

Real Estate Vocabulary

Adjustable Rate Mortgage: A mortgage loan whose interest rate changes periodically over the period of the loan. The rate is usually lower than for fixed rate mortgages, so these loans are often initially more affordable. But they come with the risk that the interest rate will increase.

Amortization: Gradual repayment of a debt by periodic installments that cover both the principal and interest.

Annual Percentage Rate (APR): The effective rate of interest for a loan. The APR reflects all the costs of financing – including points, origination fees, and other finance charges – and is usually higher than the interest rate alone.

Appraisal: An estimate or opinion of the value of a property by an impartial person skilled in the analysis and valuation of real estate.

Asset: Something that puts money in your pocket whether you work or not. Assets include real estate, businesses, and paper assets such as stocks, bonds, and mutual funds.

Assumable Loan: An existing loan on a property that the seller is able to pass on to the borrower. Interest rates on assumable loans are often lower than the going rate, making them an attractive feature of a deal.

Balloon Loan: Mortgage loan in which the remaining amount is fully due and payable at a specified, predetermined date. Balloon loans usually have a better interest rate, but you'll have to be prepared to pay the remaining balance of the loan in full at the specified time.

CAP Rate (capitalization rate): The net operating income divided by the purchase price, expressed as a percentage. The CAP rate, which excludes the amount of debt, is an indicator of the value of the property.

Capital: Cash or something of an agreed-upon value. Money or property owned or used in business.

Capital Gain/Loss: The difference between what you bought an investment for and what you sold it for, less improvements.

Cash Flow: What's left over after all cash expenses – including the mortgage principal and interest payment – have been made.

Cash on Cash Return: The bottom line on any investment – how much you'll make (or lose) for the amount you've invested. In real estate, it's a percentage figure determined by dividing the cash flow for a property by the down payment and closing costs.

Closing: The process by which ownership of a property passes from the seller to the buyer. Also known as the "settlement," closing includes the delivery of a deed, financial adjustments, the signing of notes, and the disbursement of funds necessary to complete the sale.

Closing Agent: A third-party agent of your choosing (an attorney, escrow agent, representative of the title company, or a professional closing agent), who handles all aspects of the actual transaction.

Closing Costs: The expenses incurred in the completion of a real estate transaction.

Competitive Market Analysis: A comparison between the rent of your property and the rents of other similar properties.

Conforming Loan: A mortgage loan that is eligible for purchase by the Federal National Mortgage Association and the Federal Home Loan Mortgage Corporation.

Contingency: A condition in an offer sheet or contract that must be met before the deal can go forward.

Conventional Mortgage: A loan arranged between lender and borrower that is not covered by governmental guarantee or insurance.

Counter Offer: A response to an offer to purchase a property that introduces new or different terms and conditions.

Credit Report: An assessment, provided by a local retail credit association, of an individual's ability to repay debt.

Debt Service: The amount of principal and interest, based on the financing proposed on the pro forma.

Deferred Maintenance: Necessary repairs and upkeep that have been left undone by the seller. Maintenance that has been deferred can represent an opportunity in a deal, allowing you to negotiate a lower price.

Down Payment: Cash paid by the buyer at settlement, representing a percentage of the purchase price. Different types of loans may require different percentages of down payment.

Due Diligence: A research process that provides accurate and in-depth information regarding the physical, financial, and legal attributes of a property.

Earned Income: The money you work for, whether as a day laborer or a doctor.

Estoppel certificate: A written statement by each tenant outlining the amount of rent being paid and whether any concessions have been promised to the tenant during the rest of the term of the lease.

Eviction: The process of legally removing a tenant from a rental unit of rental property. The eviction process begins with notice to the tenant and moves on to court action if the tenant does not come into compliance with the terms of the lease.

FHA (Federal Housing Authority): An agency of the U.S. Department of Housing and Urban Development that administers loan programs designed to make more housing available.

FHA Mortgage: A loan made by a local lending institution that is insured by the FHA.

Financial Statement: A detailed account of income and expenses for a fixed period of time, and of assets and liabilities at a particular time. Individuals, properties, and businesses all have their own financial statements.

Fixed Rate Mortgage: A mortgage loan whose interest rate is fixed for the entire term of the loan. The most common are 15-year and 30-year fixed rate mortgages. The interest will usually be higher than that of an adjustable rate mortgage, but it won't ever go up.

Fixer-upper: A property that needs renovation before it can be rented.

FSBO: For Sale by Owner – a property being sold by its owner without a real estate professional's services.

Gross Income: The total of all income from all units whether actually rented or not.

Interest: The amount, expressed as a percentage of the total, that a lender charges a borrower for a loan.

Lease: A legally binding, contractual agreement between landlord and tenant for the occupancy of a rental unit. A good lease stipulates all terms and conditions of the landlord-tenant relationship.

Leverage: Doing more with less. In real estate, borrowing money from a financial lender to purchase a property is a form of leverage. You put down a small percentage of money, the bank loans you the rest, and you purchase the entire property.

Liability: Something that takes money out of your pocket. Liabilities include items such as credit card debt, mortgages, car loans, school loans, etc.

Loan Servicing: The paperwork involved in handling mortgage loans.

Loan-to-Value Ratio: The amount of a mortgage loan compared to the value of the property purchased. A \$100,000 house with a loan of \$80,000 has an 80% loan-to-value ratio.

Maturity: The date when a loan is due in full.

Mortgage: A written agreement that gives the lender an interest in the property as security for a loan.
Mortgage Brokers: Professionals who match financial institutions with money to lend to investors who want to borrow.

Net Operating Income (NOI): The total operating income less total expenses.

New Resident Checklist: A form the manager uses when a new resident moves into your property.

Notice: A period of time, stipulated in writing, before a stated action will take place. Leases usually specify the amount of notice the landlord must give the tenant before inspecting the property, charging late fees, or beginning the eviction process.

Offer Sheet: Also known as a letter of intent, a proposal to enter into an agreement to purchase a specific property from another party.

Operating Expenses: All the expenses of operating the property.

Origination Fees: Charges to a borrower to cover costs associated with issuing the loan, including credit checks, title search expenses, and home appraisal.

Passive Income: Income generated from your investments such as interest, dividends, and real estate rentals, with minimal work. Financial freedom is when money works for you, instead of you working for money.

PITI: Abbreviation for principal, interest, taxes, and insurance. The acronym is used to describe what is included in the monthly repayment of a mortgage loan.

Point: One percent of a mortgage loan amount. A point is an additional charge by the lender at the time of loan origination as a placement or service fee.

Prepayment Penalty: A fee charged to the borrower if the loan is paid off early.

Private Mortgage Insurance (PMI): Insurance against default issued by a private company on conventional mortgage loans. Such insurance is usually required when the loan-to-value ratio is more than 80%.

Pro Forma: A projected financial statement based on anticipated, not actual, income and expenses.

Purchase Agreement: Language outlining what the buyer and seller are agreeing to if this offer is accepted by both parties.

Real Estate Purchase Contract: Also known as an agreement of sale, a legally binding agreement between buyer and seller stipulating the terms and conditions of the sale of a real estate property.

Reserves: Money set aside for repairs and improvements to a property.

RESPA (The Real Estate Settlement Procedures Act): Consumer protection legislation designed to guard homebuyers from unnecessarily high closing costs. The act, requiring a uniform settlement form (which can be modified under specific circumstances) to be used nationwide, has helped standardize closing costs across the United States.

ROI: Return on Investment. Return on capital, as an annual percentage, from an investment. Example: An apartment building costs \$500,000. You pay \$100,000 as a down payment. You have a monthly cash flow of \$2000. Your ROI is $\$2000 \times 12$, divided by $\$100,000$ or 24%.

Savings and Loan Associations (S&L's): Banking institutions specializing in originating, servicing, and holding mortgage loans.

Service Contract: A written agreement for a maintenance provider – such as a landscaper, plumber, electrician, or handyman – to perform routine maintenance, repairs, and/or emergency service. Service contracts are worthwhile if you own several properties and have frequent service requests.

Term: The period of time until a loan must be repaid.

Underwriting: The formal approval or denial of a loan based on the purchaser's ability to pay off the loan and the value of the property as collateral.

Unit Mix: The number of units on a property. Unit type includes studio, 1 bedroom 1 bath, 2 bedrooms 1 bath, and so on.

Vacancy Rate: A figure representing the annual percentage of units unrented or the percentage of time a single unit remains unrented during the year.

Zoning Laws: Regulations governing land use, population density, and building size and use. Set by local governments, zoning laws typically change as communities develop; you can also request changes or exemptions.

100-10-3-1 Rule: For every single property you end up buying, you should expect the following: look at 100, make offers on 10, have 3 accepted, buy 1.