

Title Consumer Series:

UNDERSTANDING THE LANGUAGE OF REAL ESTATE



To help you better understand the language of real estate, the California Land Title Association has defined some of today's most common real estate, lending and title terms.

- ▶ **Abstract of Judgement:** A summary of the essential provisions of a court judgement. When recorded, it creates a general lien on all of the real property of the judgement debtor in the county in which it is recorded.
- ▶ **Adjustable Rate Mortgage (ARM):** A mortgage in which the interest rate is adjusted periodically according to a preselected index. The terms, adjustment schedule and index to be used can vary based on the particular lender.
- ▶ **Agency:** A relationship created when one person (the principal) delegates to another (the agent) the right to act on his or her behalf in business transactions.
- ▶ **A II-inclusive Trust Deed (wrap-around mortgage):** A financing technique which involves the creation of a new trust deed which includes the balance due on the existing note plus any new funds advanced.
- ▶ **American Land Title Association (ALTA):** A national association of title insurance companies, abstractors, and agents. The association adopts standard title policy forms.
- ▶ **Amortization:** The process of paying off a debt in installments over a given period of time without a final balloon payment.
- ▶ **Assessed Valuation:** The value that a taxing authority places upon real or personal property for the purpose of taxation.
- ▶ **Balloon Payment:** The unpaid principal amount of a loan due on a specific date in the future. Usually the amount that must be paid in a lump sum at the end of the term.
- ▶ **Beneficiary:** The person who is entitled to receive funds or property under the terms and provisions of a will, trust, insurance policy or security instrument. In connection with a mortgage loan the beneficiary is the lender.
- ▶ **Beneficiary's Statement:** The statement of a lender which gives the remaining principal balance due on a note and other information concerning the loan. It is usually obtained in escrow when the owner wishes to sell or refinance.
- ▶ **Buydown:** A financing technique used to reduce the monthly payment for the home buying borrower during the initial years of ownership. Under some buydown plans, a residential developer, builder, or the seller will make subsidy payments (in form of points) to the lender that "buydown," or lower, the effective interest rate paid by the home buyer, thus reducing monthly payments for a set period of time.
- ▶ **California Land Title Association (CLTA):** A statewide association of title insurers and underwritten title companies. The association adopts standard title policy forms.
- ▶ **CC and Rs (Covenants, Conditions and Restrictions):** Limitations placed on the use and enjoyment of real property. These are found most often in condominiums and planned unit developments.
- ▶ **Chain of Title:** A chronological list of recorded instruments tracing title to land, from the original owner to the present owner.
- ▶ **Closing:** The process of completing a real estate transaction during which the seller delivers title to the buyer in exchange for payment of the purchase price. Called a "settlement" in some areas.
- ▶ **Closing Costs:** Expenses, beyond the selling price, such as loan fees, title fees, etc. Paid when documents are executed and/or recorded and the sale is complete.
- ▶ **Closing Statement:** A summary, in the form of a balance sheet, showing the amounts of debits and credits to which each party to a real estate transaction is entitled upon closing.

- ▶ **Community Property:** Property acquired during a marriage by either a husband or wife, or both, which is not separate property.
- ▶ **Comparables (comps):** An abbreviation for comparable properties used for comparative purposes in the appraisal process.
- ▶ **Conveyance:** The transfer of title or an interest in real property by means of a written instrument such as a deed of trust.
- ▶ **Deed of Trust:** A security agreement creating a lien by which title to real property is transferred to a third-party trustee as security for an obligation owed by the trustor (borrower) to the beneficiary (lender).
- ▶ **Demand:** The lender's statement of the amount due to pay off a loan.
- ▶ **Documentary Transfer Tax:** The tax, based on sales price, less loans which are being assumed, which is charged by the city and/or county on the transfer of real property.
- ▶ **Earnest Money:** The cash deposit paid by a prospective buyer as evidence of good faith to bind a sale of real estate.
- ▶ **Easement:** A limited right or interest in land of another that entitles the holder of the right to some use, privilege or benefit over the land.
- ▶ **Encumbrance:** A claim, right or lien upon real property, held by someone other than the owner.
- ▶ **Endorsement:** A rider attached to an insurance policy to expand or limit coverage.
- ▶ **Escrow:** The process in which a disinterested third party holds money and documents for delivery to the respective parties in a transaction on performance of established conditions.
- ▶ **Exception:** A provision in a title insurance binder or policy which excludes liability for a specified title defect or an outstanding lien or encumbrance.
- ▶ **Fee Simple:** An estate under which the owner owns a complete interest in the property and is entitled to the unrestricted use and enjoyment of the property, including the right to dispose of the property.
- ▶ **Grantee:** One to whom a grant is made. The purchaser of real property.
- ▶ **Grantor:** One who has made a grant. The seller of real property.
- ▶ **Hidden Defect:** An encumbrance on a title that is not apparent in the public records; for example, unknown heirs, secret marriages and forged instruments.
- ▶ **Impound Account:** An account held by a lender for the payment of taxes, insurance or other periodic debts against real property.
- ▶ **Joint Tenancy:** A means of ownership in which two or more persons own equal shares in real property. Upon the death of one tenant, his/her share passes to the remaining tenant(s) until title is vested in the last survivor.
- ▶ **Legal Description:** A description by which property can be definitely located by reference to surveys or recorded maps. Sometimes referred to simply as the legal.
- ▶ **Lien:** A recorded document which claims an interest in real property as security for a debt owed. Such liability may be created by contract, such as a deed of trust, or by a court judgement.
- ▶ **Lis Pendens:** Legal notice that a lawsuit is pending. Also called a notice of action.
- ▶ **Marketable Title:** Title which is free from defects which would allow a purchaser to be released from his obligation to purchase.
- ▶ **Mechanic's Lien:** A lien on real estate which secures the payment of debts due to persons who perform labor or services or furnish materials incident to the construction of buildings and improvement on real estate.
- ▶ **Points:** A fee charged by the lender to fund a loan, in addition to and separate from other fees charged. One point equals one percent of the amount of the loan.
- ▶ **Quitclaim Deed:** A deed relinquishing all interest, title or claim in a property by a grantor. Accomplished without representing that such title is valid, nor containing any warranty or covenants of title.
- ▶ **Statement of Information (SI):** A confidential information statement completed by the buyer, seller and borrower. It allows the title company to search documents affecting the property to be insured and to differentiate between parties with similar names when searching matters such as liens and court decrees.
- ▶ **Subordination Agreement:** An agreement under which a prior or superior lien is made inferior or subject to an otherwise junior lien.
- ▶ **Tenancy in Common:** Co-ownership in a property by two or more persons, each of whom has an undivided interest in the whole property.
- ▶ **Uniform Settlement Statement:** The standard HUD Form 1 required to be given to the borrower, lender and seller at, or prior to, settlement.
- ▶ **Vesting:** Denotes the manner in which title is held. Examples of common vestings are: Community Property, Joint Tenancy and Tenancy in Common.

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