

# PSRA Properties / Equity Colorado Real Estate

Here is a list of Real Estate Terms that will help you better understand the process of buying and selling.

## Dictionary of Real Estate Terms

**ACCEPTANCE:** The date when both parties, seller and buyer, have agreed to and completed signing and/or initialing the contract.

**ADJUSTABLE RATE MORTGAGE:** A mortgage that permits the lender to adjust the mortgage's interest rate periodically on the basis of changes in a specified index. Interest rates may move up or down, as market conditions change.

**AMORTIZED LOAN:** A loan, which is paid in equal installments during its term.

**A.P.R. (ANNUAL PERCENTAGE RATE):** A term used in the Truth in Lending Act. It represents the relationship of the total finance charge (interest, discount points, origination fees, loan broker, commission, etc.) to the amount of the loan.

**APPRAISAL:** An estimate of real estate value, usually issued to standards of FHA, VA, and FHMA. Recent comparable sales in the neighborhood is the most important factor in determining value. This should be contrasted against the home inspection.

**APPRECIATION:** An increase in the value of a property due to changes in market conditions or other causes. The opposite of depreciation.

**ASSUMABLE MORTGAGE:** Purchaser takes ownership to real estate encumbered by an existing mortgage and assumes responsibility as the guarantor for the unpaid balance of the mortgage.

**BILL OF SALE:** Document used to transfer title (ownership) of PERSONAL Property.

**CLOSING STATEMENT (HUD1):** A financial statement rendered to the buyer and seller at the time of transfer of ownership, giving an account of all funds received or expended.

**CLOUD ON TITLE:** Any condition that affects the clear title to real property.

**COMPARABLE SALES:** Sales that have similar characteristics as the subject property and are used for analysis in the appraisal process.

## **PSRA Properties / Equity Colorado Real Estate**

**CONTRACT:** An agreement to do or not to do a certain thing.

**CONSIDERATION:** Anything of value to induce another to enter into a contract, i.e., money, services, a promise.

**DEED:** Written instrument, which when properly executed and delivered, conveys title to real property.

**DISCOUNT POINTS:** A loan fee charged by a lender of FHA, VA or conventional loans to increase the yield on the investment. One point = 1% of the loan amount.

**EASEMENT:** The right to use the land of another.

**ENCUMBRANCE:** Anything that burdens (limits) the fee title to property, such as a lien, easement, or restriction of any kind.

**EQUITY:** The value of real estate over and above the liens against it. It is obtained by subtracting the total liens from the value.

**ESCROW PAYMENT:** That portion of a mortgagor's monthly payment held in trust by the lender to pay for taxes, hazard insurance, mortgage insurance, lease payments and other items as they become due.

**FANNIE MAE:** Nickname for Federal National Mortgage Corporation (FNMA), a tax-paying corporation created by congress to support the secondary mortgages insured by FHA or guaranteed by VA, as well as conventional home mortgages.

**FEDERAL HOUSING ADMINISTRATION (FHA):** An agency of the U.S. Department of Housing and Urban Development (HUD). Its main activity is the insuring of residential mortgage loans made by private lenders. The FHA sets standards for construction and underwriting but does not lend money or plan or construct housing.

**FHA INSURED MORTGAGE:** A mortgage under which the Federal Housing Administration insures loans made, according to its regulations

**FIXED RATE MORTGAGE:** A loan that fixes the interest rate at a prescribed rate for the duration of the loan.

## **PSRA Properties / Equity Colorado Real Estate**

**FORECLOSURE:** Procedure whereby property pledged as security for a debt is sold to pay the debt in the event of default.

**FREDDIE MAC:** Nickname for Federal Home Loan Mortgage Corporation (FHLMC), a federally controlled and operated corporation to support the secondary mortgage market. It purchases and sells residential conventional home mortgages.

**GRADUATED PAYMENT MORTGAGE:** Any loan where the borrower pays a portion of the interest due each month during the first few years of the loan. The payment increases gradually during the first few years to the amount necessary to fully amortize the loan during its life.

**INVESTOR:** The holder of a mortgage or the permanent lender for whom the mortgage banker services the loan. Any person or institution that invests in mortgages.

**LEASE PURCHASE AGREEMENT:** Buyer makes a deposit for future purchases of a property with the right to lease the property for the interim.

**LOAN TO VALUE RATION (LTV):** The ratio of the mortgage loan principal (amount borrowed) to the property's appraised value (selling price). Example – on a \$100,000 home, with a mortgage loan principal of \$80,000 the loan to value ratio is 80%.

**MORTGAGE:** A legal document that pledges a property to the lender as security for payment of a debt.

**MORTGAGE INSURANCE PREMIUM (MIP):** The amount paid by a mortgagor for mortgage insurance. This insurance protects the investor from possible loss in the event of a borrower's default on a loan.

**MORTGAGOR:** The borrower of money or the giver of the mortgage document.

**NOTE:** A written promise to pay a certain amount of money.

**ORIGINATION FEE:** A fee paid to the mortgagee for paying the mortgage before it becomes due. Also known as prepayment fee or reinvestment fee.

**PRIVATE MORTGAGE INSURANCE (PMI):** See Mortgage Insurance Premium.

**PROMISSORY NOTE:** A written contract containing a promise to pay a definite amount of money at a definite future time.

## **PSRA Properties / Equity Colorado Real Estate**

**REALTOR:** A member of local and state real estate boards, which are affiliated with the National Association of Realtors (NAR).

**RENT WITH OPTION:** A contract, which gives one the right to lease property at a certain sum with the option to purchase at a future date.

**SECOND MORTGAGE/SECOND DEED OF TRUST/JUNIOR MORTGAGE OR JUNIOR LIEN:** An additional loan imposed on a property with a first mortgage. Generally, a higher interest rate and shorter term than a "first" mortgage.

**SEVERALTY OWNERSHIP:** Ownership by one person only. Sole ownership.

**SURVEY:** The process by which a parcel of land is measured and its area ascertained.

**TENANCY IN COMMON:** Ownership by two or more persons who hold an undivided interest without right of survivorship. (In event of the death of one owner, his/her share will pass to his/her heirs.)

**TITLE INSURANCE:** An insurance policy which protects the insured (purchaser or lender against loss arising from defects in the title).

### **What is a Real Estate Closing?**

A "closing" is where you and I meet with some or all of the following individuals: the Seller, the Seller's agent, a representative from the lending institution and a representative from the title company, in order to transfer the property title to you. The purchase agreement or contract you signed describes the property, states the purchase price and terms, sets forth the method of payment, and usually names the date and place where the closing or actual transfer of the property title and keys will occur.

If financing the property, your lender will require you to sign a document, usually a promissory note, as evidence that you are personally responsible for repaying the loan. You will also sign a mortgage or deed of trust on the property as security to the lender for the loan. The mortgage or deed of trust gives the lender the right to sell the property if you fail to make the payments. Before you exchange these papers, the

## **PSRA Properties / Equity Colorado Real Estate**

property may be surveyed, appraised, or inspected, and the ownership of title will be checked in county and court records.

At closing, you will be required to pay all fees and closing costs in the form of "guaranteed funds" such as a Cashier's Check. Your agent or escrow officer will notify you of the exact amount at closing.

### **WHAT IS AN ESCROW ACCOUNT?**

An escrow account is a neutral depository held by your lender for funds that will be used to pay expenses incurred by the property, such as taxes, assessments, property insurance, or mortgage insurance premiums which fall due in the future. You will pay one-twelfth of the annual amount of these bills each month with your regular mortgage payment. When the bills fall due the lender pays them from the special account. At closing, it may be necessary to pay enough into the account to cover these amounts for several months so that funds will be available to pay the bills as they fall due.