Common Real Estate Terms

Adjustable-rate mortgage (ARM) is a mortgage loan where the interest rate that the borrower has to pay is periodically adjusted. The rate may go up or it may go down depending on many market factors. When the interest rate changes, the payment required on the loan, usually changes too.

Appraisal An appraisal is an evaluation of real estate property to determine the current market value. An appraisal usually factors in size and condition of the home, the neighborhood and comparable property values, and the current market conditions (i.e. are houses selling quickly or slowly).

Chain of Title – The successive ownerships or transfers in the history of the title to a tract of land.

Collateral is a specific asset (such as land or building) pledged as security by a borrower. The collateral is registered in the public records office, giving the registered lender priority over other lenders on the same asset or property. Lenders have the legal right to seize and sell the collateral if the borrower cannot pay back the loan as agreed.

Closing (also called a **Settlement**) – A meeting of all parties involved in a property transaction during which pertinent documents are signed and transferred, and funds are distributed.

Commitment – A commitment on the part of the insurer, once a title search has been conducted, to provide the proposed insurer with a title insurance policy after execution and recording of specified documents.

Deed – A legal document through which property ownership is transferred from one party to another.

Easement – An interest in land owned by another. An easement entitles its holder to a specific, limited use such as laying a sewer or maintaining utility lines.

Encroachment – Any building improvements or structure (such as a wall fence or driveway) which illegally intrudes on the property of another.

Encumbrance – A claim, lien or liability held by a third party and attached to a parcel of land, which lessens the value of the title in that property.

Equity is the difference between the value of your home and the amount of money that you still owe on your home. The value is usually determined by obtaining an appraisal or determining the fair market value (the price someone is willing to pay for your home).

Fannie Mae is the popular name of the US Federal National Mortgage Association (FNMA). Fannie Mae helps certain buyers finance homes by guaranteeing to lenders that they will be repaid the money borrowed.

Fee Simple Estate – An estate in which the owners are entitled to the entire property, which unconditioned power of disposition during their lives.

Foreclosure is a legal process that a lender takes whenever a borrower stops paying on their debt which had been secured by real estate, usually through a mortgage. The court allows the buyer time to redeem the property by paying all money owed to the lender. If the buyer is unable to redeem the property, the lender is able to sell the property to pay off the loan. If the sale price of the property is not enough to pay off all of the debts, the borrower may still owe money to the lender.

Freddie Mac is the popular name for the Federal Home Loan Mortgage Corporation. Freddie Mac buys mortgages from lenders and guarantees the lender that they will be paid back for the money borrowed.

General Warranty Deed – A deed which conveys not only all the grantor's interests in and title to the property to the grantee, but also warrants that if the title is defective or has a "cloud" on it (such as mortgage claims, tax liens, title claims, judgments, or mechanics liens against it) the grantee may hold the grantor liable.

Home equity line of credit (HELOC) A home equity line of credit, also known as HELOC, allows a person to borrow money against the equity in their home. These lines of credit operate much like a credit card. However, a HELOC uses your home as collateral to secure the debt. So, if the debt isn't paid, the lender could take possession of your home and sell it in order to pay off the debt. This can occur even if the homeowner continues to make their regular house payments (mortgage)

Judgment – The financial determination of a court regarding the rights of parties in action. A judgment of debt upon a property owner can create a lien upon all of that owner’s land within a certain jurisdiction.

Landlord A landlord is a person who owns real estate and rents or leases it to someone allowing them to live and/or use the property in exchange for a fee.

Lease A lease is an agreement that permits one party (the lessee) to use property owned by another party (the lessor). The lease does not create any ownership rights in the property, only the right to use or possess the property for a period of time. If a lessee does not make payments in accordance with the lease agreement, the lessor can take back the property or ask a court to remove a person from the property in the case of real estate leases.

Lien - A claim or charge filed upon the property of another for payment of a debt, obligation or duty.

Life estate A life estate is the right to use and enjoy real estate for a limited time measured by someone's life (either the owner of the life estate or someone else). Often used as an estate planning tool so that elderly people can sell their property or give it to relatives but still retain the right to continue living in it.

Limited Warranty Deed – The grantor does not warrant against title defects arising from conditions that existed before he/she owned the property.

Mortgage Because most people cannot afford to buy real estate with cash, nearly every real estate transaction involves a mortgage. A mortgage is a legal document filed with the local recorder’s office which transfers an interest in real estate to a lender as security for the repayment of a debt (usually the purchase price of the house minus any down payment paid by the buyer). If the debt is not paid, the lender can foreclose (see term below) and eventually sell the real estate to obtain the money owed. When the debt is repaid, the mortgage is discharged, and a satisfaction of mortgage is recorded with the register or recorder of deeds in the county where the mortgage was recorded.

Mortgage broker A mortgage broker is a professional who works with buyers and lenders and seeks to obtain the best rates and terms for a buyer seeking to obtain a loan for real estate, such as for purchasing a home.

Purchase agreement A purchase agreement is an agreement between a buyer and a seller in which the buyer agrees to buy real estate for a certain price, with certain terms for a certain amount of time.

Quit Claim Deed – A deed which transfers whatever interest the make of the deed may have in the particular parcel of land. A quitclaim deed is often given to clear the title when the grantor's interest in a property is questionable. By accepting such a deed the buyer assumes all the risks. Such a deed makes no warranties as to the title, but simply transfers to the buyer whatever interest the grantor has.

Real estate agent A person who facilitates the sale of property. Real estate agents network with potential buyers, show properties to them, and generally act in a way that will help sell the property in the shortest possible period of time. A real estate agent receives a commission (money) for his/her services, usually a percentage of the price of the property sold. In the United States, a real estate agent must receive a license from the state in which he/she works. A real estate agent is an employee of a real estate broker.

Real estate broker An intermediary who receives a commission (money) for arranging the sale of property for a buyer and seller. Real estate brokers usually have real estate agent working for them.

Second mortgage A second mortgage is much like a mortgage (or first mortgage). A buyer may borrow money secured by the home owner's equity (market value of the property less balance on the first mortgage) in a property that is already mortgaged. Second mortgages use your home as collateral to secure the debt and therefore, if the debt is not paid, the home could be foreclosed and sold to pay the debt. In case of a foreclosure sale, second mortgages are paid out only after the full satisfaction of the first mortgage.

Secondary mortgage market After a bank makes a mortgage loan to a client, it may choose to sell the loan to another party, which reduces the bank's risk that the person will not pay as agreed. Fannie Mae purchases many mortgages as do other private investment groups.

Tenant A tenant is a person who has obtained the right to use property owned by someone else. Sometimes, this includes the right to develop land belonging to another, but normally it is the right to live on an already developed property.

<u>Title Search</u> – An examination of public records, laws and court actions to make sure that the seller is the legal owner and to disclose all other claims or encumbrances on the property affecting its ownership.

<u>Title Survey</u> – A drawing or map showing the precise legal boundaries of a property, the location of improvements, easements, rights of way encroachments, and other physical features.

<u>Recording</u> – The noting in public office of the details of a properly executed legal document, such as a deed or mortgage.