

Helpful Terms to Know in an Escrow Transaction



The following is a short glossary of commonly used terms during escrow transactions. For a detailed explanation of the meaning of these terms, please consult an attorney or real estate professional. For additional terms and definitions, please visit us online at www.FNTIC.com.

ADJUSTABLE RATE MORTGAGE (ARM): A mortgage in which the interest rate is adjusted periodically in accordance with a market indicator, to more closely coincide with the current rates. Also sometimes known as renegotiable rate mortgage, the variable rate mortgage, or the graduated rate mortgage.

AMENDMENTS: A change to any part of an agreement without changing the general essence of the original.

AMORTIZATION: Reduction of the principal of a debt in regular, periodic installments.

ANNUAL PERCENTAGE RATE (APR): An interest rate reflecting the cost of a mortgage as a yearly rate. This rate is likely to be higher than the stated note rate or advertised rate on the mortgage, because it takes into account point and other credit cost. The APR allows home buyers to compare different types of mortgages based on the annual cost for each loan.

ASSUMPTION OF MORTGAGE: An obligation undertaken by a new purchaser of land to be liable for payment of an existing note secured by a mortgage.

BENEFICIARY: The recipient of benefits most often from a deed of trust. This is usually the lender.

BUYER'S AGENT: The agent or broker serving as a representative of the buyer in order to identify a property and negotiate on their behalf for the purchase.

CAPS: Consumer safeguards that limit the amount the interest rate on an adjustable rate mortgage can change at each adjustment or over the life of the loan.

CONDITIONS, COVENANTS & RESTRICTIONS (CC&R'S): A document that controls the use, requirements and restrictions of a property.

CLOSING (ALSO CALLED "SETTLEMENT"): The completion of a real estate transfer, where the title passes from seller to buyer, or a mortgage lien is given to secure debt.

COMPARABLE SALES: Also referred to as "comps". Sales of other properties that have characteristics similar to the subject property. Generally used for the preparation of an appraisal.

CONDOMINIUM: A statutory form of real estate development of separately-owned units and jointly-owned common elements in a multi-unit project.

CONVENTIONAL MORTGAGE: A mortgage securing a loan made by investors without governmental underwriting, i.e., a loan which is not FHA insured or VA guaranteed.

DEED: Written instrument which, when properly executed and delivered, conveys title.

DISCOUNT POINT: An additional charge made by a lender at the time a loan is made. Points are measured as a percent of the loan, with each point equal to one percent.

EARNEST MONEY DEPOSIT (EMD): A deposit of funds made by a buyer of real estate as evidence of good faith.

EASEMENT: A non-possessory right to use all or part of the land owned by another for a specific purpose.

EQUITY: The difference between the fair market value and current indebtedness, also referred to as the owner's interest. The value an owner has in real estate over and above the obligation against the property.

FEDERAL HOUSING ADMINISTRATION LOAN (FHA LOAN): A loan insured by the Federal Housing Administration, open to all qualified home purchasers.

FARMERS HOME ADMINISTRATION LOAN (FMHA LOAN): A loan insured by the federal government similar to FHA loan, but usually used for residential properties in rural areas.

FEDERAL NATIONAL MORTGAGE ASSOCIATION (FNMA): Also known as "Fannie Mae." A U.S. government sponsored corporation dealing in the purchase of first mortgages for the secondary market.

FEE SIMPLE DEED: The absolute ownership of a parcel of land. The highest degree of ownership that a person can have in real estate, which gives the owner unqualified ownership and full power of disposition.

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

LEGAL DESCRIPTION: The description of land based on government surveys that identifies exact boundaries of an entire parcel of land and recognized by law.

LIEN: A claim upon a piece of property for the payment or satisfaction of a debt or obligation.

LISTING AGENT: The agent or broker in agreement with the property owner to sell the subject property and list the property in the Multiple Listing Service.

LOAN-TO-VALUE RATIO: The relationship between the amount of the mortgage loan and the appraised value of the property expressed as a percentage.

MORTGAGE: A conditioned pledge of property to a creditor as security for the payment of a debt.

MULTIPLE LISTING SERVICE: The database of properties listed for sale by Realtors® who are members of their local Association of Realtors®.

NEGATIVE AMORTIZATION: Occurs when your monthly payments are not large enough to pay all the interest due on the loan. This unpaid interest is added to the unpaid balance of the loan. The danger of negative amortization is that the home buyer ends up owing more than the original amount of the loan.

PERSONAL PROPERTY: Any property which is not real property, e.g., money, savings accounts, appliances, cars, boats, etc.

POINTS (also called "commission or discount" points): Each point is equal to 1% of the loan amount (e.g., two points on a \$100,000 mortgage would cost \$2000).

POWER OF ATTORNEY: A written instrument in which a principal grants authority to a specified agent.

PRINCIPAL, INTEREST, TAXES AND INSURANCE (PITI): Also called monthly housing expense. This is the combined Principal, Interest, Taxes and Insurance for a total payment.

PRIVATE MORTGAGE INSURANCE (PMI): In the event that a buyer does not have a 20% down payment, lenders will allow a smaller down payment—as low as 3% in some cases. With the smaller down payment

loans, however, borrowers are usually required to carry private mortgage insurance. Private mortgage insurance will usually require an initial premium payment and may require an additional monthly fee, depending on the loan's structure.

PURCHASE AGREEMENT: The contract between the Buyer and Seller for the purchase of a designated property.

QUITCLAIM DEED: A deed that serves as a release with the purpose of transferring any title, interest or claim held by the grantor. The Quitclaim Deed does not contain any warranty of valid interest or title by the grantor.

REAL ESTATE AGENT: An individual licensed by the state to represent parties in the transfer of property.

REALTOR®: A real estate broker or an associate holding active membership in a local real estate board affiliated with the National Association of Realtors®. Every Realtor is a Real Estate Agent but not every Real Estate Agent necessarily maintains the designation of Realtor®.

RECORDING: The filing of documents for real property with the County Recorder's office that becomes public record.

SUBDIVISION: A tract of land surveyed and divided into lots for purposes of sale.

TENANCY IN COMMON: An undivided ownership in real estate by two or more persons, without right of survivorship – interests need not be equal.

TRUST ACCOUNT: An account separate and apart and physically segregated from the broker's own, in which the broker is required by law to deposit all funds collected for clients.

TRUSTEE: The neutral third party in the deed of trust with limited powers. When the loan is paid in full, the property is reconveyed by the trustee back to the person or persons legally entitled to the land, or if delinquent, the property will be conveyed pursuant to non judicial foreclosure proceedings, to the highest bidder in a public sale.

TRUSTOR: The borrower, owner and guarantor of the property conveyed in a deed of trust.

VETERANS ADMINISTRATION LOAN (VA LOAN): Housing loan to veterans by banks, savings and loans, or other lenders that are guaranteed by the Veterans Administration, enabling veterans to buy a residence with little or no down payment.

WARRANTY: In a broad sense, an agreement or undertaking by a seller to be responsible for present or future losses of the purchaser occasioned by deficiency or defect in the quality, condition or quantity of the thing sold. In a stricter sense, the provision or provisions in a deed, lease or other instrument conveying or transferring an estate or interest in real estate under which the seller becomes liable to the purchaser for defect in or encumbrances on the title.

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expert management of
your next escrow.**

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every day.