

Glossary of TERMS

ADDENDUM - An addition to the contract that must be signed by both parties to be binding.

AMORTIZATION - The payment of a financial obligation on an installment basis.

AMORTIZED LOAN - A loan that is completely paid off, by paying interest and principal rather than interest-only, by a series of regular payments that are equal or nearly equal.

ANNUAL PERCENTAGE RATE (A.P.R.) - The total amount of the finance charge - including interest, points and all loan fees (i.e. escrow, processing, etc.) - calculated as a percentage of the borrowed amount and expressed as a yearly rate.

APPLICATION FEE - This is a fee that may be charged by the lender to cover the costs of processing your loan application.

APPRAISAL - The professional examination of property for the purpose of estimating its current market value.

APPRECIATION - The increase in value of a property due to any cause.

APPURTENANCE - That which "runs with the land"; anything incident to or attached to the land that is part of the property.

ASSESSED VALUE - The value placed upon a property for property tax purposes.

ASSIGNMENT - The transfer over to another the whole of any property, real or personal, in possession or in action, or any right or estate therein. ASSIGNEE is the person receiving the right or property. ASSIGNOR is the owner of the right or property, which is being transferred to another.

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ASSUMPTION OF A MORTGAGE - A buyer's agreement to assume the liability under an existing note that is secured by a mortgage or deed of trust. The lender must approve the buyer in order to release the original borrower (typically the seller) from liability. Not all loans or loan terms are "assumable".

ATTORNEY IN FACT - A person holding power of attorney from another.

BALLOON PAYMENT - Any payment on a note that is greater than the smallest installment payment. A lump sum principal payment due at the end of some mortgages or other long-term loans.

BENEFICIARY - The inheritor of a trust. The lender on a note and trust deed transaction.

BENEFICIARY STATEMENT - Statement of a lender, giving the remaining principal balance and other information regarding the loan. Usually obtained when an owner wishes to sell or refinance.

BINDER - Written evidence of insurance which covers a limited time; to be replaced later with a permanent policy.

BUNDLE OF RIGHTS - The law designates the rights that accompany ownership to real property as the bundle of rights. The right to own, possess, use, enjoy, encumber, dispose of, and exclude those who do not share ownership of real property.

BUYDOWN - A permanent buydown is prepaid interest that brings the note rate down to a lower permanent rate. A temporary buydown is prepaid interest that lowers the note rate temporarily on the loan, allowing the buyer to more readily qualify and increase payments as income grows.

BUYER AGENT - Agent acts solely on the buyer's behalf. The Agent has full fiduciary responsibilities, which include reasonable care, individual loyalty, confidentiality and full disclosure. This means the agent places the buyer's interest above all else.

CALLED LOAN - A loan that is due and payable at the demand of the lender.

CAP - The limit on how much an interest rate or monthly payment can change, either at each adjustment or over the life of the mortgage.

CAPITAL GAIN - The gain received on the sale of real or personal property, other than property sold as stock-in-trade.

CAPITALIZATION - In appraising, determining value of property by considering net income and a percentage of reasonable return on the investment. The conversion of income into value.

CAPITALIZATION RATE - Any rate used to capitalize income.

CHAIN OF TITLE - A history of all of the documents transferring title to a parcel of real estate, beginning when it originally came from the government to a private owner, through the latest document transferring title.

CHATTLE - An item of personal property.

CHATTLE REAL - A personal property right in real estate, such as a lease.

CLOSING - The same as Close of Escrow or COE. The final procedure in a real estate transaction. This is the day the new owner can take possession of the house and actually owns it.

CLOSING STATEMENT (HUD-1 STATEMENT) - The financial disclosure statement prepared by the escrow holder (attorney, broker, title company, or lender) that accounts for all of the funds received and expected at closing, including deposits for taxes, hazard insurance and mortgage insurance.

CLOUD ON TITLE - Any condition that affects the clear title of real property.

COMMISSION - An amount paid by the seller to the listing and selling agent for handling the real estate transaction.

COMMUNITY PROPERTY - Property acquired by husband and wife during marriage, when not acquired as separate property.

COMPARATIVE ANALYSIS - A method of appraisal in which selling prices of similar properties are used as the basis for arriving at the value estimate (a.k.a. the Market Data Approach).

COMPOUND INTEREST - Interest paid on original principal and on the accrued and unpaid interest, which has accumulated.

CONDITION - A stipulation or qualification in the deed which, if violated or not performed, defeats the deed and places the title back in the hands of the original grantor.

CONDOMINIUM - A form of real estate ownership in which the owner receives exclusive title to a particular unit and shares ownership in certain common areas with other unit owners. The unit itself is generally a separately owned space whose interior surface (walls, floors and ceiling) serves as its boundaries.

CONSIDERATION - Anything of value given to induce another to enter into a contract including money, service or a promise. This is essential to a valid contract.

CONTINGENCY - A condition that must be satisfied before a contract is binding. For example, a sales agreement or offer may be contingent upon the buyer obtaining financing.

CONTINGENCY REMOVAL - Must be signed by the buyer to remove any contingency and create a binding contract.

CONTRACT - A deliberate agreement, based upon legal consideration, between two or more parties who have legal capacity, to perform a legal act. A binding promise.

CONVENTIONAL LOAN - A loan that is not underwritten by a government agency.

CONVEYANCE - 1) The transfer of a title. 2) The document, such as a deed, by which the title is officially transferred.

CO-OP - (Co-operative housing) A form of multiple ownership in which a corporation or business trust entity (made up of the occupants) holds title to a property and grants occupancy rights to shareholders by means of proprietary leases or similar arrangements. As such, no real property is owned by the individuals, only shares in the corporation allocated to particular apartments.

COVENANT - A clause in a contract; an agreement contained in a deed for the performance or non-performance of certain acts.

CURABLE DEPRECIATION - Items of physical deterioration and functional obsolescence that can be repaired or replaced by a prudent property owner.

DEBT RATIO - The comparison of a buyer's housing costs to gross or net effective income.

DEED - A document which, when properly executed, conveys title of real property.

DEFERRED PAYMENT - A payment under which the total balance of principal and an amount for finance charge is put off until the future. This balance is paid by means of installments over a long period.

DEPRECIATION - As used in appraisal, loss in value due to any cause. As used in taxation, a capital cost recovery out of income.

DISCLOSURE - To make known or public. By law, a seller of real property must disclose facts that affect the value or desirability of the property. Unless exempt, the seller completes and signs specific disclosure forms, including the Real Estate Transfer Disclosure Statement, to disclose those material facts.

DISCLOSED DUAL AGENT - Not allowed in Colorado.

DISCOUNT POINTS - A negotiable fee paid to the lender to secure financing to the buyer. Discount points are interest charges paid up-front to reduce the interest rate on the loan over the life or a portion of the term.

DOCUMENTARY TRANSFER TAX - A method of taxing real property transfers. State law requires that a tax be paid prior to recording a deed.

EARNEST MONEY - The portion of the down payment delivered to the seller or escrow agent by the purchaser with a written offer as evidence of good faith.

EASEMENT - A right to use all or part of the land owned by another.

EFFECTIVE AGE - Age of a structure as estimated by its condition rather than actual age. Takes into account rehabilitation and maintenance.

EGRESS - As applied to an easement, a way out or exit.

ENCUMBRANCE - Anything that affects or limits the ownership of real property, such as mortgages, liens, easements, or restrictions of any kind.

EQUITY - The difference between what is owed and the amount for which the property could be sold.

ESCROW - The temporary holding by a third neutral party of deposited money pending completion of agreed terms in the sales contract. This third party acts as stakeholder for both parties' instructions and assuming responsibility for the handling of all paperwork and distribution of funds.

ESCROW FEES - The fee that the title company (the third party) charges for doing the paper work involved.

ESTATE - The ownership interest of a person in real property; also used to refer to the property left by a deceased person.

EXCLUSIVE AGENCY LISTING - A written instrument giving one agent the "authorization to sell" property for a specified time, but reserving the right to collect a commission if the property is sold by anyone during the term of the listing.

EXECUTED - A contract that has been fully performed.

EXTENDED COVERAGE - A form of title insurance that is available to homeowners.

FHA LOAN - (Federal Home Loan Mortgage Corp.-FHLMC) Often referred to as "Freddie Mac", a part of the secondary market and used to purchase loans from savings and loan lenders within the Federal Home Loan Bank Board.

FEDERAL NATIONAL MORTGAGE ASSOCIATION (FNMA) - Popularly known as "Fannie Mae", a privately owned corporation formed by the congress to support the secondary mortgage market. It purchases and sells residential mortgages insured by FHA or guaranteed by the VA, as well as conventional home mortgages.

FEE SIMPLE - An estate in which the owner has unrestricted power to dispose of the property as he or she wishes, including leaving by will or inheritance.

FIDUCIARY- A person holding a position of trust; agents, trustees, attorneys, etc.

FINANCE CHARGE - The total cost that a borrower must pay (directly or indirectly) to obtain credit according to Regulation Z, the set of rules governing consumer lending issued by the Federal Reserve Board.

FINANCIAL STATEMENT - A statement in writing often required of a borrower of money from a bank, stating fully all of the borrower's assets, liabilities and net worth.

FIXED EXPENSES - The regular recurring costs or charges required in the holding of a property, such as taxes and fire insurance.

FIXED RATE MORTGAGE - A conventional loan with the same interest rate for the life of the loan.

FIXTURE - Personal property that is attached to real property and is legally treated as real property when its attached-such as light fixtures and window treatments.

FULLY INDEXED RATE - The maximum interest rate on an ARM that can be reached at the first adjustment.

FUNCTIONAL OBSOLESCENCE - A loss of value due to out-of-date, old-fashioned or poorly designed equipment; a type of depreciation.

GIFT LETTER - A letter from a relative stating that an amount will be gifted to the buyer, and that said amount is not to be repaid.

GOVERNMENT NATIONAL MORTGAGE (GNMA) - Known as "Ginnie Mae", a governmental part of the secondary market that deals primarily with recycling VA and FHA mortgages, particularly those that are highly leveraged.

GRANT DEED - Customary document used to transfer title to real property; contains two implied warranties.

GRANTEE - Receiver of the title being granted.

GRANTOR - Owner of title being granted; the person who makes the grant.

GUARANTEE OF TITLE - A guarantee by an abstract company or title company that the title is vested as shown on the guarantee, backed only by the assets or reserves of the guarantor.

HAZARD INSURANCE - Insurance protection for the borrower and lender against property loss due to fire, wind or natural hazards.

HOME INSPECTION SERVICE - A qualified inspector's report on the overall condition of a property. The report typically includes an evaluation of both the structure and mechanical systems.

HOME WARRANTY PLAN - Protection against failure of mechanical systems within the property, and usually includes plumbing, electrical, heating and cooling systems, and installed appliances.

HOMEOWNER'S ASSOCIATION (HOA) - An organized group of homeowners whose members help to regulate and enforce the rules and standards of their respective communities.

IMPOUND ACCOUNT - An account held by the lender for payment of taxes, insurance and other periodic debts against a property. The borrower pays an apportioned amount with each monthly loan payment and the lender pays the bills with the accumulated funds.

INDEMNIFY - To secure against hurt, loss or damage; to make compensation to, for hurt, loss or damage.

INDEX - A measure of interest rate changes used to determine changes in an ARM's interest rate over the term of the loan.

INTEREST RATE - The percentage of a sum of money charged for its use.

INVOLUNTARY LIEN - A lien imposed against property by operation of law without the consent of the owner, such as a tax lien, judgment lien or mechanic's lien.

JOINT TENANCY - An equal, undivided ownership of property by two or more persons. Upon the death of any owner, the survivors take the descendant's interest in the property.

JUMBO LOAN - Mortgage loan that exceeds the loan amount acceptable for sale in the secondary market. Jumbos are packaged and sold differently to investors, and have separate underwriting guidelines.

LIEN - A legal hold or claim on a property as security for a debt or charge. It can be voluntary such as a mortgage or involuntary such as for back taxes.

LIST-TO-SALE RATIO - The ratio between the price at which a property is listed and the amount for what it is actually sold.

LOAN COMMITMENT - A written promise to make a loan for a specified amount on specific terms.

LOAN ORIGATION FEE - A fee charged by the lender for evaluating, preparing, and submitting a mortgage loan.

LOAN-TO-VALUE (LTV) RATIO - The amount of the loan as a percentage of the property's appraised value. An 80% loan, for example, is determined by subtracting a 20% down payment from the property's appraised value.

LOCK-IN - The fixing of an interest rate or points at a certain level during the loan application process. It is typically fixed for a specified amount of time, such as 20-30 days or some other period of time determined by the lender.

MARGIN - The number of percentage points the lender adds to the index to calculate the ARM interest rate at each adjustment. For example, an index rate of 8% plus a margin of 2.5% could result in a home loan rate of 10.5%. The fixed margin over the index covers the lender's operating expenses and profit margin.

MARKET VALUE - The current value of real estate that a buyer is willing to pay and a seller is willing to accept.

MARKETABLE TITLE - Title to property that is free of objectionable encumbrances and liens.

MECHANIC'S LIEN - A statutory lien on a specific property for labor or materials contributed to a work of improvement.

MORATORIUM - A temporary suspension, as in the payment of a debt.

MORTGAGE (DEED OF TRUST) - A legal document between the lender and borrower providing security for and stipulating the terms of repayment of a loan for a specific property.

MORTGAGE INSURANCE PREMIUM (MIP) - The mortgage insurance required on FHA loans for the life of said loan.

MULTIPLE LISTING SERVICE (MLS) - The pooling in a central bureau of all properties listed for sale. Listings are held individually by members of a group of real estate brokers, with the agreement that any member may sell the property and the commission will be divided between the listing and selling broker.

NEGATIVE AMORTIZATION - Monthly payments fail to cover the cost of the interest on a loan, which is then added to the principal balance. As a result, a borrower could owe more than at the beginning of the loan even after making several payments.

OFFSET STATEMENT - Statement of owner setting forth the present status of title and all liens against the property.

OPTION - A right given to a person to buy, sell or lease property within a stated period and under certain specified terms. A contract to keep an offer open.

OPTIONEE - Receives an option.

OPTIONOR - Owns the title who gives an option.

PAYMENT CAP - This cap places an annual limit on the amount that a monthly payment can increase. This feature is offered by some ARM lenders instead of an annual interest rate cap.

PITI - The term for a mortgage payment that includes principal (P), interest (I), taxes (T), and insurance (I).

PLANNED UNIT DEVELOPMENT (PUD) - A zoning designation for property developed at the same or slightly higher density than conventional development, often with improvements clustered between open or common areas.

POINT(S) - An amount equal to one percent of the principal loan amount. For example, two points equal 2% of the amount.

POWER OF SALE CLAUSE - A clause in a trust deed that gives the trustee the right to sell borrower's property publicly, without court procedure, if the borrower defaults on the loan.

PREPAID INTEREST - Interest paid before accrued.

PREPAYMENT PENALTY - A fee charged to a borrower who pays a loan in full before the stated due date.

PRIVATE MORTGAGE INSURANCE (PMI) - Insurance written by private companies to protect a lender against loss if the borrower defaults on a mortgage. PMI is often required on mortgage loans with less than 20% down payment.

PROMISSORY NOTE - A written contract containing a promise to pay a definite amount of money at a definite future time. The evidence of a debt.

PRORATE - To divide proportionally to time or use.

PURCHASE AGREEMENT - A written document in which the purchaser agrees to buy a certain real estate and the seller agrees to sell under stated terms and conditions. May also be called a sales contract, earnest money contract, or agreement for sales.

QUITCLAIM DEED - A deed used to transfer any interest in real property that the grantor may have. It contains no warranties of any kind.

RATE CAP - The rate cap defines rate limits, either from one adjustment period to the next or over the life of the loan.

RATE GAP - The difference between the current rate and the rate to which it could adjust on an ARM.

RATIFY - The agreement of both the buyer and seller to the terms offered in the real estate contract.

REAL ESTATE AGENT (REALTOR) - A state licensed person permitted to transact real estate business with the public.

REAL PROPERTY - Land, that which is affixed to the land, incidental or appurtenant to land and that which is immovable by law.

REAL ESTATE TRANSFER DISCLOSURE STATEMENT - This must be provided by the seller, listing any known defect or problem with the house. Both agents must reveal anything they know that might be a problem with the property. See also DISCLOSURE.

RECORDING FEES - Charged by the County or Town Clerk to record documents in public records. May be included in the borrower's closing costs.

RECURRING COSTS - Expenses that the buyer can expect again, year after year, such as property taxes, fire insurance, earthquake insurance, interest.

REFINANCE - The securing of a new loan either to pay off an existing lien or mortgage on the property, or to access your equity.

RESCIND - To cancel a contract from the beginning, restoring the parties to their original positions. Referred to as an annulment.

SALES ASSOCIATE (Agent) - A person who for compensation or expectation of compensation acts for another in a real estate or related transaction. A real estate license is required for the individual and for his/her employing brokers.

SALE-LEASEBACK - A transaction in which at the time of sale the seller retains occupancy by concurrently agreeing to lease the property from the purchaser. The seller receives cash while the buyer is assured a tenant and a fixed return on the buyer's investment.

SECONDARY MORTGAGE MARKET - Market place for the sale and purchase of existing trust deeds and mortgages.

SELLERS' AGENT - Agent acts solely on the sellers' behalf. Agent has full fiduciary responsibilities that include reasonable care, undivided loyalty, confidentiality, and full disclosure. This means the agent places the sellers' interest above all else.

SETTLEMENT - See "Closing."

SUBORDINATION CLAUSE - A clause in a junior lien permitting retention of priority for prior liens or it may be used in a first deed of trust permitting it to be subordinated to subsequent liens as, for example, the liens of construction loans.

SURVEY - This may be required by the title company to ensure that the house is properly situated on the property.

TENEMENT - All rights in land that pass with a conveyance of the land.

TENANCY IN COMMON - A type of joint ownership of property by two or more persons with no right of survivorship.

TITLE - The rights of ownership recognized and protected by law. A combination of all elements that constitute the highest legal right to own, possess, use, control, enjoy, transfer, and dispose of real estate. A title spells out who has the right of ownership of a property.

TITLE COMPANY - The company that issues Title Insurance and employs the escrow officer.

TITLE INSURANCE POLICY - An insurance policy that protects the purchaser, mortgagee, or other party against defects or losses associated with the title.

TOWNHOUSE - Architectural term for a two or more story unit with no units above or below, but with one or more shared walls. Ownership may be in the form of condominium, planned unit development or stock cooperative.

TRUSTEE - The third person that holds legal title to property for a special purpose without being the actual owner. A trustee is one of the parties to every trust deed.

UNDERWRITING - These are standards set by the lender which the borrower must meet in order to qualify for the loan.

USURY - Charging interest in excess of the maximum rate as set by law.

VA LOAN - A loan made by a private lender that is partially guaranteed by the Veterans Administration.

VESTING - Conveying ownership.

WAIVER - The intentional or voluntary relinquishment of a known right, essentially a unilateral act.

WOOD DESTROYING PEST AND ORGANISM INSPECTION - An inspection identifying existing or potential pest, dry rot, fungus, and other structure-threatening infestation or conditions. Sometimes referred to as "termite inspection."

ZONING - City or county laws that define and prescribe the type and conditions of the subdivision, development and improvement of land and property.