Real Estate Basics Course Glossary

Addendum	A supplement added to a complete legal document, thereby explaining or introducing a change in the original document.
Adjustable rate mortage	Loan on which the interest rate is adjusted based on market trends. As a result, these loans carry more risk with them because the interest rates change daily and are typically on the upward trend.
Adjustable rate mortgage	Mortgage whose interest rate is adjusted on a periodic basis based on market trends. As a result, these loans carry more risk because interest rates change daily and are typically on an upward trend.
And/or assigns	Phrase seller can write after signature on Purchase and Sales Agreement to reserve the right to assign the property to another investor in the event buyer has trouble getting financing, or if some other issue comes up that prevents buyer from purchasing the property.
Approval of buyer's partner	Clause inserted into a Purchase and Sale Agreement that allows the buyer to make the contract subject to their partner's approval of the contractual agreement.
Assignment of contract	A fast cash technique used to control a property through a contract. With this technique the investor buys a property for less than market value and "assigns" the contract over to another party for a fee.
Bank	Business establishment in which money is kept for saving or commercial purposes or is invested, supplied for loans, or exchanged. You can obtain lines or credit or traditional loans here. Typically, they are very conventional in nature.
Business types	Business organization characterized by unique features such as ease of set-up, tax regulations, and degree of asset protection offered. Some common business types include various types of corporations, partnerships, limited liability companies, charities, and trusts.

Buy and Hold

Strategy used to buy a property and then hold it for the medium to long term. While holding it you rent it to tenants and receive a monthly income.

Buy and Sell

A fast cash technique that involves buying a property for less than fair market value and selling the property to another buyer for close to fair market value. The profit is the difference in price.

Buy, Fix, and Sell

A fast cash technique that involves buying a property for less than fair market value, doing rehab and repairs, and selling the property to another buyer for fair market or close to fair market value. The profit is the difference in price.

Cash flow

Investment strategy that allows investor to control a property, receive a lump sum of money upfront, money over time, and then a lump sum at the end of designated contract time. It is a cross between the buy & hold and fast cash strategies.

The term also refers the difference between an income property's income and expenses. Cash flow is considered positive if income exceeds expenses.

Closing costs

Amount of money necessary to finalize the transfer of property from one party to another. They could include appraisal fees, title search costs, title insurance, real estate taxes, document preparation fees, escrow account fees and document recording costs.

Collateral

Property pledged as security for a debt.

Commercial property

Real estate with the potential to generate outside income and/or revenue for the owner. This can include many property types, including:

- Office buildings
- Retail properties
- Strip malls
- Gas stations

Comparable rents

Rental amount that similar properties in a specific area are charging.

Comparable sales	Selling price of properties that have sold recently that are sufficiently similar to a prospective property that they can compared to determine the value of the property. (See true comparables)
Condo	Refers to any home that shares a building with other units, particularly if there are other units above or below.
Consideration	Anything of value given to induce a party to enter into a contract, e.g., earnest money.
Conventional lender	Lending organization that is bound to comply with federally imposed rules and regulations. The Federal Reserve Bank partially mandates the terms they offer. (See also unconventional lender)
Credit union	A cooperative financial organization that provides banking services, including loans, to its members at low rates of interest. Members can obtain loans and lines of credit. In some areas, it is hard to become member due to certain trade affiliations the credit union requires of its members. Typically, credit unions are less conventional than banks or finance companies.
Debt to income ratio	The amount of debt divided by money coming in.
Demographics	Key characteristics of an area or of a group of people that are used to identify marketing efforts and techniques.
Earnest money	Portion of the down payment that accompanies a purchase agreement. When the purchase agreement is signed by the seller and returned to the buyer, the deposit is generally held in an escrow account. The amount is generally between 1% and 3% of the purchase price.
Fair market value	Anticipated selling price based on comparable sales

Fannie Mae

Nickname for the Federal National Mortgage Association, one of the primary purchasers of eligible home loans from issuers. Fannie Mae securitizes these loans into mortgage-backed securities, and sells the securities to investors. Congress created Fannie Mae in 1938 to establish a secondary market for government-backed mortgages. Fannie Mae became a private company in 1968, and is traded on the Stock Exchange. Fannie Mae is still federally charted with a mission to provide funding for affordable housing and is subject to oversight by HUD. The federal government recently took over management of Fannie Mae once again. (See also Freddie Mac)

Fast Cash

Investment strategy used to buy a property for less than market value and quickly resell the property to another party. Investors typically get a fee or the difference between the purchase and sales amount as compensation for their efforts in the deal.

Fast Offer Formula

Formula used to calculate the maximum amount that should be offered for a property when taking potential fees and expenses associated with acquiring and holding a property for a given period of time into account. It takes into consideration expected profit, rehab and repair expenses, closing costs, holding expenses, and real estate agent fees.

FHA loan

Federal assistance mortgage loan insured by the Federal Housing Administration. The loan is issued by federally qualified lenders. FHA loans have historically allowed lower income Americans to borrow money for the purchase of a home that they would not otherwise be able to afford. They require a down payment of 3% or less.

Final approval

Loan approved and time for closing is set.

Finance company

A company engaged in making loans to individuals or businesses. Unlike a bank, it does not receive deposits but rather obtains its financing from banks, institutions, and other money market sources. Finance companies typically enjoy high credit ratings and are thus able to borrow at the lowest market rates, enabling them to make loans at rates not much higher than banks. Typically, they are very conventional in nature.

Fixed rate mortgage	Mortgage loan where the interest rate does not change over the life of the loan. Payments are typically made monthly over a set period of time, usually thirty years.
Freddie Mac	Nickname for Federal Home Loan Mortgage Corporation, a private corporation chartered by Congress in 1970 to make funds from the capital markets available for home financing. It does this by operating a secondary market for home mortgage loans, buying such mortgages from original lenders and selling securities in the capital markets backed by those mortgages. The federal government recently took over management of Freddie Mac. (See also Fannie Mae)
Hard money lenders	Lenders who provide short-term loans (also called bridge loans) that provide funding based on the value of real estate that is collateral for the loan. Hard money lenders typically have much higher interest rates than banks, but they have much more flexible terms than conventional lenders.
Holding expenses	Amount of money necessary to sustain ownership of a property. It might include mortgage payments, tax escrow, hazard insurance payments, utilities, HOA fees, and property management expenses.
Home equity loan	Loan in which the borrower uses the equity in home as collateral. A home equity loan creates a lien against the borrower's house.
Interactive Training System (ITS)	Website where you can access your real estate courses and other collaborative consulting materials.
Investment criteria	Specific characteristics, trends, and situations that offer the best opportunity for you to profit from your investments in real estate.
Investment strategy	A specific approach or series of techniques used to secure real estate in a transfer, purchase and/or sale situation.

Jumbo loan

Mortgage with a loan amount above the industry-standard definition of conventional conforming loan limits. This standard is set by the two largest secondary market lenders, Fannie Mae and Freddie Mac. Loans above the conforming limits may be offered by seller servicers of these wholesale institutions, as well as Wall Street conduits who provide warehouse financing for mortgage lenders. The loan amounts reflect average loan sizes nationwide. Jumbo mortgages apply when Fannie Mae and Freddie Mac limits don't cover the full loan amount. (See also Super Jumbo Loan)

Land

Does not typically produce an income in its raw form. Its value can change with improvements being made to it. It appreciates at a slower rate when it does not have any structures on it. Zoning will affect its value and potential use.

- Raw Land— Land that does not have certain basic required services necessary to utilize it for other purposes. These include electricity, telephone, street access, or water available.
- Improved Land— Land that has certain utilities and services available to it. These would include electricity, telephone, water, sewer, etc.

Lease option

A cash flow technique that involves acquiring a property below fair market value that requires some minor rehab and repairs. Investor leases the home for a set period of time to a credit-challenged person and offers them an option to buy the home at a later date and time. Typically, the buyer will place a large deposit upfront, pay monthly payments for a prescribed period of time and pay a large sum at the end to buy the home.

Lien

Legal claim or attachment against property as security for payment of an obligation.

Loan to value

Portion of the amount borrowed compared to the cost or value of the property purchased.

Manufactured home

Term used to describe factory-constructed homes installed on the home site. These homes are built after 1976.

Marketing budget

The amount allocated for expenditure on marketing activities in a specified period.

Marketing plan
Outline of the specific actions you intend to carry out to interest potential sellers/buyers in your services and persuade them to sell/buy with you.

Meeting of the minds
Agreement by all parties to a contract and all terms contained therein.

Mobile home
Term used to describe factory-constructed homes installed on the home site. This term may refer to homes built before 1976.

Mortgage banker
Company, individual or institution that originates mortgages. Mortgage bankers use their own funds, or funds borrowed from a warehouse lender, to fund mortgages. After a mortgage is originated, a mortgage banker might retain the mortgage in portfolio, or they might sell the mortgage to an investor. Additionally, after a mortgage is originated, a mortgage banker might service the mortgage, or they might sell the servicing rights to another financial institution.

Multi-units
Consists of two or more residential units. This can include many property types:

- Duplexes
- Four-plexes
- Apartment complexes (lenders consider this commercial)

Nuisance clauses
Clauses that could be included in a Purchase and Sales Agreement by the buyer that are not necessary and may actually work against the buyer's best interests.

Options
A modified version of a cash flow technique that involves acquiring a property that requires some minor rehab and repairs below fair market value. Investor reserves the right to buy the property at a later date and time for a pre-specified amount via an option agreement. Investor provides a percentage of the purchase price to the seller for the option to buy the property at a later date. No payments are made over that period of time.

Points
Fees paid to induce lenders to make a mortgage loan. Each point equals 1% of the loan principal.

Power/success team	Individuals with connections to real estate deals and skills sets that are needed in various phases of the investment process. They may be able to refer buyers, sellers, and other professionals to you. They are a crucial piece to your real estate success.
Pre-approval	The lender practice of approving a borrower for a certain loan amount and interest rate based on financial data.
Pre-qualification	Estimate of the loan amount a person qualifies for based on their credit score.
Private lender	Unconventional lenders who use their own personal funds to lend on properties. These lenders own a large number of properties and draw on funds from these to invest in other properties.
Property evaluation	Process of visiting and confirming the condition of a prospective property. The process includes an evaluation of the exterior and interior aspects of the home.
Property search criteria	Specific characteristics, trends, and situations that offer the best opportunity for you to profit from your investments in real estate.
Purchase and Sales Agreement	The offer contract submitted to seller of property. Consists of the beginning, the boilerplate and the signatures. Many versions are available so be sure the one you are using is recognized as legally binding by the state in which the property is located. Also called an offer to purchase or letter of intent.
Right to assign contract	Clause inserted into a Purchase and Sale Agreement that allows the buyer to assign the contract to anyone they choose.
Right to replace signage	Clause is inserted into a Purchase and Sale Agreement that allows the buyer to remove the current sign from the property, and replace it with their own sign prior to closing.
Right to show the property	Clause inserted into a Purchase and Sale Agreement that allows the buyer to show the property prior to closing.

Sandwich lease option

A cash flow technique that involves acquiring a property that requires some minor rehab and repairs at below fair market value. Investor leases the home from the seller for a set period of time with an option to buy, then subleases the property to a credit-challenged person and offers them an option to buy the home at a later date and time. As the investor, you will exercise your option and buy the property prior to your tenant/buyer exercising their option to buy. Typically, the buyer will place a large deposit upfront, pay monthly payments for a prescribed period of time and pay a large sum at the end to buy the home.

Seller financing

A cash flow technique in which the seller is acts like the bank for the buyer. The seller receives a portion of money up front and in monthly installments over the lifetime of the loan. The seller is "cashed out" when the buyer refinances.

Single family residence

Detached home, usually with a front and back yard, driveway, and attached carport or garage.

Super jumbo loans

A residential mortgage or other home-equity secured loan of greater than $650,000. Lenders differ on just what constitutes a super jumbo mortgage subject to their own internal investment criteria.(See also jumbo loan)

Target area

Geographic area in which you choose to invest in real estate. It fits your property search criteria and satisfies wealth building goals. The area can be a neighborhood, a few neighborhoods, or a portion of a city or town. It can be close to your home or across the country.

Title insurance

Insurance that protects the buyer from defects in the title. Title insurance is usually required whenever a loan or mortgage is placed on a property.

Town homes

Refers to any home that shares a building with other units, particularly if there are no other units above or below.

True comparables

Properties sold within the last six months that are located within close proximity to the prospective property and have features and amenities such as age, bedrooms, bathrooms, square footage, and building style in common with the prospective property.

Unconventional lender
Lending organization controlled by federal law but operating under less stringent laws than conventional lenders. There is more flexibility in their terms, but little consistency from lender to lender.

VA loan
Mortgage loan guaranteed by the U.S. Department of Veterans Affairs. The loan may be issued by qualified lenders. The VA loan was designed to offer long-term financing to American veterans or their surviving spouses (provided they do not remarry). The basic intention of the VA direct home loan program is to supply home financing to eligible veterans in areas where private financing is not generally available. The VA loan allows veterans 100% financing without private mortgage insurance or 20% down payment.

Walk-through kit
Combination of items that are necessary to effectively evaluate a home during an inspection. This includes evaluation form, flashlight, tape measure, clipboard, pens, and digital camera.