

# GLOSSARY

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**absolute fee simple title (fee simple)**

A title that is unqualified; the best title one can obtain; conveys the highest bundle of rights.

**abstract**

A condensed history of the title to a property, consisting of a summary of the original grant and all subsequent conveyances and encumbrances relating to the particular parcel of real estate.

**acceleration**

The clause in a mortgage or trust deed that stipulates the entire debt is due immediately, if the mortgagor defaults under the terms of the contract.

**acknowledgment**

A notarization on a legal document attesting to the validity of the signatures affixed hereto.

**acquisition cost**

Under FHA, the purchase price or appraised value plus the estimated closing costs.

**actual notice**

In a real estate transaction, the verbal or written communication of facts pertinent to the transaction, i.e., the physical condition of the property.

**add-on rate**

Method of computing interest whereby interest is charged on the entire principal amount for the specified term, regardless of any periodic repayments of principal that are made.

**adjustable-rate mortgage (ARM)**

A variable-interest-rate loan.

**adjusted book basis**

Purchase price of a property plus any capital improvements minus accrued depreciation, if any, to the date of the sale.

**administered price system FNMA**

securities purchasing procedure where required yields are adjusted daily to reflect financial market factors.

**all-inclusive encumbrance**

See wraparound encumbrance.

**allodial system**

Land ownership free and clear of any rent or service due the government.

**ALTA policy**

American Land Title Association title insurance policy; the most comprehensive form.

**amortization**

The systematic repayment of a loan through periodic installments of

principal and interest over the entire term of the loan agreement.

**annual percentage rate (APR)**

The effective interest rate.

**annuity**

A series of income payments or receipts over a period of years.

**appraisal**

An estimate of the value of a property based upon comparison of real estate prices and the market for real estate.

**assessed value**

A property's adjusted actual market value to establish property taxes.

**assets**

All things of value, encumbered or not, owned by a person, corporation or other entity.

**assignment**

The transfer of an interest in a bond, mortgage, lease or other instrument, in writing, by the assignor to the assignee.

**assumed**

Buying a property and taking over or assuming the responsibility for the existing mortgage.

**auction**

Selling property to the highest bidder.

**avulsion**

A sudden separation of land caused by flooding, earthquake or other physical disruption; affects the fixity of real estate.

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**baby-boomers**

Name given babies born after World War II, now a significant bubble in our population.

**balanced trust**

See combination trust.

**balloon payment**

The final payment of a partially amortized loan that is considerably larger than the required periodic payments.

**banker's rule**

Using a 360-day year for prorating. bankrupt No longer able to pay debts.

**basis points**

There are 100 basis points in one percent; thus, 50 basis points equal one-half percent.

**beneficiary**

The lender in a trust deed financing arrangement.

**BIF**

Bank Insurance Fund.

**bill of sale**

The document by which personal property ownership is transferred.

**biweekly loan**

A loan designed to be repaid twice monthly to match many borrowers payroll schedules.

**blanket mortgage**

A mortgage secured by the pledging of more than one property a 's collateral.

**blended rate**

Adjusted rate of interest on loan assumption.

**blue-sky provision**

Requiring full disclosure of all risks in a limited partnership solicitation under the Uniform Partnership Act.

**bonds**

Securities issued to raise funds by a corporation or a governing body, backed by a promise to pay a certain sum of money on a specific date, plus interest

**book value**

Acquisition costs less any accrued depreciation.

**boot**

In an exchange, something of value given in addition to like-kind property, e.g., "this acre and cash to boot"

**break even point**

That point at which gross income equals fixed costs plus variable costs.

**bridge loan**

An equity loan made for a short time to raise money for a special purpose.

**budget loan**

Loan payments include a portion for taxes and insurance, as well as principal and interest.

**building and loan associations**

Obsolete term for savings and loan associations. built-up rate See weighted rate.

**bullet loan**

See rollover loan and term loan.

**bundle of rights**

All of the ownership rights in real estate.

**buy downs**

Allows loans to be made at less-than-market interest rates by paying front-end discounts.

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**Cal-Vet**

A special program for eligible California veterans to help them finance

the purchase of farms and ranches within the state.

**capital gains**

Income earned from the sale of investments, where the net sales price exceeds the adjusted book basis.

**capital losses**

Losses derived from the sale of investments, where the net sales price is less than the adjusted book basis..

**capitalization**

Method of estimating a property's value by considering net annual income as a percentage of a reasonable rate of return on an investment. (Income - Rate = Value.).

**caps**

Yearly and/or life-of-loan limitations on amounts of variations allowed when adjusting interest on variable-rate loans.

**carry back**

Seller agrees to finance buyer in order to complete a property sale.

**cash flow**

Regular income from property rentals.

**certificate of eligibility**

A veteran's evidence of entitlement for a V.A. guaranteed loan.

**certificate of reasonable value (CRV)**

The appraised value of a property being pledged as collateral for a D.A. guaranteed loan.

**certificate of savings**

A long-term savings plan. chattel Personal property.

**CLIC**

Commercial Leasehold Insurance Co oration- owned

**closing statements**

Final arrangements to transfer title of property,as well as allocate charges and credits.

**cloud**

An outstanding encumbrance that, if valid, would affect or impair the owner's property title.

**co-insurance**

A FHA program that allows loan originators to directly underwrite housing project loans, shortening processing time considerably.

**co-insured**

All parties with an interest in properties named as insured, e.g., the owner and the lender.

**collateral**

Property, real or personal, pledged as security to back up a promise.

**combination trust**

A trust that participates in real estate investments as both financier and investor.

**commercial banks**

Established primarily to serve the community's business needs. Do not

invest heavily in real estate loans.

**commercial leasehold insurance**

See CLIC.

**commercial, paper**

Loans issued by banks and savings institutions for business enterprises.

**commitment**

A promise by a lender to make a loan at a future date on specified terms and conditions. A promise by an investor to purchase a specified amount of mortgages from the loan originator.

**commitment fee**

Charge imposed for granting an agreement either to lend or to purchase at a future date.

**common law marriage**

Recognized in California as eligible for community property.

**community property**

All property acquired by either spouse during marriage and owned equally, except that received by gift, devise or descent.

**Community Re-investment Act (CRA)**

Provides that financial institutions meet the credit needs of all citizens of a community.

**comp**

Also known as a comparable, property similar to subject property used as a basis of comparison in market data appraising method.

**completion bond**

A third-party guarantee that the builder will complete construction.

**compound interest**

Interest paid on the original principal and also on the accrued interest.

**concurrent ownership**

Real estate ownership by more than one party, such as partnerships, tenants in common, community property and joint tenancy.

**condemnation**

See eminent domain.

**condominium**

Fee simple ownership of an apartment or a unit, generally in a

**constant payment mortgage**

Fixed payments of principal and interest over the life of a loan.

**construction loan**

Open-end mortgage loan, usually for a short term, to finance the actual construction of buildings on a property.

**constructive notice**

In a real estate transaction, the express revelation of a fact, e.g., matters of public record.

**contingent liability**

Responsibility that exists beyond the primary boundaries of a transaction.

**contract rate**

See nominal rate.

**conventional loan**

Mortgage loan made without any additional guarantees for repayment, such as FHA insurance, D.A. guarantees, or private insurance; usually given at an 80 percent loan-to-value (IN) ratio.

**conversion**

'A change from a rental format to one of individual ownership.

**convertible loan**

Borrower can change to a fixed rate any time during the life of an adjustable-rate loan.

**cooperative**

A residential multi-family building with the title in a trust or corporation that is owned and operated for the benefit of the persons living therein, who are beneficial owners of the trust or stockholders in the corporation, each possessing a proprietary lease. All owners have joint liability for the mortgage on the property.

**corporation**

An entity created to act as an individual when engaging in business and finance, but limiting the personal liability of its stockholders.

**correspondent**

A mortgage banker.

**cosigners**

Additional signers to a financial agreement adding their guarantees to that of the borrowers.

**cost approach**

Process of appraising the value of a property by adding the estimated value of the land to the appraiser's calculations of the replacement cost of the building, less depreciation.

**cost recovery**

Now used to describe depreciation.

**coupon bonds**

Bonds with interest coupons attached that are removed as they become due and cashed by their bearer. Also known as bearer bonds.

**covenant of seisin**

Clause in a mortgage that warrants that the mortgagor has title to the property and the authority to pledge it as collateral.

**covenants that run with the land**

Conditions that are recorded against property that remain in effect through changes in ownership.

**credit loan**

Mortgage issued strictly upon the financial strength of a borrower, without at re for collateral.

**credit report**

Document indicating credit circumstances of a borrower of a real estate loan.

**credit union**

Organization formed by a homogeneous group for banking purposes, e.g., a government employees credit union.

**cross-defaulting clause**

Usually included in a junior loan instrument; stipulates that a default in the senior encumbrance also triggers a default in the junior loan.

**crunch down**

Recasting an existing loan to a lower level to avoid a foreclosure.

**cycle**

A period of time within which the economic ups and downs of business or real estate takes place.

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**debenture**

A bond issued without any specific collateral pledge, but secured by the general assets of the issuer.

**debt ratio**

The relationship between a borrower's long-term debt payments and monthly income.

**deed**

A document used to transfer ownership of real property.

**deed in lieu of foreclosure**

Voluntarily signing over to the creditor the property pledged as collateral on a defaulted loan.

**deed of trust**

A financing instrument in which the borrower/trustor conveys title of the collateral to a trustee to be held in trust for the beneficiary/lender. When the loan is repaid, title is reconveyed to the trustor. If a default occurs, the trustee exercises the power of sale on behalf of the beneficiary.

**default**

Nonperformance of a duty; failure to meet an obligation when due.

**defeasance clause**

Clause included in a loan instrument that provides for the cancellation of the mortgagee's interest when the debt has been paid in full.

**deficiency judgment**

A personal judgments levied against the mortgagor under the terms of the note, when a mortgage foreclosure sale does not produce sufficient funds to repay the mortgagee the outstanding loan balance, interest and costs.

**de la Cuesta Precedent-setting case**

(Fidelity Federal Savings v. de la Cuesta) in which the United States Supreme Court ruled on June 28, 1982, that the due-on-sale clause was legally enforceable.

**delinquency**

Late payments or nonpayment of principal, interest, taxes, or insurance.

**Depository Institutions Deregulation and Monetary Control Act of 1980.**

Authorized deregulation of banks and savings institutions.

**depreciation**

Loss of value due to all causes, but usually considered to include physical deterioration, functional obsolescence and economic obsolescence.

**deregulation**

See Depository Institutions Deregulation and Monetary Control Act of 1980.

**direct endorsement program**

An FHA special program allowing eligible lenders the right to underwrite the loans that they create.

**direct sales comparison approach**

See market-data approach.

**disclosures**

Information pertinent to a property's value required to be imparted to buyers and borrowers in California.

**discount**

Difference between the face amount of a note or mortgage and the price at which the instrument is sold in the secondary market.

**discount rate**

The rate that the Fed charges its members for funds borrowed on collateralized loans.

**discounted cash flow**

Present value of income stream.

**discretionary income**

Earned funds left over for investment after allocations for necessities and reserves.

**disintermediation**

Rapid withdrawal of money from savings accounts.

**disposable personal income**

'Personal income less allocations for necessities; available for personal consumption.

**draws**

A system of payments to a contractor under a construction loan.

**due-on-sale clause**

A clause that stipulates that a borrower cannot sell or transfer the property without prior written consent of the lender.

**V.A.**

Department of Veterans Affairs; since 1944, the D.A. has guaranteed the top portion of an eligible veteran's loan.

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**easement**

Access rights over someone else's property.

**ECOA**

See Equal Credit Opportunity Act (ECO).

**effective rate**

Actual interest rate paid on a loan, regardless of the rate stipulated in the contract.

**eminent domain**

The government's sovereign power of condemnation over private property for the benefit of the community; an example of police power.

**encroachment**

Improvements overlapping adjoining property.

**encumbrance**

Any lien against a property or any restriction in its use, such as an easement; a right or interest in a property held by one who is the legal owner.

**endowment**

A permanent source of income.

**English Common Law**

Established allodial system of real property ownership.

**entitlement**

The amount of guarantee a veteran is eligible to secure on a D.A. loan.

**Equal Credit Opportunity Act (ECO)**

Provides for the elimination of discrimination for age, sex and race in finance. equitable ownership Less than a fee simple estate, as that which a vendee owns under a land contract.

**equitable redemption period**

A period of time established by custom, usually six months, that allows a defaulting borrower to redeem property by bringing all payments current before foreclosure. equitable rights The rights of a less-than-fee-simple owner to occupy, lease or sell the subject property.

**equitable title**

See equitable ownership.

**equity**

The interest or value a property owner has in the property over and above any liens against it.

**equity loans**

Monies loaned to borrowers based on a percentage of the equity held in the collateral property.

**equity trust**

An investment trust dealing in ownerships rather than in financing.

**escalator clause**

Clause in a loan instrument providing for increases in payments or interest based upon predetermined schedules or upon a specific economic index, such as the consumer price index. See variable-rate mortgage.

**escrow**

A third-party agent that receives, holds and/or disburses, certain funds or documents upon the performance of certain conditions; the closing agent in a real estate transaction.

**estoppel certificate**

Legal form that states the unpaid balance due on the loan as of a specified date and prevents, or "stops," any purchaser of the loan from claiming that the original borrower owes more than the stated amount.

**estate tax**

A tax imposed by federal and state agencies on the net value of a deceased's estate in excess of \$600,000.

**eviction**

Legally dispossessing occupants of real property for unlawful detainer.

**exchange**

A method for postponing income taxes on capital gains by trading like-kind of property. See Section 1031, Internal Revenue Code.

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**face value**

The stated amount of a security. See par.

**Farm Credit System**

A complete national banking system for financing the activities of farmers and ranchers.

**FDIC**

Federal Deposit Insurance Corporation; provides insurance of \$100,000 per account and supervises the operations of banks that qualify for membership in the insurance program.

**Fed**

The United States Federal Reserve System.  
federal funds rate The rate the Fed charges its members on uncollateralized loans.

**Federal Reserve System**

The nation's economic manager, the Fed regulates its member commercial banks.

**fee appraiser**

Also known as a field appraiser One who is not an employee of a particular fiduciary lender; an independent agent.

**fee simple absolute**

See absolute fee simple title (fee simple).

**FHA**

Federal Housing Administration; insures loans made by approved lenders to qualified borrowers in accordance with its regulations.

**FHLB**

Federal Home Loan Bank System; serves and regulates the national savings and loan associations, much like the Federal Reserve System

does for the commercial banking industry.

**FHLMC**

Federal Home Loan Mortgage Corporation; provides a secondary market for mortgages.

**fictitious deeds of trust**

Comprehensive master deeds of trust established by lenders to cover all areas of trust deed finance; referred to in shorter versions of trust deeds.

**fiduciary**

A person in a position of trust and confidence who represents another; known as the agent.

**financial intermediary**

Financial institution that accepts deposits and makes loans.

**financial service center**

A one-stop money shop, like Sears, that provides insurance, real estate sales, real estate loans and banking services in one location.

**financial statement**

A compilation of a borrower's assets, liabilities and earnings records.

**fine-tune**

A method by which the Fed controls the nation's economy by controlling the amount of money in circulation.

**FIRREA**

The Financial Institutions Reform, Recovery and Enforcement Act of 1989.

**first mortgage**

A loan that has priority as a lien over all other loans. See senior loan.

**fixed costs**

Regularly impacting operating expenses such as taxes, insurance and maintenance.

**fixed-rate loan**

The interest rate remains constant over term of loan.

**fixture**

Article of personal property attached permanently to a building or land so that it becomes part of the real property.

**FMHA**

Farmers Home Administration; lends funds to farmers unable to obtain financial assistance from other sources.

**FNMA**

Federal National Mortgage Association; provides secondary mortgage market.

**FOMC**

Federal Open Market Committee; directs and regulates the Federal Reserve System's open-market operations.

**forbearance**

The postponement for a limited time of a portion or all of the payments on a loan in jeopardy of foreclosure. See moratorium.

**foreclosure**

Court action initiated by a lender for the purpose of recovering the borrower's real estate to pay the balance owed on a defaulted loan.

**freehold estate**

See absolute fee simple title (fee simple).

**front-end zero**

Under a conventional loan, a borrower may elect to finance all of the mortgage insurance premium, thus incurring no cash obligation for this charge at closing.

**front money**

Money required from a borrower as a down payment.

**FSLIC**

Federal Savings and Loan Insurance Corporation; provides insurance of \$100,000 per account and supervises operations of its member savings and loan associations. Now defunct.

**funding fee**

A front-end charge of one percent of the loan amount paid by the borrower when securing a DVA guaranteed loan.

**future worth**

The compounding increase in the value of money over time.

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**gap**

A short-term, high-interest loan covering the possible gap in construction financing if rent-up requirements are not met and the long-term lender does not vest takeout mortgage in full and/or the construction mortgagee holds back a portion of the interim financing.

**Garn-St. Germain Bill**

See Depository Institutions Deregulation and Monetary Control Act of 1980.

**general lien**

A lien on all property of a debtor, both real and personal.

**general obligation bonds**

Public improvement bonds to be paid from property taxes.

**general partner**

In a limited partnership, the individual or company acquiring, organizing and managing the investment.

**gift tax**

A federal tax on gifts in excess of \$10,000 per donee per year.

**GNMA**

Government National Mortgage Association; created in 1968 to take over special assistance and liquidation functions of FNMA; participates in the secondary market through its mortgage-backed securities pools.

**grace period**

A time allowed, usually ten days, for making late payments without a

penalty being imposed.

**graduated payment mortgage (GPM)**

Payments are adjustable.

**granting clause**

Words of conveyance in a deed or mortgage.

**gross income**

'Obtained annual income from a property before any expenses are deducted.

**gross rent multiplier (GRM)**

Comparing imputed market rents to estimate the value of residential real estate by the income approach.

**ground rents**

Perpetual leases given by landowners to tenants, used predominantly in Maryland and Pennsylvania prior to 1885. The owner retained title and the lessee received the right of possession and use.

**growing equity mortgage (GEM)**

A loan allowing a borrower to accelerate its satisfaction by making additional monthly principal payments.

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**hard money loan**

Cash loan to a borrower.

**hazard insurance**

Insurance covering physical damage to property.

**hazardous waste**

Toxic waste materials jeopardizing the value of real estate.

**hereditaments**

Things capable of being inherited.

**holdback'**

Funds not issued in a construction loan due to failure to lease up to required minimum.

**HUD**

Department of Housing and Urban Development; regulates FHA and GNMA.

**hybrid financing**

Mixing conventional forms of finance to create a new approach; the participation loan; the convertible loan.

**hypothecation**

The pledge of real estate as security without surrendering possession of the property.

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**impounding of funds**

Fund set up by a lender to collect and hold monthly payments from the borrower for taxes and hazard insurance until they are due.

**income approach**

Estimating the value of an income-producing property by capitalizing its net annual income.

**income ratio**

The relationship between a borrower's total income and the amount needed to make one month's mortgage payment.

**index**

Utilized to set interest rates, such as the six-month Treasury bill rate.

**industrial development bond**

A bond that allows private investors to finance apartment and commercial developments by using tax-exempt, inexpensive funds. TRA '86 imposed severe restrictions on this financing technique.

**industrial revenue bonds**

Bonds issued for developing an industrial park or for constructing a building for lease to commercial tenants.

**inheritability**

The right to leave an estate to a specific designee.

**installment sale**

Paying for property over time.

**interest**

Money paid for the use of money.

**interest factor (IF)**

From a table, the numbers derived from formulas designed to indicate the present or future worth of money.

**interest only**

A term loan arrangement calling for payments of interest only, not to include any amount for principal.

**interim financing**

See construction loan.

**intermediaries**

Financial fiduciaries including banks, savings institutions and life insurance companies.

**investment conduit**

See REIT.

**B>involuntary lien**

Lien imposed upon a property by law, such as a lien for delinquent taxes, a mechanic's lien or a judgment.

**IRA**

Individual retirement account into which \$2,000 can be deposited annually in an approved tax deferral program. TRA'86 created limitations on IRAs.

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**joint venture**

Type of equity participation in which the lender puts up the funds, the developer contributes special expertise and the two become partners in the project.

**judgment decree**

Specifies the awards made by the court in a civil case.

**judgment lien**

Charge upon the property of a debtor resulting from a court decree, properly entered, declaring that the owner is indebted and fixing the amount of the indebtedness.

**judicial foreclosure**

A court procedure utilized by lenders to secure clear title to a property under a defaulted real estate loan.

**junior loan**

A loan in subordinate priority position to a senior loan.

**junior mortgage**

A second mortgage; a lien that is subordinate to a first mortgage.

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**Keogh plan**

A retirement plan for self-employed individuals who may deposit 25 percent of earned income, up to \$30,000 annually, into an approved tax deferral program.

**kicker**

A bonus paid to a lender as an enticement to make a below-market interest rate loan.

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**laissez-faire**

A free market system.

**land contract**

Real property sales contract.

**late payment charge**

Penalty imposed for late payments. leaseback See sale-leaseback.

**leasehold estate**

An estate for a fixed length of time, established when a landlord gives up possession of real estate to a tenant; the tenant has an equitable interest in the property, defined by the terms of a lease.

**leasehold lending**

Loans on leased property, with satisfaction dates usually designed to impact 10 to 20 years prior to lease expiration.

**leasehold mortgage**

Mortgage loan secured by the tenant's leasehold interest in a property.

**lease option**

A rental agreement including a tenant's option to purchase the property.

**legal description**

Official definition of the boundaries of a parcel of real estate that is on file at the county recorder's office.

**legal title**

See absolute fee simple title (fee simple).

**lessee**

The tenant in a leasehold estate.

**lessor**

The owner or landlord in a leasehold estate.

**leverage**

Using someone else's money for the purchase of property.

**liabilities**

Debts incurred.

**lien**

A legal claim by one party against the property of another as security for a debt.

**lien theory**

Borrowers retain legal rights in the property pledged to the lender who has an equitable interest in the collateral.

**lien waivers**

Documents signed by subcontractors and suppliers indicating they have received payments in full.

**life estate**

Less than a fee simple ownership created for the life of anyone except the grantor.

**lifting clause**

Clause included in a junior loan instrument that allows the underlying mortgage to be replaced or refinanced as long as the amount of the new senior mortgage does not exceed the amount of the first lien outstanding at the time the junior loan was made.

**like kind**

In an exchange, refers to real estate for real estate, e.g., a lot for an apartment house. See Section 1031, Internal Revenue Code.

**limited partners**

In a syndicate or regular partnership, the owners other than the general partners. Liability is limited to the amount of their investment.

**line of credit**

An amount stipulated by a commercial bank to an active customer on an annual basis. Must be brought to zero on an agreed upon regular date.

**liquidity**

The cash position of an individual, business or financial institution, measured by cash on hand and securities that quickly convert into cash.

**lis pendens**

Indicates that a law suit is in process.

**loan constant**

See mortgage constant.

**loan-to-value (L/V) ratio**

The relationship between the amount of a mortgage loan and the value of the collateral property; expressed as a percentage.

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**MI, M2, M3**

Measurements of the United States money supply.

**market-data approach**

Process of estimating a property's value through examination and comparison of actual sales of comparable properties; also known as the direct sales comparison approach.

**market value**

The highest price for which a property would sell, assuming a reasonable time for the sale and a knowledgeable buyer and seller acting without duress

**master trusts**

See fictitious deeds of trust.

**maturity**

Due date of a loan.

**mechanic's lien**

Imposed against property for nonpayment of labor fees.

**MGIC**

Mortgage Guaranty Insurance Corporation; provides insurance for the top five to 30 percent of mortgage loans made by approved lenders and qualified borrowers.

**mill**

One-tenth (1/10) of a cent (0.001); used in property tax assessments.

**mobile-home loan**

Mortgage loan on a large mobile home considered to be real property; usually drawn for a shorter period than a conventional real estate mortgage.

**money**

A medium of exchange; a storehouse of purchasing power, a standard value

**money market certificate**

Special savings plan offered by thrift institutions.

**money market funds**

Noninsured, nonregulated private investment pools.

**moral suasion**

A technique by which the Fed indicates its wishes to its member banks, precluding more drastic actions to achieve desired goals.

**moratorium**

A temporary suspension of payments due under a financing agreement in order to help a distressed borrower recover and avoid a default and foreclosure.

**mortgage**

A conditional transfer or pledge of real property as security for the payment of a debt; the document used to create a mortgage lien.

**mortgage-backed securities**

Mortgage pools established by GNMA that act as collateral for the sale of pass-through securities.

**mortgage banker**

Semifiduciary financial intermediary who originates new mortgage loans, collects payments, inspects the collateral and forecloses, if necessary.

**mortgagebroker**

Semifiduciary who joins borrower and lender for a real estate loan, thereby earning a placement fee.

**mortgage companies**

Businesses designed to lend money on real or personal property, e.g., Household Finance Company.

**mortgage constant**

Factor or multiplier used for rapid computation of the annual payment needed to amortize a loan.

**mortgage insurance premium**

Payment for an FHA or private mortgage insurance policy; can be paid in cash at closing or included in monthly payments.

**B>mortgage pool**

See mortgage-backed securities.

**mortgage release document**

Filed when loan is satisfied.

**mortgage revenue bond**

A type of industrial development bond that is offered by state and local governments through their housing financing agencies and is tax-exempt.

**mortgagee**

The lender in a mortgage loan transaction.

**mortgagee's title insurance**

An insurance policy protecting the lender for the amount-of the loan in the event of a future title dispute.

**mortgagor**

The borrower in a mortgage loan transaction; owner of collateral pledged as security for the mortgage.

**multiclass mortgage securities**

Short-term or long-term mortgage securities, with or without pass-

through privileges.

**B>municipal bonds**

Bonds issued for purposes of financing public improvements, such as schools, parks and renewal projects.

**municipal mortgage enhancement**

An FNMA program in which AAA-rated Fannie Mae mortgage-backed securities are exchanged for the underlying mortgage on a tax-exempt multifamily project, enabling the developer to secure money at the lowest rate; familiarly called "Munie Mae."

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**naked title**

Synonym for absolute fee simple title.

**negative amortization**

Loan balance increases as a result of less-than-interestonly payments.

**net income**

Gross income less operating costs.

**net worth**

Assets less liabilities.

**nominal rate**

The interest rate stipulated in a contract.

**nonbank**

A consumer bank that accepts demand deposits or makes commercial loans, but not both.

**nonfiduciary**

A source of funds for real estate finance that owes no duty to others and can maintain complete discretion over its activities because it invests its own funds. Examples include title insurance companies, private loan companies and individuals.

**nonjudicial foreclosure**

See strict foreclosure.

**note**

A signed instrument acknowledging a debt and promising repayment.

**notice of delinquency In junior finance,**

Where the borrower gives the senior lender permission to notify the junior lender in the event of a default.

**novation**

Full substitution of the original borrower by a new, qualified borrower; releases the original maker of the loan from all liability.

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**offsite improvements**

Refers to improvements made to land outside a lot's boundaries, such as the installation of streets, sidewalks and sewers.

**open-end loan**

A loan providing for future advances.

**open-market operations**

The techniques employed by the Fed in buying and selling government securities that, in turn, control the amount of money in circulation.

**opportunity cost**

Earnings available on alternative investments. option See lease option.

**origination fee**

Fee charged by a lender or other agent for processing a loan application.

**OTS**

The Office of Thrift Supervision.

**overriding trust deed**

See wraparound encumbrance.

**owner's title insurance**

An insurance policy protecting the buyer for the amount of the purchase price in the event of a future title dispute.

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**package loan**

A loan that includes certain equipment and appliances located or installed on the premises in addition to the real property itself.

**par**

The face value of a bond or security.

**partial release**

Removal of a specific portion of the collateral from the lien of a mortgage.

**partially amortized**

Loan repayment schedule that provides for equal payments of principal and interest up to a certain stop date, at which time the balance of the principal is due in full. See balloon payment.

**participation financing**

Where a lender also becomes a partner in development.

**participation loan**

A loan in which more than one lender or more than one borrower has an interest; a loan in which the lender receives partial ownership in the enterprise that is being financed.

**pass-throughs**

Payments on securities sold in the secondary market that are sent directly to the investors.

**pension plans**

Public and private retirement programs wherein donations are made during the working years to develop a pool of funds to be paid to those

who reach retirement a .

**personal income**

A person's gross income from all sources.

**personal property**

Movable property that does not fit the definition of realty. PHA Public Housing Authority, now under the aegis of HUD.

**placement fee**

Charge levied by a mortgage broker for joining a borrower and a lender who subsequently negotiate a loan agreement.

**pledged account mortgage (PAM)**

Combines a GPM with a subsidizing savings account to provide the borrower with a low payment plan, the lender with level amortizing payments and the seller with cash.

**points**

Amount of discount on a mortgage loan stated as a percentage; one point equals one percent of the face amount of the loan; a discount of one point raises the net yield on the loan by one-eighth of one percent.

**police power**

The government's authority to regulate the use of real estate for the public welfare.

**power-of-sale clause**

In a deed of trust, it authorizes a lender's attorney to "confess a judgment without process" to speed a foreclosure.

**premium**

A fee paid for an insurance policy.

**premium (in excess of par)**

A price paid for a security in excess of its face value.

**prepayment clause**

Clause that provides for a penalty to be levied against a borrower who repays a loan before the specified due date.

**present worth**

The discounted present-day value of money to be received in the future.

**primary interest rate**

See prime rate.

**primary lenders**

Originators of real estate loans.

**prime rate**

Interest rate charged by fiduciary institutions to their AAA-rate borrowers.

**principal**

Amount of a debt; one of the parties in a financial transaction.

**priority lien position**

Established by recording loan documents-first in time, first in right.

**private mortgage insurance (PMI)**

Mortgage insurance issued by private companies.

**property**

Anything capable of being owned.

**Proposition 13**

A California referendum limiting the amount of annual property tax increases.

**prorations**

At a real estate sale and/or loan closing, the allocation of charge and credits to the appropriate parties.

**purchase-money loan**

Loan given by a borrower to the seller as part of the purchase price of the property.

**pyramiding through refinancing**

Method of acquiring additional properties through refinancing existing mortgages.

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**quiet title**

A technique to clear any clouds from a property's title; a suit to quiet title.

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**ranches**

Land grants for grazing or farming issued by the king of Spain to political or military agencies in California.

**real estate**

Also termed realty and real property; a portion of the earth's surface extending downward to the center of the earth and upward into space, including all things permanently attached thereto by nature or man and all legal rights therein.

**real estate investment trust**

See REIT.

**Real Estate Mortgage Investment Conduit (REMIC)**

Created by TRA '86; allows companies to be formed for trading in mortgage pools and escaping double tax imposed on corporations.

**real estate mortgage trust**

A trust dealing in financing investments rather than in owning them.

**Real Estate Settlement Procedures Act (RESPA)**

An act calling for the revelation of all costs in anticipation of closing a real estate transaction.

**real property**

See real estate.

**real property sales contract**

Also known as a land contract; usually drawn between individuals. It is a contract by which the purchase price is paid in installments over a period

of time during which the purchaser has possession of the property, but the seller retains title until the contract terms are completed.

**realized capital gains**

Investment profits not subject to income tax, e.g., profits from refinancing, exchanges and installment sales.

**recast**

A redesign of an existing loan balance into a new loan for the same period or longer to reduce payments and help a distressed borrower.

**recognition clause**

Clause included in a blanket loan contract used to purchase a tract of land for subdivision and development; provides for the protection of the rights of buyers of small parcels in case of default on the part of the developer-promoter.

**recognized capital gain**

Profits from the sale of investments and subject to income tax; derived by subtracting the adjusted book basis from the net proceeds of the sale.

**reconciliation**

In appraising, estimating a single value from the different approaches; see weighted average.

**reconveys**

In satisfying a deed of trust, the trustee reconveys full title to the borrower.

**recording**

Formal filing of documents affecting a property's title.

**redemption right**

Time allotted to the borrower to redeem collateral after default by paying the debt in full, interest accrued and all court costs.

**redlining**

The delineation by a lending institution of those areas of a community occupied by less-than-desirable borrowers; not allowed under the Community Reinvestment Act.

**registered bond**

Issued to a specific owner; it cannot be transferred without the owner's endorsement.

**Regulation Z**

Truth-in-lending provision that requires lenders to reveal the actual costs of borrowing.

**reinstate**

In delinquent deeds of trust, the time prior to exercising the power sale in which the errant borrower may bring the loan current.

**REIT**

Real estate investment trust; an unincorporated trust, set up to invest in real estate, that must have at least 100 investors; management, control and title to the property are in the hands of trustees.

**release clause**

Provision that, upon payment of a specific sum of money, the lien on a particular parcel or portion of the collateral will be removed.

**release of liability**

Removes old borrower from further responsibility for repayment of an assumed loan.

**REMT**

Real estate mortgage trust; similar to REIT, but investment is made in mortgage securities rather than in real estate.

**renegotiable rate mortgage**

See rollover loan.

**rent-up**

Required pledges from lessors of commercial space before the developer will be able to obtain financing; usually represents the required rental income needed to break even.

**replacement cost**

The cost of replacing the subject property with a new property having the same amenities and utility.

**reserve requirements**

A flat percentage of deposits, required by the Federal Reserve, to be set aside by member banks as a safety measure.

**reserves**

Portion of business earnings or bank assets set aside to cover possible losses or withdrawals

**RESPA**

Real Estate Settlement Procedures Act.  
restrictions Rules for use of real estate in an effort to preserve value.

**return on investment**

Net annual income divided by cash investment equals percentage return on the investment.

**revenue bonds**

Public improvement bonds to be paid from the income generated by said im ments.

**reverse annuity mortgage**

A system developed for the elderly property owner in which regular monthly payments can be received from a lender. When the total reaches a predesignated amount, the owner then begins repaying the loan or sells the property.

**right of first refusal**

Unlike an option to buy or an option to renew a lease, which stipulates the terms in advance, this approach allows the owner to secure a market price bid that the occupant can be the first to accept or reject.

**ROI**

Return on investment; see capitalization.

**rollover loan**

A loan that includes a call date earlier than its normal amortization period; also called a renegotiable rate loan or a bullet loa7L

**Roman Civil Law**

Early private property ownership codes enforced on California owners

by the Spanish rulers.

**RTC**

The Resolution Trust Corporation.

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**SAIF**

The Savings Institutions Insurance Fund.

**sale-buyback**

Financing arrangement in which an investor buys property from a developer and immediately sells it back under a long-term sales agreement wherein the investor retains legal title.

**sale-leaseback**

Financing arrangement whereby an investor purchases real estate owned and used by a business corporation, then leases the property back to the business; may include a buyback option.

**sale-leaseback-buyback**

See sale-leaseback.

**sales contract**

A financing device used mainly in low down payment transactions where the vendor retains legal title while the vendee acquires equitable ownership of the property.

**savings and loans**

Established primarily as savings institutions, not commercial banks. Participate heavily in residential real estate lending.

**secondary mortgage market**

Source to which originators of loans may sell them, freeing funds for continued lending; aids in distributing mortgage funds on a national level from money-rich to money-poor areas.

**Section 1031,**

Internal Revenue Code Permits exchanges of like kinds of property as a method to postpone paying income taxes on some capital gains.

**securitization**

The pooling of real estate mortgages and trust deeds to act as collateral for the sale of securities.

**security**

Something given, deposited or pledged to make secure the fulfillment of an obligation, usually the repayment of a debt; mortgages, trust deeds and other financing instruments backed by collateral pledges are termed securities for investment purposes.

**security agreement**

Financing contract for personal property.

**self-terminating trusts**

Evolved into savings and loan associations.

**semifiduciary**

A general source of funds for real estate finance, such as a mortgage broker or banker, a mortgage or investment trust, a bond dealer or an endowment fund manager. Distinguished from fiduciaries by the removal of a first-person relationship that allows the semifiduciary to take more risks than the primary financial fiduciary.

**senior loan**

A real estate loan in first priority position.

**serial associations**

Precursors to current thrift organizations.

**servicing fee**

Fee charged by national lender's local representative who collects payments, disburses funds for property taxes and insurance premiums, inspects the property and forecloses, if necessary.

**shared appreciation mortgage (SAM)**

Lender participates in equity growth.

**simple interest**

Interest that is charged only on the principal amount outstanding.

**sinking fund**

Monies deposited in advance, in anticipation of satisfying a debt in the future.

**specific lien**

Lien against a specified property of the debtor.

**specific performance**

The legal obligation for the parties in a contract to fulfill their promises or be in default and subject to a lawsuit.

**split-fee financing**

Equity participation in which the lender purchases the land, leases it to the developer and finances the leasehold improvements in return for a basic rental plus a percentage of the profits.

**standby commitment**

Pledge by a permanent lender to fund a long-term loan to take out the construction lender upon successful completion of the building.

**standby takeout commitment**

In construction finance, the agreement by an interim lender to advance funds to take out the construction lender.

**statutory redemption period**

Legislated redemption period allowing borrower time to redeem defaulted property.

**stop date**

Date on a term loan when the balloon payment is due.

**straight-line depreciation**

TRA '86 applied to all improved investment properties put into service after January 1, 1987; 27.5 years for residential income and 31.5 years for commercial properties.

**strict foreclosure or strict forfeiture**

Under a land contract, enables a lender to foreclose in as little as 30 days

when the defaulting borrower has less than 20 percent liability for its ultimate satisfaction.

**"subject to"**

The recognition by a buyer that a prior loan exists and not the legal obligation to fulfill its requirements.

**subordination**

The act on the part of a lender or a landowner in the case of a leasehold mortgage, acknowledging by written recorded instrument that an existing loan or interest can be placed in an inferior position to a new loan secured by the same collateral.

**substitution of entitlement**

Replaces one eligible veteran with another on an existing DVA loan and restores entitlement to the original veteran.

**suit to quiet title**

See quiet title.

**sweat equity**

Increase in property value due to physical efforts of improvement.

**syndicate**

An organization of investors who pool their capital to make a real estate investment.

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**takeout**

See takeout mortgage.

**takeout mortgage**

A permanent loan, obtained by prearrangement between a builder and a financial fiduciary, to repay the interim lender at the completion of construction.

**tandem plan**

Investment plan combining FNMA secondary market activities with GNMA guarantees.

**tax-exempt bonds**

Issued to finance public or private improvements for community benefit, interest from which may be exempt from federal, state and local income taxes. Limited application under TRA '86.

**tax-free gifts**

Gifts free from any federal gift tax imposition; up to \$10,000 annually from each donor to each donee.

**tax-increment financing**

Loans arranged by state and local industrial development boards to stimulate community growth that will, in turn, generate increased tax revenues.

**Tax Reform Act of 1986 (TRA '86)**

Sweeping revisions of income tax laws, lowering tax rates but

eliminating many tax shelters.

**tax shelter**

In real estate, allowable investment losses that can be used to reduce income tax liability.

**term loan**

Nonamortized loan for a specified period, at the end of which the entire principal amount is due.

**thrifts**

See savings and loans.

**time-sharing**

Interval ownership of real estate, such as the right to use a resort condominium for two weeks per year.

**title insurance**

See owner's title insurance.

**title theory**

Lender holds legal title to the collateral; the borrower retains equitable rights in the property.

**trade fixture**

A commercial tenant's improvement to leased property that remains the tenant's personal property no matter how permanently it is attached.

**tranche**

A portion of a multiclass security.

**transfer tax**

A sales tax on real estate, currently imposed at the rate of \$1.10 per thousand dollars of value.

**Treasury bond**

Issued for from five to ten years.

**Treasury note**

Issued for from one to five years.

**trust deed**

See deed of trust.

**trustee**

A party who administers property for the benefit of the beneficiary, such as the intermediary between a borrower and a bond owner, a bank or title company under a trust agreement, or the third-party holder of the deed under a deed of trust.

**trustee's deed**

In a foreclosure, the deed given by the trustee under a deed of trust to the successful bidder at the auction.

**trustor**

The grantor in a trust deed.

**truth-in-lending**

See Regulation Z.

**two-step mortgage**

A hybrid loan between a fixed-rate and adjustable-rate loan; the lower rate remains in effect for seven years and is then automatically adjusted

once for the balance of the loan period.

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**underwriting**

Process of evaluating borrower credit, collateral value and risks involved in making a loan.

**unlawful detainer**

Persons in default and illegally retaining possession of property.

**unrecorded contract**

A written document designed to create a legal relationship between the parties but not to encumber any property. See recording.

**urban renewal**

Programs under HUD designed to renovate substandard housing areas.

**usury**

Charging more than the legal limit on interest for a loan.

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**value**

Power to command other goods in exchange; present worth of future rights to income and benefits arising from ownership.

**value in exchange**

The value of a property in the market place.

**value in use**

The value of a property as it is being used for a single purpose.

**variable costs**

Operating expenses that fluctuate with occupancy, such as utilities and maintenance costs.

**variable-rate mortgage (VRM)**

Interest rates can be adjusted periodically, subject to certain limitations and caps.

**vendee**

Purchaser-borrower under a real property sales contract.

**vendor**

Seller-lender under a real property sales contract.

**voluntary conveyance**

See deed in lieu of foreclosure.

**voluntary lien**

A lien placed on a property by the owner, such as a mortgage or a deed of trust.

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**warehousing**

Guaranteeing for a specified time, and for a fee, that funds will be available under certain terms and conditions; assembling into one package a number of mortgage loans, which the correspondent has originated, in anticipation of sale in the secondary market.

**weighted average technique**

In appraisal, when reconciling the approaches, the application of a weight to each approach for averaging.

**weighted rate**

Proportional approach to deriving overall capitalization.

**workouts**

The various ways to offset a foreclosure; payment moratoriums, waivers, adjustments.

**wraparound encumbrance**

Special form of junior financing instrument designed to encompass an already existing financing instrument.

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**yield**

Effective earnings from loans or investments.

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**zero coupon bond,**

A single-payment bond that grows to its face value over a prescribed time period at a specified interest rate. All interim compound interest is tax-deferred until the bond is cashed.

**zero premium at settlement**

See front-end zem

**zoning**

The right of a community, under its police power, to dictate the use of property within its boundaries.

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