A Dictionary of Real Estate Jargon

Adjustable Rate Mortgage (ARM) - A mortgage loan on which the interest rate is adjusted at regular intervals, based on a pre-established index (for example, one percent above the prevailing prime rate at time of adjustment). The most common ARMs are adjusted once every year.

Amortize - To reduce a mortgage debt by making regular payments on the principal.

Appraisal - An opinion or estimate of the value of a home or property.

Appreciation - Increase in real value (discounting inflation) of a property.

Assessed value - The value placed on a property by a municipality for the purpose of levying property tax.

Assessment - A levy of charge, usually by a city or county government, against property owners for improvements such as water service or sidewalks.

Broker - Person licensed by the state to bring together buyers and sellers of real estate. Normally, a broker represents the seller and gets a commission based on a percentage of the sale price.

Building code - A set of rules, usually local, which outlines in detail requirements for the design, construction, remodeling, repair and use of property in that city, town, village or county.

Building contract - An agreement with a builder, setting forth details of proposed work, as well as an amount, method and schedule for payments.

Buyer's market - When there are more properties for sale in an area than there are qualified and willing buyers. So named because buyers usually have leverage to obtain better terms of purchase from sellers.

Closing costs - Fees and expenses due at closing, including discount points, brokerage fees, title insurance premiums, attorney's fees and other charges. The purchase contract should spell out which of the fees are to be paid by the buyer and which by the seller.

Condominium - Form of real estate ownership in which a person owns a particular apartment or part of property in a multi-unit arrangement. Usually the condominium owner will also have joint ownership of public areas.

Conventional mortgage - Mortgage not guaranteed by the Veterans Administration (VA), Federal Housing Administration (FHA) or Farmers Home Administration.

Discount points - Fees paid to a lender, usually by the buyer, to get a mortgage loan at a certain interest rate. For the lender, points help increase their profit on a loan without raising the interest rate. One point is equal to one percent of the mortgage amount.

Equity - The interest or value that an owner has in property. Equity is calculated by subtracting all mortgages and liens on property from its market value.

Escrow - Money held by a third party, by consent of a buyer and/or seller or lender, for disbursement under prearranged terms.

Fannie Mae - Federal National Mortgage Association, formed by Congress, to support the secondary mortgage market by buying and selling mortgages from lenders.

Fair market value - Price on property to which a qualified and willing buyer and a seller would probably agree within a reasonable time. Figure usually is based on sales of comparable homes in the area.

Federal Housing Administration (FHA) - Federal agency that insures first mortgages and home improvement obligations. This guarantee allows borrowers with smaller down payments or equity to borrow at low interest rates.

Fee simple - Ownership of property with all privileges to dispose of in any way, within the law, the owner wishes.

Lease/purchase - Method of payment for a property, essentially the same as an installment contract for a car or appliance. In this arrangement, title to the property remains with the seller until the full amount owed is paid. In the event of default by buyer, seller does not have to foreclose, since title is already in his name.

Lien - A charge against property making it security for a debt, mortgage or payment.

Loan origination fee - One-time payment to a lender for expenses in processing and administering loan.

Mortgage assumption - Agreement by a buyer to assume responsibility for a mortgage and promissory note owned by a seller. Unless the lender agrees to release the original holders of the loan from all liability, the seller will maintain responsibility for payment of the note and mortgage.

Mortgage insurance - Type of term life insurance often bought by borrowers. Amount of coverage decreases as mortgage balance declines. In the event a borrower dies while the policy is in force, debt is automatically satisfied by the process of the policy.

Point - Represents one percent of mortgage requested. Charged by lenders and due at closing of sales. Increases lenders' profits on loans without raising interest rates.

Refinancing (Part I) - Process by which an existing mortgage loan is retired and a new loan taken out by a home owner. The objective for borrowers is to get a lower interest rate (and thus lower monthly payments) and/or more favorable terms than they had with the original loan.

Refinancing (Part II) - Homeowners can also use refinancing to raise needed capital, by leveraging the equity they have in their home. They do this by obtaining a new mortgage loan with a higher principal amount than they had on the old loan. Example: a home owner has a $30,000 mortgage balance on a home valued at $100,000. They refinance and get a new mortgage loan for $40,000. They can then use the extra $10,000, minus refinancing costs, for other purposes, such as paying for a child's college tuition.

Survey - The process by which a property is measured and its size and dimensions calculated.

Title - Documentary evidence of ownership of property. Title is given to buyer at closing. Title will carry history of purchases of property, as well as restrictions to its use and easements granted.

Title insurance - Protects buyer and lender against defects in title and loss due to liens or unknown encumbrances.

Title search - Check of all title records to ensure that a seller is the legal owner and that there are no liens and other claims on a title.

Warranty deed - Guarantee conveyed from a home seller to the buyer that a title is free of any and all claims, such as liens and encumbrances. Once extremely important to buyers, the importance of the warranty deed has been diminished somewhat since the use of title insurance became widespread.