and funds pledged in the specific indenture. Funds held by the agency for other programs or in general funds are not pledged for debt service.

Special-purpose property: Property that has unique usage requirements, such as a church or a museum, making it difficult to convert to other uses.

Special warranty deed: A deed containing a covenant whereby the grantor agrees to protect the grantee against any claims arising during the grantor's period of ownership. Often used during probate.

Specific data: Data pertaining to a particular property.

Specific lien: A lien which is applicable to one property in particular, versus a general lien which applies to all property of the individual involved.

Specific performance: A remedy which the court will grant in certain cases, compelling the defendant to perform or carry out the terms of a valid, existing agreement or contract.

Speculator: One who acquires properties with the expectation that prices will greatly increase.

Split fee: A type of equity participation in which a lender purchases the land, leases it to a developer and finances the leasehold improvements in return for a basic rental plus a percentage of the profits.

Spot zoning: Small areas of zoning use which do not fit with the general use of the area (frequently resulting from political influence). See also "variance."

Spread: The difference between the average rate at which money can be borrowed and the average rate at which it can be loaned.

Square foot: The area contained by boundaries of 1 foot long and 1 foot wide. There are 9 square feet in 1 square yard.

Square-foot method: A method for finding the reproduction cost of a building in which the cost per square foot of a recently built comparable structure is multiplied by the number of square feet in the subject property.

Square footage: Measurement by taking exterior dimensions, excluding the garage.

Stable monthly income: Gross monthly income (from primary and secondary sources) that meets the lender's tests of quality and durability.

Staff appraisers: Appraisers employed by a business or agency on a salaried basis.

Standard commitment: An agreement to sell or swap loans based on an investor's posted yields, rather than on negotiated terms.

Standard deviation: A measure of the difference between individual entities called variates, and an entire population, in which the square root of the sum of the squared differences between each variate and the mean of all the variates in the population is divided by the number of variates in the population.

Stand-by commitment: A commitment to purchase a loan or loans with specified terms; both parties understanding that delivery is not likely unless circumstances warrant. The commitment is issued for a fee with willingness to fund in the event that a permanent loan is not obtained. Such commitments are typically used to enable the borrower to obtain construction financing at a lower cost on the assumption that permanent financing of the project will be available on more favorable terms when the improvements are completed and the project is generating income.

Stand-by fee: The fee charged by an investor for a stand-by commitment. The fee is earned upon issuance and acceptance of the commitment.

State (Moral Obligation) Pledge: A security device frequently used by state governments to enhance the marketability of revenue bond debt. The pledge requires that notification of a shortfall in a bond program's debt service (capital) reserve fund be sent formally to the governor of the state. It is intended that the shortfall be included in the governor's next budget message to the legislature. There are state-to-state variations in the use of the pledge; however, none except Idaho's are legally binding.

Stated assets: A documentation requirement in which the borrower discloses his/her assets but the assets are not verified by the lender.

Stated income: A documentation requirement where the lender verifies the source of income but not the amount.

Statistics: The science of collecting, classifying, and interpreting information based on the number of things.

Statute of Frauds: State law requires, among other things, that certain contracts relating to real estate must be in writing to be enforceable by law.

Statute of Limitations: Laws setting forth the period of time in which suit can be brought for a particular act.

Steering: Directing prospective buyers or tenants into or away from certain areas on illegal discrimination grounds.

Step-rate loan: A loan using a temporary buydown that decreases over the buydown period.

Stigmatized property: A property whose value may be compromised by facts and events associated with the property but not considered to be material, for instance, that a crime or death occurred on the property. Such facts are usually not subject to required disclosure.

Stock: A share of a corporation's stock represents a fractional ownership interest in the corporation; a shareholder may receive a return on the investment in the form of dividends and/or appreciation of the share's value.

Stop date: Date on a term loan when the balloon payment is due.

Straight Bond: A form of a "mortgage-backed bond" that is required by a mortgage pool. The instrument is similar to corporate bonds, with scheduled periodic interest payments. Principal repayment is usually at the end of the bond term.

Straight line depreciation: Setting aside or allowing a fixed sum of money each year to offset replacement or improvements when needed.

Straight-line recapture: A method of capital recapture in which total accrued depreciation is spread over the useful life of a building in equal amounts.

Straw man: One who acts for another, not openly, but as a principal to hide the identity of the party for whom acting.

Streamlined refinancing: Refinancing that omits some of the standard risk control measures, and is therefore quicker and less costly.

Strip center: Any shopping area, generally with common parking, comprised of a row of stores. Usually does not contain major department stores or grocery chain stores.

Strips: Part of a REMIC's assets; interest-only (IO) or principal-only (PO) portions of their inventory can be sold separately.

Studs: Vertical framing boards in a wall.

Subchapter S Corporation: A corporation that, for tax purposes, has elected to be treated as a partnership; also called a tax-option corporation.

Subdivision: A division of a parcel into separate smaller parcels.

Subdivision development method: A method of valuing land to be used for subdivision development. It relies on accurate forecasting of market demand, including both forecast absorption (the rate at which properties will sell) and projected gross sales (total income that the project will produce); also called the land development method.

Subject property: In an appraisal, the property that is being appraised.

Subject to: When a borrower sells the security property without paying off the mortgage or deed of trust, and the purchaser takes title "subject to" the lien, but does not assume the loan.

Subject To clause: A clause in a deed, stating that the grantee takes title "subject to" an existing mortgage. The original mortgagor is alone responsible for any deficiency, should there be foreclosure of the mortgage. Differs from an "assumption" clause, whereby the grantee "assumes" and agrees to pay the existing mortgage.

"Subject to" existing loan: Becoming responsible, but not assuming personal liability, for an existing loan.

Subject to mortgage: When a purchaser buys subject to a mortgage but does not endorse the same or assume to pay the mortgage, a purchaser cannot be held for any deficiency if the mortgage is foreclosed and the property sold for an amount not sufficient to cover the note. See Assumption of mortgage.

Sublease: A lease given by a lessee for a portion of the unexpired balance of his term, or one given for a portion of the leased premises.

Subleasehold: The interest of a sublessee under a sandwich lease.

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

Subordinate: To make subject to, or junior to.

Subordinate financing: Any mortgage or other lien that has a priority lower than that of the first mortgage, or senior loan. A second mortgage on the property which is not paid off when a new loan is taken out. See second mortgage.

Subordinate pass-through: The over-collateralized portion of a pass-through.

Subordination: The act of a party acknowledging, by written recorded instrument, that a debt due is inferior to the interest of another in the same property. Subordination may apply not only to mortgages but to leases, real estate rights, and any other types of debt instruments.

Subordination Clause: A clause in a mortgage or lease stating that the rights of the holder shall be secondary or subordinate to a subsequent encumbrance.

Subordination policy: The policy of a second mortgage lender for allowing a borrower to refinance the first mortgage while leaving the second in place.

Subpoena: A legal process (writ) used to require the appearance of a person or documents into court.

Sub-prime borrower: A borrower with poor credit, who can borrow only from sub-prime lenders who specialize in dealing with borrowers who have poor credit. Such borrowers pay more than prime borrowers, and are sometimes taken advantage of. Not all borrowers who deal with sub-prime lenders, however, are sub-prime borrowers. Some could obtain loans from mainstream lenders if they properly shop the market.

Sub-prime lender: A lender who specializes in lending to sub-prime borrowers.

Subprime lending: Making riskier loans to persons who might otherwise be unable to qualify for a loan, often requiring higher interest rates and fees to make up for the increased risk of default.

Subrogation: The substitution of a third person in the place of a creditor, to whose rights the third person succeeds in relation to the debt.

Substitute sale: A hedging vehicle, such as a futures contract, in which a lender sells for future delivery something that the lender does not own.

Substitution, Principle of: A principle of appraisal holding that the maximum value of a property is set by how much it would cost to obtain another property that is equally desirable, assuming that there would not be a long delay or significant incidental expenses involved in obtaining the substitute.

Substitution of entitlement: When a VA borrower sells the security property to another eligible veteran, who agrees to substitute his or her guaranty entitlement for the seller's, so that the seller's entitlement is restored.

Summary appraisal report: A report which differs from the self-contained report in that the explanations are deleted.

Super-regional center: A regional shopping center that includes apartment and office buildings

Supply: Products and services available for consumption.

Supply and Demand, Principle of: A principle that the value of a commodity will rise as demand increases and/or supply decreases.

Surety: One who voluntarily binds himself to be obligated for the debt or obligation of another. For example: A co-maker of a note; an insurance carrier. Surety differs from guarantor, although commonly (and mistakenly) used interchangeably.

Surface rights: The rights (easements) to use the surface of land, including the right to drill or mine through the surface when subsurface rights are involved.

Survey: A drawing or map the shows the precise legal boundaries of a property, the location of improvements, easements, rights of way, encroachments, and other physical features.

Survivorship: Upon the death of a joint tenant, the tenant's interests cease to exist, and all interests remain undivided with the survivors.

Swap: The exchange of loans for mortgage-backed securities rather than cash.

Sweat equity: Increase in property value due to improvement by owners.

Swing loan: Bridge loan.

Syndication: A group of two or more people united for the purpose of making and operating an investment. A syndicate may operate as a corporation, general partnership or limited partnership.

T

T&I (Taxes and Insurance): That portion of a home buyer's monthly payments to the lender that goes into an escrow fund to pay property taxes, the homeowner's insurance premiums, and mortgage insurance, if applicable.

Table funding: A financing technique that occurs when a broker closes a mortgage loan with funds belonging to an acquiring lender and immediately assigns the loan to that lender. This activity gives the mortgage broker the opportunity to say it is a direct lender since it can close loans with its own funds.

Tacking: (1) Annexing a lien to one superior to it in order to gain the priority of the superior lien and defeat an intermediate lien. Generally not allowed. (2) Annexing periods of possession to add up to enough time for successful adverse possession. For example: **A** begins adverse possession. **A** dies and **A's** son takes up possession, adding **A's** time to his own. Not always allowed.

Takeout commitment: A promise to make a loan at a future specified time. It is commonly used to designate a higher cost, shorter term, backup commitment as a support for construction financially, until a suitable permanent loan can be secured.

Takeout mortgage: A permanent mortgage, obtained by pre-arrangement between a builder and a financial institution, to repay the interim mortgagee at the completion of construction.

Tax clause: In a lease, a clause passing to the tenant any increase in property taxes over the base year's amount.

Tax credit: A credit applicable directly against taxes due; a 100 percent deduction.

Tax deed: A deed on property purchased at public sale for nonpayment of taxes.

Tax lien: A claim against real estate for the amount of its unpaid taxes.

Tax preference items: Items specified for special tax treatment; items such as excess accelerated depreciation over the straight-line rate. See also alternative minimum tax.

Tax Reform Act of 1986 (TRA "86): A sweeping revision of the income tax code.

Tax sale: Public sale of property at auction by governmental authority, after a period of nonpayment of property tax.

Tax shelter: A phrase often used to describe some of the tax advantages of real estate investment, such as deductions for depreciation, interest, taxes and so forth.

Tax-stop clause: A clause in a lease providing that the lessee will pay any increase in taxes over a base or an initial year's taxes.

Tax waivers: A community's technique to entice new industry.

Taxable income: The net income, after allowable deductions and adjustments, on which the tax rate is applied.

Taxation: The federal government collects revenue through taxation. The rates at which people are taxed affects the amount of money taxpayers have available to invest.

Teaser rate: The initial interest rate on an ARM, when it is below the fully indexed rate.

Temporary buydown: A reduction in the mortgage payment in the early years of the loan in exchange for an upfront cash payment provided by the home buyer, the seller, or both.

Temporary indulgence: A relief provision that allows the borrower additional time before more formal action is taken to cure a delinquency.

Temporary lender: A lender that sells the loans it originates.

Tenancy at will: The right to use and possess until that right is terminated by either party.

Tenancy by the entireties: Joint ownership by husband and wife. Upon the death of one, the other inherits the entire estate.

Tenancy for years: A lease for a definite period of time which then reverts to the lessor; a lease with a predetermined ending date.

Tenancy in common: In law, the type of tenancy or estate created when real or personal property is granted, devised, or bequeathed to two or more persons in the absence of expressed words creating a joint tenancy. There is not right of survivorship. See Joint tenancy.

Tenancy in severalty: Ownership of property vested in one person alone; also called several tenancy or sole tenancy.

Tenant: One who is not the owner of, but occupies, real property under consent of the owner and in subordination to the owner's title. The tenant is entitled to exclusive possession, use, and enjoyment of the property, usually for a rent specified in the lease.

Tenant at sufferance: One who comes into possession lawfully, but holds over after the termination of his interest.

Tenant at will: One who holds possession of premises by permission of the owner or landlord, but without agreement for a fixed term of possession.

Tenant mix: A description of occupants by the types of business in which they are engaged.

Term: The period of time, usually but not always the same as the maturity, used to calculate the monthly mortgage payment.

Testamentary trust: A trust that commences on the demise of the trustor.

Testate: Leaving a will upon death.

Third-party origination: When a lender uses another party to completely or partially originate, process, underwrite, fund, or package the mortgages it plans to deliver to the secondary mortgage market.

Three-quarter bath: Toilet, wash basin, and shower unit.

3/2 Down payment: A program where a lender will allow a borrower who is able to secure a grant or gift equal to 2% of the down payment and the opportunity to provide a 3% down payment from their own funds. This can be a good deal for a cash-short borrower.

Thrift industry: Term referring to savings banks together with savings and loan associations.

Tier: A horizontal row of townships, measured north and south from the baseline.

Tight money market: When loan funds are scarce, leading lenders to charge high interest rates and discount points.

Time deposit: A deposit in a financial institution that is not supposed to be withdrawn until a certain period has elapsed, unless the depositor pays a penalty. A certificate of deposit is an example. Compare - Demand Deposit.

Time is of the essence: In a contract, a requirement of punctual performance.

Time value of money: The present worth of future income.

Timeshare: A fractionalized ownership of a unit where owner has exclusive occupancy for a designated time period.

Timesharing: A modern approach to communal ownership and use of real estate that permits multiple purchaser to buy undivided interests in real property (usually in a resort condominium or hotel) with a right to use the facility for a fixed or variable time period.

Title: The document that shows a person's legal right of ownership of property.

Title company: A company specializing in the examining and insuring of titles to real estate.

Title, Equitable: The interest of the vendee under a land contract, including the right to possession of the property and the right to acquire legal title by paying off the contract according to its terms. Compare - Legal Title.

Title, Legal: Title held as security, without the right to possess the property. Compare - Equitable Title.

Title insurance policy: A type of insurance policy that typically insures a homebuyer against title search errors or mistakes and against loss due to disputes over property ownership. Additionally, title insurance can offer protection to the lender. Cost is usually a set value per thousand dollars of the loan amount.

Title search: Checking title records to make sure that the seller is the legal owner of the property, and that no liens or other claims are outstanding.

Title theory: A theory followed in several states that the mortgagee has legal title to the mortgaged property and the mortgagor has equitable title.

Topography: The surface characteristics of land.

Torrens Title: A system of registering ownership where the government keeps the registers.

Tort: A civil wrong committed against person or property, independent of any contractual agreement.

Total debt service ratio: Monthly debt and housing payments divided by gross monthly income.

Total expense ratio: The ratio of total housing expense to borrower income.

Total expense ratio: A ratio used in qualifying buyers, it is the ratio of housing expense plus current debt service payments to borrower income.

Total finance charge: Under the Truth in Lending Act, the total finance charge on a loan includes the interest, any discount points paid by the borrower, the loan origination fee, and mortgage insurance costs.

Total housing expense: Housing expense plus monthly debt service.

Total interest payments: All interest payments to date or over the life of the loan. Since this figure does not include up front cash payments and is not adjusted for time value of money, it is an incomplete measure of the cost of credit to the borrower.

Total obligations-to-Income ratio: The amount of a borrower's debt stated as a percentage of the borrower's total income. One of the criteria used by lenders to calculate the risk involved in making a loan to a prospective borrower.

Township: A section of land established by governmental survey that is six miles long, six miles wide, and containing 36 sections, each one mile square.

Township tiers: Horizontal rows of townships.

Trade fixture: Articles of personal property attached to real property, but are necessary to the carrying on of a trade, and are movable by the owner or tenant when he leaves.

Tranches: Part of a REMIC's assets; tradable homogeneous pools of securities (e.g., variable-interest-rate loans or fixed interest-rate loans).

Transfer of ownership: The means by which a property's ownership changes hands. Examples include any exchange of possession of property under a land sales contract, the purchase of a property "subject to" the mortgage, and the assumption of the mortgage debt by the property purchases.

Transfer tax: A state or local tax that is payable when title passes from one owner to another.

Transferability: If an object is transferable, then ownership and possession of the object can be conveyed from one person to another. Transferability is one of the four elements of value, along with utility, scarcity, and demand.

Treasury Index: An index that is commonly used to determine interest rate changes for ARM plans. The index is usually based on a yield adjusted to a constant maturity.

Trial Balance: A report that gives the status of each mortgage in a servicer's portfolio.

Trigger words: Language in advertisement that triggers the federal disclosure laws.

Triplex: A building composed of three dwelling units.

Trust: A fiduciary relationship under which one holds property (real or personal) for the benefit of another. The party creating the trust is called the settlor, the party holding the property is the trustee, and the party for whose benefit the property is held is called the beneficiary.

Trust account: A bank account in which funds held in trust on behalf of another person are kept separate from the holder's own money.

Trust deed: A deed given by borrower to trustee to be held pending fulfillment of an obligation.

Trustee: One who holds property in trust for another to secure the performance of an obligation.

Trustee's deed: The deed given to the purchaser at a trustee's sale.

Trustee's sale: A nonjudicial foreclosure sale conducted by a trustee under the power of sale clause in a deed of trust.

Trustor: The debtor who gives title to the trustee as security for the loan.

Truth in Lending Act (TILA): Under this federal law, lenders are required to reveal the actual costs of borrowing.

12 MTA: An interest rate index that is used on some ARMs. It is the average of the most recent 12 monthly values of the Treasury One-Year Constant Maturity series.

12 MTA Pay Option ARM: Same as Flexible Payment ARM.

Two-step mortgage: A type of ARM in which the interest rate can be adjusted only one time, usually after five or seven years, and then remains constant for the remaining term of the loan.

U

Underage: The collecting of fees by a loan officer from a borrower that is lower than the target fees specified by the lender or mortgage broker.

Underimprovement: An improvement that is not the most profitable use of the land.

Underwriter: The employee of an institutional lender who evaluates loan applications, deciding which loans to approve.

Underwriting: The process by which all data about a borrower's property and transaction is examined to determine whether the mortgage applied for should be issued.

Underwriting, Automated (AU): Underwriting using software that makes a preliminary analysis of a loan application and makes a recommendation for approval or additional scrutiny.

Underwriting requirements: Standards that are more comprehensive than qualification requirements because they include an evaluation of the borrower's creditworthiness. These standards help determine whether a borrower qualifies for a loan.

Unencumbered property: A property to which the title is free and clear.

Uniform Commercial Code (UCC): A comprehensive law regulating commercial transactions. It has been adopted, with modification, by all states.

Uniform Partnership Act: An act that controls real estate partnerships and syndicates. Requires full revelation of risks to potential investors.

Uniform Residential Appraisal Report (URAR): Appraisal form required by Fannie Mae and Freddie Mac.

Uniform Settlement Statement: A settlement statement required for any transaction involving a loan that is subject to the Real Estate Settlement Procedures Act (RESPA).

Uniform Standards of Professional Appraisal Practice (USPAP): Uniform standards developed by professional organizations and administered under the responsibility of the Appraisal Foundation.

Unilateral contract: A contract whereby only one party is obligated to perform his obligation to another.

Unit-in-place method: Quantities of building components are measured and priced based on cost manuals to determine replacement cost.

Upfront mortgage broker (UMB): One who charges a set fee for services provided and acts as the borrower's agent in shopping for the best deal.

Upfront mortgage lender: A lender on the internet who provides mortgage shoppers with information needed to make an informed decision before applying for a mortgage.

Usable space: The area actually used upon which the rental rate is applied (e.g., 1,000 square feet @ $7.20 per square foot per year equals a rental of $600 per month).

Use Value: The value of a property designed to fit the specific requirements of the owner but that would have little or no use to another owner; also referred to as value-in-use.

USPAP: The Uniform Standards of Professional Appraisal Practice require appraisers to follow certain ethical and professional requirements for all appraisal assignments involving federally related loan transactions.

U.S. Treasury: An executive department of the U.S. government that serves as the nation's fiscal manager.

Usufruct: The right of the use and the fruits of a Louisiana ownership. It is a combination of usus and fructus.

Usury: Charging a rate of interest on a loan greater than that permitted by law.

Utility: The ability of an object to satisfy some need or arouse a desire for possession; one of the four elements of value, along with scarcity, demand, and transferability.

V

VA: Department of Veterans Affairs.

VA Certificate of Reasonable Value: The VA issues a Certificate of Reasonable Value at a specific figure, agreeing to guarantee a mortgage loan to an eligible qualified veteran buyer upon completion and sale of the house. The veteran must be aware of the VA's appraised value of the property.

VA entitlement: The VA guaranty amount that a particular veteran is entitled to.

VA guaranty: The portion of a VA loan guaranteed by the Department of Veterans Affairs; the maximum amount that the VA will pay the lender for a loss resulting from the borrower's default.

VA loan: A government guaranteed mortgage loan supported by the U.S. Veterans Administration.

VA mortgage: A mortgage that usually requires no down payment, available to qualified ex-servicemen and women as well as those on active duty. The Veterans Administration guarantees the lender against loss.

Vacancy factor: A percentage rate expressing the loss from gross rental income due to vacancy and collection losses.

VA-Guaranteed loan: A home loan to an eligible veteran made by an institutional lender and guaranteed by the Department of Veterans Affairs, protecting the lender against losses resulting from default.

Valid: Legally binding. Property carried out in accordance with legal procedures.

Valuation: See Appraisal.

Valuation conditions form: An FHA document that requires the appraiser to report all property deficiencies.

Valuation principles: Factors that affect market value, such as the principles of substitution, highest and best use, supply and demand, conformity, contribution, increasing and decreasing returns, competition, change, stage of life cycle, anticipation, externalities, balance, surplus productivity, opportunity cost, and agents of production.

Value: The present worth of future benefits; the worth of an item expressed in monetary terms.

Value in exchange: The value of goods and services in exchange for other goods and services, or money, in the marketplace; an economic concept of market value.

Value in use: Value based on a particular use.

Vara: A Spanish or Portuguese unit of measure of approximately 33 inches.

Variable cost ratio: The operating expenses, including taxes, insurance, maintenance, management and utilities, when specified as a percentage of the gross revenue.

Variable expenses: Expenses which vary with occupancy.

Variable-rate mortgage: A mortgage agreement that allows for adjustment of the interest rate in keeping with a fluctuating market and terms agreed upon in the note.

Variance: Permission obtained from zoning authorities permitting the construction of a building or structure that is forbidden by present zoning ordinances.

Variate: In statistics, an individual thing, person, or other entity.

Vendee: The purchaser; buyer.

Vendor: The seller.

Verification of deposit: A form a lender sends to a financial institution for confirmation that a loan applicant has the funds on deposit that he or she claims to have.

Veterans Affairs, Department of (VA): The Servicemen's Readjustment Act of 1944 authorized this agency to administer a variety of benefit programs designed to facilitate the adjustment of returning veterans to civilian life. The VA home loan guaranty program is designed to encourage lenders to offer long-term, low down payment mortgages to eligible veterans by guaranteeing the lender against loss.

Verification of employment: A form a lender sends to a loan applicant's employer, for confirmation that the applicant is actually employed as claimed, and to verify the amount of the applicant's salary.

Voidable: That which is capable of being declared void, but is not void unless action is taken to make it so.

Voluntary lien: Any lien placed on property with consent of, or as a result of, the voluntary act of the owner, e.g., a mortgage.

VRM: A variable rate mortgage. Any loan in which the interest rate may change, whether the rate is tied to an index or not. Such loans have been replaced by ARMs and AMLs.

W

Waive escrows: When the lender authorizes the borrower to pay taxes and insurance directly in contrast to the standard procedure where the lender deposits into escrow charges included in the monthly mortgage payment that covers the borrower's taxes and insurance. When these fees are due, the lender takes the funds from escrow to pay them.

Warehouse: A building used for storage.

Warehousing: The holding of a mortgage on a short-term basis pending either a sale to an investor or other long-term financing. These mortgages may be used as collateral security with a bank to borrow additional funds. A builder "warehouses" mortgages when he or she takes back a mortgage from a home buyer and holds the mortgage for a time period.

Warrantable condos: Condominium with features that lenders would view as protections against hazards that would threaten the unit's value.

Warranty deed: A deed in which the grantor warrants a good clear title to the property; a deed that contains covenants of title.

Waste: Damage to real estate by neglect or other cause.

Waste management: In industrial leases, care in the disposal of solid, liquid and airborne wastes.

Whole loan: The entire mortgage loan package representing 100 percent ownership and not individual ownership as in a mortgage pool.

Wholesale lender: A lender who provides loans through mortgage brokers or correspondents.

Wholesale lending: Lending by a large investor through a loan correspondent who originates and services loans.

Will: A written document providing for the distribution of property at death.

Worst case scenario: An assumption based on the interest rate on an ARM rising to the maximum extent permitted in the note.

Wrap-around mortgage: A lender assumes payment obligation of a mortgage, usually with a lower interest rate, while establishing another mortgage for a borrower on a property at a higher rate.

Wraparound encumbrance: A method of refinancing in which the new mortgage is placed in a secondary, or subordinate, position. In essence, it is an additional mortgage in which another lender refinances a borrower by lending an amount over the existing first-mortgage amount without disturbing the existence of the first mortgage. This is also known as an all-inclusive trust deed.

Y

Yield: In real estate, the effective annual amount of income that is being accrued on an investment. Expressed as a percentage of the price originally paid.

Yield capitalization: Method used to estimate value from annual net operating income by applying a capitalization rate derived by analyzing each of the rate's component parts to provide both return on and return of the investment.

Yield curve: A graph that shows how the yield from a loan varies with the period to maturity. The curve will usually slope upwards, but on occasion it will slope down or be flat. A flat yield curve means that yields on long-term bonds are equal or not much higher than those on short-term notes.

Yield-spread premium: Same as negative points.

Yield to maturity: A percent returned each year to the lender on actual funds borrowed, considering that the loan will be paid in full at the end of maturity.

Z

Zero percent financing: A loan with no interest in the contract. In such cases, the IRS will impute 10 percent for both borrower and lender.

Zoning: Under its police power, a community's right to dictate the use of property within its boundaries.

Zoning map: A map of a community showing the zones of permitted use under zoning ordinances.

Zoning ordinance: A law (generally at the city or county level) controlling the use of land and construction of improvements in a given area (zone).

Zoning variance: An exemption from a zoning ordinance or regulation permitting a structure or use that would not otherwise be allowed.