Real Estate Project Glossary

Real estate

Property or land

Lender

The title given to any institution, usually a bank, that loans money to people who don’t have enough to buy something very large like a home or car.

Borrower

The title given to a buyer who must take out a loan in order to purchase something large, like a home or car.

Mortgage

In simple terms, a mortgage is a legal agreement between a home buyer and the bank (or whoever else is loaning the money). The lender (bank) agrees to loan the buyer some money towards purchasing the house. The buyer/borrower agrees that the bank owns their house until they have paid back the entire amount of the loan, plus interest. Most people interchange the term “mortgage” with “home loan.”

Equity

Equity is a major factor in secured loans that use real estate and the borrower's home as collateral. Equity refers to the percentage of the home or real estate's total value in comparison to the amount still owed on the original loan used to purchase it. It's often referred to as the amount of the home or property that the owner actually "owns", as opposed to the portion of the value that's still held under mortgage. The more money a person pays toward their mortgage, the more equity they have in their home. *Equity is the reason why buying a home is considered a good investment; instead of paying money each month that you never see again (like when you rent), buying property enables you to put money into a house that you can later take out or sell for profit.

Capital / Principal

Capital or principal is the amount that you repay on a loan; it is what you borrowed in the first place.

Interest

At its most simple, interest is the additional amount that you pay over the loan amount in order for the lender to make a profit off of you doing business with them. In other words, the interest that you pay is the amount that you pay for the service of lending.

Interest Rates

Interest rates are the percentage of the capital that you'll pay in interest - for instance, if you have an interest rate of 5% on a loan then you'll pay an additional 5% to the loan amount in interest.

Annual Percentage Rate (APR)

The annual percentage rate is most often seen on credit cards, and is an indication of how much interest you will be charged on your credit card balance over the course of the year.
The lower the APR is on a credit card, then the less you'll have to pay in interest as the year goes by - you should keep in mind, though, that the annual percentage rate can change over the course of the year due to fluctuations in the cost of living, inflation, and a change of interest rates that are set on the national level.

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Refinance
To swap out your old loan with a more favorable loan. The new loan pays off the old loan, so you just make payments on the newer (presumably better) loan. Sometimes a borrower will borrow a little extra during refinancing to take some equity out of an asset (known as "cash out" refinancing). Often done to get a lower interest rate, which translates into lower monthly payments.

Foreclosure
The legal process by which an owner's right to a property is terminated, usually due to default (owner not making their monthly payments.) The lender repossesses the home. Typically involves a forced sale of the property at public auction, with the proceeds being applied to the mortgage debt.

Collateral

Collateral is an object of value that is used to guarantee repayment of a loan, and is the difference between secured and unsecured loans.

Secured Loans

Secured loans are loans that have collateral backing the loan, and usually have lower interest rates. They charge lower rates for secured loans because if you fail to repay the loan then the lender can take possession of the collateral and sell it to regain their money.

Unsecured Loans

Unsecured loans don't have collateral, but charge higher interest rates in exchange.

Market Price vs. Market Value
The actual price at which a property is sold is the market price. Market *value* is the price that is established for a property by existing economic conditions, property location, size, etc.

Mortgage Broker
An independent, third-party, licensed broker who arranges loans between lenders and borrowers by doing all tha paperwork for them (the application and approval process).

Multiple Listing Service (MLS)
A system through which participating brokers agree to share commissions on a predetermined percentage split on the sale of properties listed on the system.

Origination Fee
This fee is an extra fee paid buy buyers to lenders, usually stated as a percentage or as points.

PITI
Common real estate acronym meaning Principal, Interest, Taxes, Insurance.

Point
A single percent of the loan principal, often charged by the lender in addition to various fees and interest.

Prepayment
When a borrower pays off an entire mortgage before the scheduled payoff date.

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Prepayment Penalty
A fee included in the mortgage agreement that is required of the borrower in the event the loan is paid of before the due date. Look for a clause that says, “There shall be no prepayment penalty.”

Prequalification
An informal estimate of the “financing potential” of a prospective borrower.