The Real Estate Investors Vocabulary Guide
**Acceleration Clause:** Stipulation in a mortgage agreement that allows the lender to demand immediate payment of the entire loan balance if any scheduled payment is missed.

**Adjustable Rate Mortgage (ARM):** Mortgage loan on which the interest rate falls and rises with changes in prevailing rates. The mortgage rate is tied to a selected index and may be adjusted annually. Also called a variable rate mortgage.

**Agent:** Person authorized to act by and on behalf another.

**Air Rights:** Right to occupy and use the open space above a parcel of land or property, such as in the leasing of air space existing buildings or highways.

**Amortize:** Pay a debt in monthly or other periodic installment until the total amount, along with the interest, if any, is paid.

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

**Annual Percentage Rate (RPR):** Combines the interest rate with other loan costs, such as points and loan fees, into a single figure that shows the true annual cost of borrowing.

**Appraisal:** A formal estimate of property value conducted by a professional qualified to make such an opinion.

**Appraised value:** An opinion of a property's fair market value, based on an appraiser's knowledge, experience, and analysis of the property. Since an appraisal is based primarily on comparable sales, and the most recent sale is the one on the property in question, the appraisal usually comes out at the purchase price.

**Appraiser:** An individual qualified by education, training, and experience to estimate the value of real property and personal property. Although some appraisers work directly for mortgage lenders, most are independent.

**Appreciation:** Increase in property value or worth due to economic or related factors; the opposite of depreciation.

**As is:** Said of property offered for sale in its present condition with no guarantees as to quality and no promise of repair or fix-up by the seller; property is purchased in exactly the condition in which it is found.

**Assessed Value:** A value placed on a property by an agency of the government for taxation and other purpose.

**Assessment:** Tax or charge levied on property by a taxing authority to pay for local improvements such as sidewalks, streets, and sewers.

**Asset:** Items of value owned by an individual. Assets that can be quickly converted into cash are considered “liquid assets.” These include bank accounts, stocks, bonds, mutual funds, and so on. Other assets include real estate, personal property, and debts owed to an individual by others.
Assignment: When ownership of your mortgage is transferred from one company or individual to another, it is called an assignment.

Assumption of mortgage: Taking title to property that has an existing mortgage, and being personally liable for its payment as a condition of the sale.

Balloon Loan: Mortgage loan in which a large final payment becomes due because the loan amount was not fully amortized. A final lump sum payment.

Binder: Short purchase contract used in some areas to secure a real estate transaction until a more formal contract can be signed later date; usually accompanied by an earnest money deposit.

Blanket Mortgage: Single mortgage that covers more than one real property, i.e. a house plus the vacant lot next door.

Blockbusting: Illegal practice of creating panic selling in a neighborhood for financial gain. Typically exploits racial and religious bias to get homeowners to sell low so the properties can be resold at a mark up.

Breach of contract: When one party fails to live up to the terms and conditions or a contract, without a valid, legal excuse.

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

Broker: Licensed individual who acts independently in conducting a real estate brokerage business; also a person who buys and sells for another for a commission.

Brokerage: Business of a broker. Also, the amount charged for a broker’s service.

Builder’s Warranty: Written statement by a builder assuring that a dwelling was completed according to a stipulated set of standards. It protects the buyer from any latent defects.

Building codes: Minimum construction standards set by state or local laws for public safety and health. Includes the design, constructing, repairs, and quality of building materials, as well as the use and occupancy.

Buy-down: Cash payment to a lender to reduce the interest rate a borrower must pay on a new mortgage loan. Commonly used by builders to sell new homes.

Buyer’s market: Describes an excess supply of homes for sale, in which there are few buyers and many sellers. In such a market, the buyer can typically negotiate more favorable price and terms.

Bylaws: Rules and regulations that govern how a homeowners association will be run.

Cancellation Clause: Stipulation in a contract that allows a buyer or seller to cancel the contract in the event of a certain specified occurrence.

Cap: Adjustable Rate Mortgages have fluctuating interest rates, but those fluctuations are usually limited to a certain amount. Those limitations may apply to how much the loan may adjust over a six month period, an annual period, and over the life of the loan, and are referred to as “caps.” Some ARMs, although they
may have a life cap, allow the interest rate to fluctuate freely, but require a certain minimum payment which can change once a year. There is a limit on how much that payment can change each year, and that limit is also referred to as a cap.

**Capital gain:** Profit earned from the sale of an asset. Capital gains are taxed differently then wage or salary income.

**Cap Rate:** is the ratio between the net operating income produced by an asset and its capital cost (the original price paid to buy the asset) or alternatively its current market value. Capitalization rate = annual net (after all expenses) operating income / cost of property. If net income on an asset is $5,000 and the property cost to purchase that property is $35,000 the cap rate would be 14% or 14 cap.

**Cash-out Refinance:** When a borrower refinances his mortgage at a higher amount than the current loan balance with the intention of pulling out money for personal use, it is referred to as a “cash out refinance.”

**Caveat emptor:** Latin for “Let the buyer beware.” Under this legal phrase, the buyer is expected to judge and evaluate property carefully before buying, or purchase at their own risk.

**CC&Rs:** Stands for covenants, conditions and restrictions. They are the rules by which a property owner in a condominium agrees to abide.

**Chain of title:** An analysis of the transfers of title to a piece of property over the years.

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

**Close:** Act of finalizing a transaction in which all the concerned parties meet to transfer title to a property. Also, when real estate formally changes ownership.

**Closing costs:** Expenses over and above the price of property that must be paid by buyers and sellers before title is transferred. Also known as settlement costs.

**Closing statement:** Written account of all expenses, adjustments, and disbursements received by the buyer and seller when completing a real estate transaction.

**Cloud on title:** Defect in the title that impairs the owner’s ability to market the property. This might be a lien, claim, judgment, or encumbrance.

**Collateral:** Something of value given or pledged to a lender as security for the repayment of a loan.

**Commingle funds:** Mixing of a clients’ funds, or escrow, with an agent’s personal funds in an account; considered to be grounds for the suspension or revocation of the broker's real estate license.

**Commission:** Payment, or brokerage fees, given by the seller of a property to a real estate agent for services rendered. Usually paid at the closing.

**Common elements:** Parts of a condominium, cooperative, or private home association shared by all residents, so that each unit owner holds an undivided interest in, for example, the hallways, parking facilities, or swimming pool.

**Common Area Assessments:** In some areas they are called Homeowners Association Fees. They are charges paid to the Homeowners Association by the owners of the individual units in a condominium or planned unit development (PUD) and are generally used to maintain the property and common areas.
Comparables: Properties similar to a specific piece of property that are used to help estimate the value of that property.

Competitive market analysis: A method of determining home value that looks at recent home sales, homes presently on the market, and homes that were listed but did not sell.

Condominium: Type of housing where buyers own their units outright, plus an undivided share, or joint ownership, in the common elements of the building or community.

Consideration: Something of value, usually money, given to induce another to enter into a contract.

Construction loan: Type of loan where money is doled out as construction takes place; borrower must obtain a permanent long-term mortgage from another source to repay the construction loan. Also called an interim loan.

Contingency: A provision in a contract that keeps it from becoming binding until a certain event happens. A satisfactory inspection report might be a contingency.

Contract: A legally enforceable agreement between two or more parties. To be valid, a real estate contract must be dated, in writing, include a consideration, have a description of the property, the place and date of delivery of the deed, and spell out all terms and conditions that were mutually agreed upon. It also must be executed (signed) by the buyer and seller.

Contractor: One who contracts to do something for another. For example, in construction, a specialist who enters into a formal construction contract to build a real estate structure or handle renovations, improvements, and additions to an existing structure.

Conventional loan or mortgage: Real estate loan that is not insured by the FHA or guaranteed by the VA.

Convertible ARM: An adjustable-rate mortgage that allows the borrower to change the ARM to a fixed-rate mortgage within a specific time.

Convey: To transfer property from one person to another.

Conveyance: Document used to transfer title. A deed is a conveyance.

Cooperative: Land and building owned or leased by a corporation which in turn leases space to its shareholders, who are also part owners of the building and have a proprietary lease. In lieu of rent, they each pay a proportionate monthly or quarterly fixed rate to cover operating costs, mortgage payments, taxes, etc.

Counteroffer: An offer made in response to an earlier, unacceptable one; it terminates the original offer.

Credit: An agreement in which a borrower receives something of value in exchange for a promise to repay the lender at a later date.

Credit History: A record of an individual’s repayment of debt. Credit histories are reviewed by mortgage lenders as one of the underwriting criteria in determining credit risk.

Credit report: A past history of debt repayment used by creditors as an indicator of future readiness to responsibly repay debt.

Deed: Written document that when executed and delivered conveys title to real property.
Deed-in-lieu: Short for “deed in lieu of foreclosure,” this conveys title to the lender when the borrower is in default and wants to avoid foreclosure. The lender may or may not cease foreclosure activities if a borrower asks to provide a deed-in-lieu. Regardless of whether the lender accepts the deed-in-lieu, the avoidance and non-repayment of debt will most likely show on a credit history. What a deed-in-lieu may prevent is having the documents preparatory to a foreclosure being recorded and become a matter of public record.

Deed of trust: Document resembling a mortgage that conveys legal title to a neutral third party as security for a debt. Also called a trust deed or deed in trust. Some states, like California, do not record mortgages. Instead, they record a deed of trust which is essentially the same thing.

Deed restrictions: Provisions placed in deeds to control how future landowners may or may not use the property. Also called deed covenants.

Default: Breach of a contract or failure to meet a legal obligation. Nonpayment of a mortgage beyond a certain number of payments is considered a default.

Deficiency judgment: Judgment issued against a borrower when the sale of foreclosed property does not bring in enough to pay the balance owed on the mortgage.

Delinquent loan: One where the borrower is behind, or late, in payments.

Deposit: A sum of money given in advance of a larger amount being expected in the future. Often called in real estate as an “earnest money deposit.” See earnest money deposit.

Depreciation: Gradual decline on paper in market value of real estate, especially because of age, obsolescence, wear and tear, or economic conditions.

Discount broker: Full-service broker who charges less than the prevailing commission rates in his or her community.

Discount points: Added loan fee charged by a lender to make the yield on a lower-than-market-value loan competitive with higher-interest loans.

Down Payment: Initial cash investment made as evidence of good faith when purchasing real estate. It is usually a percentage of the sale price.

Due-on-sale: Clause in a note or mortgage giving the lender the right to call the entire loan balance due if the property is sold or otherwise conveyed.

Earnest money deposit: Money that accompanies an offer to purchase as evidence of good faith. It is almost always a personal check, certified check, or money order rather than cash.

Easement: Limited right to cross or use for some specified purpose the property of another. It may be permanent or temporary. Water, sewage, and utility suppliers frequently hold an easement across private property.

Eminent domain: The right or power of government to acquire private property for public use without the consent of the owner, provided fair compensation is provided.

Encroachment: A building or other improvement that extends beyond its boundary and intrudes upon the property of another.

Encumbrance: Any impediment to a clear title. It can be a claim, lien, zoning restriction, or other legal right or interest in land that diminishes its value. The report of the title search usually shows all encumbrances.
**Equity**: Value an owner has in a piece of property less the debt against it. For example, if the market value of a house is $150,000 and the owner has paid off $10,000 of a $75,000 mortgage, the owner has $85,000 equity.

**Equity build-up**: Term used to refer to the increase of one’s equity in a property due to mortgage balance reduction and price appreciation.

**Escheat**: Reversion of property to the state when the owner dies without leaving a will and has no heirs to whom the property may pass.

**Escrow**: Money or documents held by a third party until specific conditions of an agreement or contract are fulfilled.

**Escrow account**: Special bank account into which escrow monies are deposited and from which they are disbursed. Lawyers and real estate brokers maintain escrow accounts to hold money in trust for others.

**Escrow company**: A firm that specializes in handling the closing of a transaction.

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

**Executor**: A person named in a will to administer an estate. The court will appoint an administrator if no executor is named.

**Exclusive agency listing**: Listing where the owner reserves the right to sell his property himself, but also agrees to list with no other broker during the listing period besides the appointed real estate broker.

**Exclusive-right-to-sell listing**: Listing that gives the broker the right to collect a commission no matter who sells the property during the listing period.

**Fair Market value**: The highest price that a buyer, willing but not compelled to buy, would pay, and the lowest a seller, willing but not compelled to sell, would accept.

**Fannie Mae**: Common name for the Federal National Mortgage Association, which buys and sells loans in the secondary mortgage market.

**Fannie Mae’s Community Home Buyer’s Program**: An income-based community lending model, under which mortgage insurers and Fannie Mae offer flexible underwriting guidelines to increase a low- or moderate-income family’s buying power and to decrease the total amount of cash needed to purchase a home. Borrowers who participate in this model are required to attend pre-purchase home-buyer education sessions.

**First mortgage**: Mortgage on a property that is superior to any other. It is the first to be paid in the event of foreclosure.

**Fixtures**: Any personal property that has been permanently attached to real property and therefore included in the transfer of real estate. The kitchen sink is a fixture.

**Foreclosure**: Legal action instigated by a lender to end all ownership rights when mortgage payments have not been kept up.

**Freddie Mac**: Common name for the Federal Home Loan Mortgage Corporation, which buys and sells loans in the secondary mortgage market.

**Fee simple**: Ownership of real property that is to be used and/or sold at the owner’s discretion.
FHA: Acronym for Federal Housing Authority, an agency created within the Department of Housing and Urban Development (HUD) that insures mortgages on residential property, with down payment requirements usually lower than prevailing ones.

Fiduciary: Person acting in a position of trust, responsibility and confidence for another, such a broker for his client.

401(k)/403(b): An employer-sponsored investment plan that allows individuals to set aside tax-deferred income for retirement or emergency purposes. 401(k) plans are provided by employers that are private corporations. 403(b) plans are provided by employers that are not for profit organizations.

401(k)/403(b) loan: Some administrators of 401(k)/403(b) plans allow for loans against the monies you have accumulated in these plans. Loans against 401K plans are an acceptable source of down payment for most types of loans.

Government loan (mortgage): A mortgage that is insured by the Federal Housing Administration (FHA) or guaranteed by the Department of Veterans Affairs (VA) or the Rural Housing Service (RHS). Mortgages that are not government loans are classified as conventional loans.

Gentrification: Process whereby private or government-sponsored development of certain aging neighborhoods results in the displacement of low- or moderate-income families by the more affluent and leads to an increase in property values.

Grace period: Specified period of time to meet a commitment after it becomes due, without penalty or default. For example, most lenders allow a two-week grace period after the due date of the mortgage payment before a late fee is imposed.

Graduated payment mortgage: Mortgage loan for which the initial payments are low but increase over the life of the loan.

Grantee: Person named in a deed who acquires ownership of real estate; the buyer.

Grantor: Person named in a deed who conveys ownership of real estate; the seller.

Hazard Insurance: Insurance coverage that in the event of physical damage to a property from fire, wind, vandalism, or other hazards.

Highest and best use: Use of land that is most logical and productive. Refers to the greatest income it can bring the owner, as well as factors such aesthetics and benefits to the surrounding community.

Historic structures: Buildings of historical or architectural significance, perhaps landmarks, that are designated by federal, state, or local historical commissions.

Home Equity Conversion Mortgage (HECM): Also referred to as a “reverse mortgage” Usually referred to as a reverse annuity mortgage, what makes this type of mortgage unique is that instead of making payments to a lender, the lender makes payments to you. It enables older home owners to convert the equity they have in their homes into cash, usually in the form of monthly payments. Unlike traditional home equity loans, a borrower does not qualify on the basis of income but on the value of his or her home. In addition, the loan does not have to be repaid until the borrower no longer occupies the property.

Home Equity Line of Credit: A mortgage loan, usually in second position, that allows the borrower to obtain cash drawn against the equity of his home, up to a predetermined amount.
**Home Inspection**: A thorough inspection by a professional that evaluates the structural and mechanical condition of a property. A satisfactory home inspection is often included as a contingency by the purchaser.

**Homeowner’s insurance policy**: Packaged insurance policy for homeowners and tenants that cover property damage and public liability, such as fire, theft, and personal liability.

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

**Homestead protection**: State and federal laws that protect against the forced sale of a person’s home by creditors. Also, upon the death of one spouse, provides the other with a home for life.

**Housing codes**: Local regulations that set minimum conditions under which dwellings are considered fit for human habitation. It guards against unsanitary or unsafe conditions and overcrowding.

**HUD**: Acronym for the Department of Housing and Urban Development, an agency from which almost all of the federal government’s housing programs flow.

**HUD-1 Settlement Statement**: A document that provides an itemized listing of the funds that were paid at closing. Items that appear on the statement include real estate commissions, loan fees, points, and initial escrow (impound) amounts. Each type of expense goes on a specific numbered line on the sheet. The totals at the bottom of the HUD-1 statement define the seller’s net proceeds and the buyer’s net payment at closing. It is called a HUD1 because the form is printed by the Department of Housing and Urban Development (HUD). The HUD1 statement is also known as the “closing statement” or “settlement sheet.”

**Improvement**: Any form of land development or man-made addition, such as the erection of a building or fence, to enhance the value of private property; also an improvement to publicly owned structures, such as a sewer or road.

**Inspection**: The act of physically examining and testing a piece of property to ascertain certain information.

**Installment payment**: Periodic payment, usually monthly, of interest and principal on a mortgage or other loan.

**Interest**: A fee paid for the use of money; also a share or right in something.

**Interim financing**: Short-term loan usually made during the construction phase of a building project or until a permanent, long-term loan can be obtained. Also called a construction loan.

**Joint tenancy**: Property owned by two or more persons with equal and undivided interest and ownership and the right of survivorship. If one owner dies, the property automatically passes to the others.

**Judgment**: Court decree stating that one person is indebted to another. Also specifies the amount of the debt that is owed to that individual.

**Junior mortgage**: Any mortgage, such a second or third mortgage on a property, which is subordinate to the first one in priority.

**Lease**: Contract that conveys the right to use property for a period of time in return for a consideration, usually rent, paid to the property owner.
Lease Option: An alternative financing option that allows home buyers to lease a home with an option to buy. Each month’s rent payment may consist of not only the rent, but an additional amount which can be applied toward the down payment on an already specified price.

Leasehold Estate: A way of holding title to a property wherein the mortgagor does not actually own the property but rather has a recorded long-term lease on it.

Lease-purchase option: Opportunity to purchase a piece of property by renting for a specified period, with the provision that the lessee may choose to buy after or during the leasing period at a predetermined sale price.

Legal Description: A property description, recognized by law, that is sufficient to locate and identify the property without oral testimony.

Lessee: Someone who rents under a lease; the tenant.

Lessor: Someone who rents to another party through a lease; the landlord.

Liability insurance: Insurance coverage that offers protection against claims alleging that a property owner’s negligence or inappropriate action resulted in bodily injury or property damage to another party. It is usually part of a homeowner’s insurance policy.

License: A privilege or right granted to a person by a state to operate as a real estate broker or salesperson.

Lien: A debt on a property which encumbers it until the obligation is paid; a mortgage, back taxes, or other claim.

Life Cap: For an adjustable-rate mortgage (ARM), a limit on the amount that the interest rate can increase or decrease over the life of the mortgage.

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 specified borrower.

Liquid asset: A cash asset or an asset that is easily converted into cash.

Listing: Contract used for hiring a real estate agent to sell a piece of property. Also a piece of property that is for sale.

Loan origination fee: Paid by the borrower to get a loan; it covers expenses incurred by the lender, such as the cost of the appraisal, credit report, title search, etc.

Loan servicing: Task of collecting monthly payments, handling insurance and tax impounds, delinquencies, early payoffs, and mortgage releases.

Loan-to-value ratio: Relationship of a mortgage loan to the appraised value of a piece of property. Usually expressed to the buyer in terms of how much the lender will lend, i.e. – 75 percent financing.

Lock-in: An agreement in which the lender guarantees a specified interest rate for a certain amount of time at a certain cost.

Lock-in period: The time period during which the lender has guaranteed an interest rate to a borrower.
**Margin:** The difference between the interest rate and the index on an adjustable rate mortgage. The margin remains stable over the life of the loan. It is the index which moves up and down.

**Maturity:** The date on which the principal balance of a loan, bond, or other financial instrument becomes due and payable.

**Maintenance fees:** Paid by a condominium unit owner to the owners’ association for upkeep of the common areas.

**Market price:** Actual selling price of a property.

**Market value:** Generally accepted as the highest price that a ready, willing, and able buyer will pay and the lowest price a ready, willing, and able seller will accept for a property.

**Marketable title:** Good and clear title that is free from reasonable doubt as to who the owner is.

**Master deed:** Document that converts a parcel of land into a condominium subdivision.

**Master plan:** Long-range, comprehensive guide for the physical growth or development of a community.

**Maturity date:** Date on which principal and interest on a mortgage or other loan must be paid in full.

**Mortgage:** Legal document that creates a lien on property; it secures the repayment of a loan.

**Mortgage broker:** Individual or company that brings borrowers and lenders together; a loan broker.

**Mortgage company or mortgage banker:** Financial intermediary that offers mortgages to borrowers, and then resells them to various lending institutions, government agencies, or private investors.

**Mortgagee:** Party or institution that lends money; the creditor.

**Mortgagor:** Party or person that borrows money, giving a lien on the property as security for the loan; the borrower.

**Multiple listing:** Agreement that allows real estate brokers to distribute information on the properties they have listed for sale to other members of a local real estate organization. Allows the widest possible marketing of those properties. Commissions are split by mutual agreement between the listing broker and the selling broker.

**Multi dwelling units:** Properties that provide separate housing units for more than one family, although they secure only a single mortgage.

**Negative amortization:** Some adjustable rate mortgages allow the interest rate to fluctuate independently of a required minimum payment. If a borrower makes the minimum payment it may not cover all of the interest that would normally be due at the current interest rate. In essence, the borrower is deferring the interest payment, which is why this is called “deferred interest.” The deferred interest is added to the balance of the loan and the loan balance grows larger instead of smaller, which is called negative amortization.

**No cash-out refinance:** A refinance transaction which is not intended to put cash in the hand of the borrower. Instead, the new balance is calculated to cover the balance due on the current loan and any costs associated with obtaining the new mortgage. Often referred to as a “rate and term refinance.”
**No-cost loan:** Many lenders offer loans that you can obtain at “no cost.” You should inquire whether this means there are no “lender” costs associated with the loan, or if it also covers the other costs you would normally have in a purchase or refinance transactions, such as title insurance, escrow fees, settlement fees, appraisal, recording fees, notary fees, and others. These are fees and costs which may be associated with buying a home or obtaining a loan, but not charged directly by the lender. Keep in mind that, like a “no-point” loan, the interest rate will be higher than if you obtain a loan that has costs associated with it.

**Note:** A legal document that obligates a borrower to repay a mortgage loan at a stated interest rate during a specified period of time.

**Note Rate:** The interest rate stated on a mortgage note.

**Net lease:** Lease requiring the tenant to pay all the costs incurred in maintaining a property, including taxes, insurance, repairs, and other expenses normally required of the owner.

**Nonconforming use:** Use of property that is permitted to continue after a zoning ordinance prohibiting it has been passed.

**Offer:** Oral or written proposal to buy a piece of property at a specified price.

**Open listing:** Listing that gives a broker a nonexclusive right to find a buyer; the owner can still find a buyer himself and avoid a commission.

**Option:** The exclusive right to purchase or lease a property at a predetermined price or rent at some future time.

**Origination fee:** A charge by the lender for granting and processing a new mortgage loan.

**Owner Financing:** A property purchase transaction in which the property seller provides all or part of the financing. The owner of the property acts as the “lender” on there own property.

**PITI:** Acronym for “principal, interest, taxes, and insurance.” Frequently used to describe a loan payment that combines all four items.

**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 principal, interest, taxes, and insurance (PITI) reserves must equal the amount that the borrower would have to pay for PITI for a predefined number of months.

**Principal, Interest, Taxes, and Insurance (PITI):** The four components of a monthly mortgage payment on impounded loans. Principal refers to the part of the monthly payment that reduces the remaining balance of the mortgage. Interest is the fee charged for borrowing money. Taxes and insurance refer to the amounts that are paid into an escrow account each month for property taxes and mortgage and hazard insurance.

**Planned Unit Development (PUD):** Individually owned houses with community ownership of common areas, such as swimming pools and tennis courts.

**Plat:** Map or survey showing the location and boundaries of individual properties and how they have been subdivided into lots and blocks.

**Point:** Fee charged by a lender to get additional revenue over the interest rate. A point is equal to one percent of the loan amount.
**Power of attorney:** A legal document that authorizes another person to act on one's behalf. A power of attorney can grant complete authority or can be limited to certain acts and/or certain periods of time.

**Prepayment penalty:** Fee charged by the lender when a borrower repays the loan early.

**Pre-qualification:** This usually refers to the loan officer’s written opinion of the ability of a borrower to qualify for a home loan, after the loan officer has made inquiries about debt, income, and savings. The information provided to the loan officer may have been presented verbally or in the form of documentation, and the loan officer may or may not have reviewed a credit report on the borrower.

**Prime rate:** The interest rate that banks charge to their preferred customers. Changes in the prime rate are widely publicized in the news media and are used as the indexes in some adjustable rate mortgages, especially home equity lines of credit. Changes in the prime rate do not directly affect other types of mortgages, but the same factors that influence the prime rate also affect the interest rates of mortgage loans.

**Principal:** The amount of money borrowed; the amount of money still owed.

**Private mortgage insurance (PMI):** Required by most lenders for conventional loans with a down payment of less than 20 percent. Insurance is paid by the borrower and guarantees the lender will not lose money if the borrower defaults.

**Promissory note:** A written promise to repay a debt on demand or at a stated time in the future.

**Property tax deductions:** The Internal Revenue Service allows homeowners to claim as itemized personal deductions money paid for state and local realty taxes, as well as interest on debt secured by their homes. It also allows for the deduction of loan prepayment penalties, and the deduction of points on new loans.

**Property tax:** Assessment levied by city and county governments on real and personal property to generate the bulk of their operating revenues to pay for such public services as schools, libraries, and roads.

**Public auction:** A meeting in an announced public location to sell property to repay a mortgage that is in default.

**Qualification:** Act of determining a potential buyer’s needs, abilities, and urgency to buy and matching these with available properties.

**Quit-claim deed:** A conveyance by which the grantor transfers whatever interest he or she has in the real estate without warranties or obligations.

**Real estate:** The land itself and everything extending below and above it, including all things permanently attached, whether by nature or by man.

**Real estate broker:** Individual who has passed a state broker’s test and represents others in realty transactions. Anyone having his or her own office must be a broker.

**Real estate investment trust (REIT):** Entity that allows a very large number of investors to pool their money in the purchase of real estate, but as passive investors. The investors do not buy directly. Instead, they purchase shares in the REIT that owns the real estate investment.

**Real estate salesperson:** Person who has passed a state examination for that position, and must work under the supervision of a broker.

**Real property:** Land and buildings and anything permanently attached to them.
Realtor: A real estate broker or agent who is a member of the National Association of Realtors, a professional real estate group that subscribes to a Code of Ethics. Not every broker or agent is a Realtor, a word that is a registered trademark and always capitalized.

Recording: Entering or recording documents affecting or conveying interests in real estate in the recorder’s office; until recorded a deed or mortgage generally is not effective against subsequent purchases or mortgage liens.

Redlining: Practice of refusing to make loans in certain neighborhoods. Also applies to insurance companies that refuse to offer policies in certain neighborhoods.

Refinance: To pay off one loan by taking out another on the same property.

Release of mortgage: Certificate from the lender stating that the loan has been repaid.

Rent control: Government-imposed restrictions on the amount of rent a property owner can charge.

Replacement cost: The cost at today’s prices and using today’s construction methods, of building an improvement having the same usefulness as the one being appraised.

Report of title: Document required before title insurance can be issued. It states the name of the owner, a legal description of the property, and the status of taxes, liens, and anything else that might affect the marketability of the title.

Reserve account: An account for money collected each month by a lender to pay for property taxes and property insurance as they come due.

Restrictive covenants: Clauses placed in a deed to restrict the full use of the property by controlling how future landowners may or may not use the property; also used in leases.

Right of first refusal: A person’s right to have the first opportunity to either lease or purchase real property.

Right of survivorship: A feature of joint tenancy giving the surviving joint tenants the rights, title and interests of the deceased joint tenant. Right of survivorship is the basic difference between buying property as joint tenants and as tenants in common.

Sales contract: Contract that contains the terms of the agreement between the buyer and seller for the sale of a particular parcel or parcels of real estate.

Second mortgage: Lien on property that is subordinate to a first mortgage. In the event of default, the second mortgage is repaid after the first. Also called a junior mortgage, and in some circumstances a home equity loan.

Secondary mortgage market: Market for the purchase and sale of existing mortgages, designed to provide greater liquidity for mortgages; plays an important role in getting money from those who want to lend to those who want to borrow.

Seller’s market: One with few sellers and many buyers.

Seller carry-back: An agreement in which the owner of a property provides financing, often in combination with an assumable mortgage.

Semidetached: One structure containing two dwelling units separated vertically by a common wall.
Settlement: The day on which title is conveyed.

Special assessment: A special tax imposed on specific parcels of real estate that will benefit from a proposed public improvement, such as a street or sewer.

Steering: The illegal practice of directing potential home buyers to or away from certain neighborhoods either to maintain or to change the character of an area, or to create a speculative situation.

Tax sale: A court-ordered sale of real property to raise money to cover delinquent taxes.

Tax shelter: A realty investment that produces income-tax deductions for its owner.

Tenancy by the entirety: A form of joint ownership reserved for married persons; right of survivorship exists and neither spouse has a disposable interest during the lifetime of the other.

Tenants in common: Style of ownership in which two or more persons purchase a property jointly, but with no right of survivorship and separate undivided interests. They are free to will their share to anyone they choose, a principal difference between this form of ownership and joint tenancy.

Time-sharing: Part ownership of a property coupled with a right to exclusive use of it for a specified number of days per year.

Title: Actual ownership; the right of possession; also the evidence of ownership such as a deed or bill of sale.

Title insurance: An insurance policy that protects against any losses incurred because of defects in the title not listed in the title report or abstract.

Title report: A statement of the current condition of title for a parcel of land.

Title search: A professional examination of public records to determine the chain of ownership of a particular piece of property and to note any liens, encumbrances, easements, restrictions, or other factors that might affect the title.

Townhouse: Usually a two- or three-story dwelling with shared walls, or a living unit operating under the condominium or townhouse form of ownership.

Trust deed: A document used in place of a mortgage in certain states; a third-party trustee, not the lender, holds the title to the property until the loan is paid out or defaulted. Also called a deed of trust.

Trustee: One who as agent for others handles money or holds title to their land.

Tax basis: The price paid for a property plus certain costs and expenses, such as closing costs, legal counsel, and a commission paid to help find the property.

Tax credit: An allowed deduction that can be subtracted from your income tax. If you are entitled to a $1,500 credit, and your income tax would otherwise be $10,000, the credit would reduce the tax due to $8,500.

Tax rate: The rate at which real property is taxed in a tax district or county. For example, in a certain county, real property may be taxed at a rate of 55 mills (or 0.055) per dollar of assessed valuation.

Subdivision: A tract of land divided by the owner into smaller lots for home sites or other use.
**Subletting:** The leasing of premises by a lessee to a third party for part of the lessee’s remaining term.

**Survey:** An exact measurement of the size and boundaries of a piece of land by civil engineers or surveyors.

**Usury:** Charging a higher rate of interest on a loan than is legally allowed.

**Valid Contract:** One that meets all requirements of law, is binding upon its parties, and is enforceable in a court of law.

**Valuation:** Estimated or determined value; Synonymous with appraising. FortuneBuilders will teach you how to make this determination on your own because time is essential when evaluating deals.

**Value:** Market Value or present worth. To have value, a property must have utility, scarcity, effective demand, and transferability.

**Variable rate mortgage:** Adjustable rate Mortgage –

**Variance:** A permit granted as an exception to zoning ordinance that allows a property owner to meet certain specific needs.

**VA Loan:** Veteran loans

**Warranty Deed:** A deed in which the grantor guarantees that he or she is giving the grantee good title free of encumbrances. Considered to be the best deed a grantee can receive.

**Write-off:** Depreciation or amortization an owner takes on a commercial property.

**Yield:** What an investment or property will return; the profit or income.

**Zoning:** Procedure that classifies real property for a number of different uses: residential, commercial, industrial, etc. in accordance with a land-use plan.
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