Free Real Estate
EXAM PREP

FREE VOCABULARY LIST

# Real Estate Vocabulary: 275 Exam Terms

275 terms the exam tests, each defined in one sentence and grouped by the content area it belongs to.

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## Property ownership & interests

58 terms

| TERM | DEFINITION |
|---|---|
| **Accretion** | Accretion is **the gradual increase in a landowner's acreage as water deposits soil along the shoreline over time**. |
| **Adverse possession** | Adverse possession is a **way of acquiring title by occupying someone else's land openly and without permission** for a period set by state law. |
| **Air rights** | Air rights are **the ownership interest in the space above a parcel of land, which can be sold, leased or transferred separately from the surface**. |
| **Appurtenance** | An appurtenance is a **right that belongs to a parcel of land and transfers automatically with it**: an easement, water right, air right or mineral right. |
| **Assessed value** | Assessed value is **the value a tax assessor places on a property to calculate the property tax owed on it**. |
| **Avulsion** | Avulsion is **the sudden loss or addition of land caused by a violent act of water, such as a flood or a river abruptly changing course**. |
| **Bill of sale** | A bill of sale is **the written document that transfers ownership of personal property, the way a deed transfers real property**. |
| **Bundle of rights** | The bundle of rights is **the set of legal rights that come with owning real property: possession, control, enjoyment, exclusion and disposition**. |
| **Chattel** | Chattel is **personal property: anything movable that is not real estate**. |
| **Community property** | Community property is **the rule in certain states that property acquired by either spouse during marriage is owned equally by both, whatever the deed says**. |
| **Condominium** | A condominium is **a form of ownership in which each owner holds title to an individual unit and shares the use of the common areas, which an owners association manages**. |

## Property ownership & interests (continued)

58 terms

| TERM | DEFINITION |
|---|---|
| Cooperative (co-op) | A cooperative is **a form of ownership in which a corporation owns the building and each resident owns stock in the corporation that carries the right to occupy one unit**. |
| Dominant estate | The dominant estate is **the parcel of land that benefits from an easement over a neighboring parcel**. |
| Easement | An easement is **a nonpossessory right to use someone else's land for a specific purpose, such as a road across it, without owning or occupying it**. |
| Easement appurtenant | An easement appurtenant is **the right to use a neighboring parcel that belongs to the land itself rather than to a person, so it transfers automatically with either property**. |
| Easement by necessity | An easement by necessity is **a court-created right of way granted because a parcel would otherwise be landlocked with no legal access to a road**. |
| Easement in gross | An easement in gross is **the right to use someone else's land that belongs to a person or company rather than to an adjoining parcel**. |
| Emblements | Emblements are **annual crops planted by a tenant that remain the tenant's personal property and may be harvested even after the lease ends**. |
| Eminent domain | Eminent domain is the **government power to take private property for public use, provided the owner receives just compensation**. |
| Encroachment | An encroachment is **a structure or improvement that physically intrudes onto a neighbor's land, such as a fence, driveway or roof overhang crossing the boundary** . |
| Encumbrance | An encumbrance is **any claim, right or restriction held by someone other than the owner that limits the use or value of real property**. |
| Escheat | Escheat is the **government power that transfers ownership of property to the state** when an owner dies intestate (without a will) and leaves no discoverable heirs, or when property is legally abandoned. |
| Fee simple | Fee simple is the **largest ownership interest in real property: full title of unlimited duration that passes to heirs**. |
| Fixture | A fixture is **personal property that has been attached to land or a building so permanently that it becomes part of the real estate and conveys with a sale**. |
| Freehold estate | A freehold estate is **an ownership interest in real property that lasts for an indefinite time, such as a fee simple or a life estate**. |
| Government survey system | The government survey system is **a legal description method that locates land by township and range from a principal meridian and base line, then by section and fractions of a section**. |

## Property ownership & interests (continued)

58 terms

| TERM | DEFINITION |
|---|---|
| Ingress and egress | Ingress and egress are the **rights to enter and leave a property**, usually secured by an easement across neighboring land. |
| Joint tenancy | Joint tenancy is **co-ownership in which two or more people hold equal undivided shares with right of survivorship, so a deceased owner's share passes to the surviving owners rather than to heirs**. |
| Judgment lien | A judgment lien is **a lien that a court judgment creates on the property of a debtor who fails to pay a debt**. |
| Leasehold estate | A leasehold estate is **a tenant's right to exclusive possession and use of real property for a limited term while the landlord keeps ownership**. |
| Legal description | A legal description is **the formal written identification of a parcel's exact boundaries, precise enough to locate the land without reference to a street address**. |
| License (land use) | A license is **revocable personal permission to enter or use another person's land for a stated purpose**. |
| Lien | A lien is **a creditor's claim against real property as security for a debt, giving the creditor the right to force a sale if the debt is unpaid**. |
| Lien priority | Lien priority is **the order in which liens get paid from the proceeds when a property is sold to satisfy its debts, generally set by the date each lien was recorded**. |
| Life estate | A life estate is **ownership of real property measured by someone's lifetime, after which title passes automatically to the remainderman or reverts to the grantor**. |
| Lis pendens | A lis pendens is **a notice recorded in a property's chain of title warning that a lawsuit affecting title to or an interest in that property is pending**. |
| Littoral rights | Littoral rights are **the water rights of an owner whose land borders a static body of water such as a lake, sea or ocean**. |
| Lot and block | Lot and block is **a legal description method that identifies a parcel by its lot and block numbers on a subdivision plat recorded in the public records**. |
| Metes and bounds | Metes and bounds is **a legal description method that traces a parcel's boundary lines from a point of beginning, using natural or artificial monuments, until the description returns to that point and closes**. |
| Mineral rights | Mineral rights are **the ownership interest in the oil, gas, coal and other minerals beneath a parcel, which can be severed and sold apart from the surface**. |
| Partition | Partition is **the division of co-owned property that ends the co-ownership, so each former co-owner holds a share alone in severalty**. |

## Property ownership & interests (continued)

58 terms

| TERM | DEFINITION |
|---|---|
| Police power | Police power is the **government authority to regulate the use of private land to protect public health, safety and general welfare**. |
| Prescriptive easement | A prescriptive easement is a **right to use another person's land, gained through long unpermitted use** rather than by grant. |
| Real property | Real property is **land and everything permanently attached to it, including buildings, trees and mineral deposits, together with the rights of ownership in it**. |
| Remainder interest | A remainder interest is **a future interest that passes to a third party, the remainderman, when the prior estate created by the same deed ends**. |
| Reversionary interest | A reversionary interest is **the future interest a grantor keeps after conveying a lesser estate, so the property returns to the grantor or the grantor's heirs when that estate ends**. |
| Right of survivorship | The right of survivorship is **the rule that when one co-owner dies, that owner's interest ends and the surviving co-owners automatically hold the whole property**. |
| Riparian rights | Riparian rights are **the water rights of an owner whose land borders a flowing waterway such as a river or stream**. |
| Servient estate | The servient estate is **the parcel of land burdened by an easement that benefits another parcel**. |
| Severance | In real estate, severance is **detaching something from the land, such as cutting timber or removing a structure, which turns that part of the real property into personal property**. |
| Situs | Situs is **the economic characteristic of land also called area preference: the value people place on a property's location**. |
| Special assessment | A special assessment is **a charge a local government places on specific properties to pay for a public improvement that benefits them, such as new streets, sidewalks or water and sewer systems**. |
| Taxation | Taxation is the **government power to charge real property for its share of the cost of public services, backed by an automatic lien on the land**. |
| Tenancy by the entirety | Tenancy by the entirety is **co-ownership available only to a married couple, who take title as one legal unit with right of survivorship**. |
| Tenancy in common | Tenancy in common is **co-ownership in which each owner holds a separate, freely transferable share that passes to their own heirs at death**. |
| Timeshare | A timeshare is **a shared form of ownership or use in which the buyer pays for the right to occupy a vacation property for a set period, such as one week every year**. |
| Township | In the government survey system, a township is **a square of land about 6 miles on each side, or 36 square miles, divided into 36 sections of about 640 acres each**. |

## Property ownership & interests (continued)

58 terms

| TERM | DEFINITION |
|---|---|
| Trade fixture | A trade fixture is **an item a commercial tenant installs to conduct business, which stays the tenant's personal property and may be removed before the lease ends**. |

## Contracts

29 terms

| TERM | DEFINITION |
|---|---|
| Addendum | An addendum is **a separate document attached to and made part of a contract that adds terms the printed form does not cover**, such as a lead-based paint or HOA addendum. |
| Amendment | An amendment is **a change to the terms of a contract that is already in force, effective only when every party to the original agreement signs it**. |
| Anticipatory breach | Anticipatory breach is **a party's statement or act before the performance date making clear they will not perform, which lets the injured party pursue remedies at once instead of waiting for the closing date to pass**. |
| Assignment | An assignment is the **transfer of one party's rights and duties under a contract to a third party, leaving the assignor secondarily liable if the assignee fails to perform**. |
| Bilateral contract | A bilateral contract is **a contract in which both parties exchange promises, so each is bound to perform**. |
| Breach of contract | A breach of contract is **a party's failure to perform an obligation the contract requires**. |
| Compensatory damages | Compensatory damages are **money a court awards to make up for the actual loss a party proves it suffered**, which is why they are also called actual damages. |
| Consideration | Consideration is **something of value each party gives or promises to induce the other to enter the contract**, and it is one of the elements of a valid contract. |
| Contingency | A contingency is **a condition written into a purchase contract that must be satisfied before either party is obligated to close, letting the buyer cancel and recover the earnest money if it fails**. |
| Counteroffer | A counteroffer is **a reply to an offer that changes its terms, which rejects the original offer and makes a new one** that the original offeror may accept or reject. |
| Duress | Duress is **unlawful threats or pressure that force a person to sign a contract against their will**, and it makes the contract voidable by the person coerced. |
| Earnest money | Earnest money is **the buyer's good-faith deposit, held in the broker's trust account or by an escrow agent, that shows serious intent and is credited to the purchase price at closing**. |

## Contracts (continued)

29 terms

| TERM | DEFINITION |
|---|---|
| Equitable title | Equitable title is **the buyer's beneficial interest in the property, which arises the instant a valid purchase contract is signed while the seller keeps legal title until closing**. |
| Escalation clause | An escalation clause is **a term in a buyer's offer that automatically raises the offered price by a set amount above any competing offer, up to a stated maximum**. |
| Legal capacity | Legal capacity is **a party's legal ability to enter a binding contract, which generally requires reaching the age of majority and being of sound mind**. |
| Liquidated damages | Liquidated damages are **a sum the parties agree in advance that the seller may keep as the complete remedy if the buyer defaults, almost always the earnest money**. |
| Novation | Novation is the **substitution of a new party or a new contract for an original one, releasing the original party from all liability**. |
| Offer and acceptance | Offer and acceptance is **the exchange that forms a contract: one party proposes terms and the other agrees to them as offered**. |
| Option contract | An option contract is **a unilateral agreement in which the optionee pays non-refundable consideration for the right, but not the obligation, to buy at a set price within a set period**. |
| Purchase agreement | A purchase agreement is **the contract in which a buyer agrees to buy and a seller agrees to sell a property at a stated price and on stated terms**. |
| Rescission | Rescission is **the cancellation of a contract that returns the parties to the positions they held before it was made**, treating it as if it never existed. |
| Right of first refusal | A right of first refusal is **the holder's right to match an offer the owner has already received before the owner may sell to that third party**. |
| Specific performance | Specific performance is **a court order compelling a breaching seller to convey the property instead of paying money damages**, available because every parcel of land is legally unique and cash cannot replace it. |
| Statute of Frauds | The statute of frauds is **the rule that contracts to convey real estate, and leases running longer than one year, must be in writing and signed to be enforceable in court**. |
| Time is of the essence | Time is of the essence is **a contract clause that makes the stated dates and deadlines material terms, so missing one is a breach**. |
| Unenforceable contract | An unenforceable contract is **an agreement valid between the parties that a court will nonetheless refuse to enforce**, usually because the statute of frauds required a writing or the statute of limitations has run. |

## Contracts (continued)

29 terms

| TERM | DEFINITION |
|---|---|
| Unilateral contract | A unilateral contract is **a contract in which only one party makes a promise and the other accepts by performing rather than by promising**. |
| Void contract | A void contract is **an agreement that has no legal effect from the start, so neither party can enforce it**, such as an agreement for an illegal purpose. |
| Voidable contract | A voidable contract is **a valid, binding agreement that one injured party may either cancel or affirm at their option**, the classic grounds being a minor's signature, fraud, duress or undue influence. |

## Agency & brokerage

42 terms

| TERM | DEFINITION |
|---|---|
| Agency disclosure | Agency disclosure is **a licensee's statement to a buyer or seller of whom the licensee represents in the transaction**, so each party knows whether they are a client or a customer. |
| Attorney-in-Fact | An attorney-in-fact is **the person a written power of attorney authorizes to act and sign for someone else, including executing a deed or closing documents on the principal's behalf**. |
| Buyer agency agreement | A buyer agency agreement is **the contract that makes a broker the buyer's agent and sets out the services and how the broker will be paid**. |
| Commingling | Commingling is a **license-law violation in which a broker mixes client money with personal or brokerage funds** instead of holding it in a separate trust account. |
| Commission | A commission is **the fee a broker earns for performing the services in a listing or buyer agreement, usually a percentage of the sale price or rent**. |
| Conversion | Conversion is **the license-law and criminal violation of using client or trust funds for the broker's own purposes**, a step beyond commingling because the money is actually spent rather than merely mixed with brokerage funds. |
| Cooperating broker | A cooperating broker is **a broker from another firm who works with the buyer on a property listed by the listing broker**, acting either as the buyer's agent or, where the parties agree, as a subagent of the seller. |
| Customer | A customer is **a buyer or seller a licensee works with but does not represent**. |
| Designated agency | Designated agency is **the broker appointing one licensee to represent the seller and a different licensee to represent the buyer in the same in-house sale**, so each client keeps a full fiduciary advocate while the supervising broker stays neutral. |
| Dual agency | Dual agency is **one broker representing both the buyer and the seller in the same transaction, lawful only with the informed written consent of both and stripped of full loyalty and advocacy**. |

## Agency & brokerage (continued)

42 terms

| TERM | DEFINITION |
|---|---|
| Due diligence | In real estate, due diligence is **the reasonable investigation a buyer or licensee is expected to make into a property and transaction before relying on it**, such as checking title, zoning and the property's condition. |
| Errors and omissions insurance | Errors and omissions insurance is **professional liability coverage that protects a licensee against claims arising from mistakes, omissions or negligence in their real estate services**. |
| Exclusive agency listing | An exclusive agency listing is **a listing that makes one broker the only agent but lets the owner sell the property personally without owing a commission**. |
| Exclusive right to sell listing | An exclusive right to sell listing is **a listing that pays the broker a commission if the property sells during the listing term, no matter who finds the buyer**, including the owner. |
| Fiduciary duty | Fiduciary duty is **the agent's legal obligation to place the principal's interests ahead of the agent's own, covering care, obedience, loyalty, disclosure, accounting and confidentiality**. |
| General agent | A general agent is **an agent authorized to conduct a series of transactions of a continuing kind for the principal**, such as a manager running one branch of a business. |
| Implied agency | Implied agency is **an agency relationship created by the conduct of the parties rather than by an express agreement**, for example brokers who cooperate on the strength of custom and past dealings instead of a signed contract. |
| Independent contractor | An independent contractor is **a licensee who works with a broker but controls their own methods and is not treated as an employee for federal tax purposes**. |
| Latent defect | A latent defect is **a hidden defect in a property that a reasonable, ordinary inspection would not reveal**, such as asbestos inside ceiling tiles or a concealed defect in title. |
| Listing agreement | A listing agreement is **the employment contract in which a property owner hires a broker to find a buyer or tenant**, setting out the broker's authority, the term and the compensation. |
| Material fact | A material fact is **any fact that would likely affect a party's decision to buy or sell a property, or the price and terms they would accept**. |
| Misrepresentation | Misrepresentation is **a licensee's false statement or concealment of a material fact that a party relies on, actionable whether it was innocent, negligent or deliberate**. |
| Multiple listing service (MLS) | A multiple listing service (MLS) is **a database that cooperating brokers use to share information about their listings so other brokers can find buyers for them**. |
| Net listing | A net listing is **a listing in which the seller sets a net price and the broker keeps everything the property sells for above it as the commission**. |

## Agency & brokerage (continued)

42 terms

| TERM | DEFINITION |
|---|---|
| Open listing | An open listing is **a nonexclusive listing the owner can give to any number of brokers, paying only the one who first produces a ready, willing and able buyer**. |
| Ostensible agency | Ostensible agency is **an agency a third party reasonably believes exists because of the principal's conduct, even though no actual authority was given**. |
| Power of attorney | A power of attorney is **the written instrument that grants an attorney-in-fact authority to act for the principal, and it must normally be recorded when used to convey real property**. |
| Principal | In real estate, a principal is **the client who authorizes an agent, usually a broker, to act on the client's behalf**: the seller under a listing or the buyer under a buyer agency agreement. |
| Procuring cause | Procuring cause is **the unbroken chain of events started by a broker's efforts that actually leads the buyer to purchase, and it is what entitles that broker to the commission**. |
| Protection clause | A protection clause is **a listing provision that entitles the broker to the commission if, within a set period after the listing expires, the owner sells to a buyer the broker showed the property to during the listing**. |
| Puffing | Puffing is **a licensee's exaggerated opinion used to promote a property, such as calling a view the best in town, and it stays legal because it asserts no verifiable fact**. |
| Ratification | Ratification is **a principal's approval, after the fact, of an act an agent performed without authority**, which binds the principal as if the act had been authorized. |
| Ready, willing and able | A ready, willing and able buyer is **one who accepts the seller's terms and has the financial capacity to close, the buyer a broker must produce to earn the commission**. |
| Recovery fund | A recovery fund is **a state fund, paid for out of license fees, that compensates consumers who win a court judgment against a licensee for fraud or similar misconduct and cannot collect it**. |
| Seller's property condition disclosure | A seller's property condition disclosure is **a form on which the seller reports the known defects and condition of the property to prospective buyers**. |
| Special agent | A special agent is **an agent authorized to handle one specific transaction or task for the principal, with limited authority**. |
| Subagency | Subagency is **the relationship in which a cooperating broker works for the seller through the listing broker's offer of cooperation, owing fiduciary duties to that seller rather than to the buyer being shown homes**. |

## Agency & brokerage (continued)

42 terms

| TERM | DEFINITION |
|---|---|
| Transaction broker | A transaction broker is **a licensee who helps both parties close a sale without representing either one, owing honesty, accounting and disclosure of material facts but no loyalty or advocacy**. |
| Trust account | A trust account is **the separate account, held in the broker's name and kept apart from the broker's own funds, where earnest money and other client funds must be deposited within the deadline state license law sets**. |
| Unauthorized practice of law | The unauthorized practice of law is **a licensee giving legal advice or preparing legal documents, work that only an attorney may do**. |
| Universal agent | A universal agent is **an agent authorized to handle every kind of business for the principal, the broadest authority an agent can hold**. |
| Unlicensed assistant | An unlicensed assistant is **a broker's or agent's staff member who handles clerical and administrative work that does not require a real estate license**, such as scheduling, filing and preparing materials for a licensee to approve. |

## Financing

40 terms

| TERM | DEFINITION |
|---|---|
| Acceleration clause | An acceleration clause gives the lender the right to **declare the entire unpaid balance immediately due once the borrower defaults**. |
| Adjustable-rate mortgage (ARM) | An adjustable-rate mortgage is **a home loan whose interest rate can change after closing, resetting at set intervals to a published index plus the lender's margin**, often within caps on each change and over the life of the loan. |
| Alienation clause | An alienation clause **requires the borrower to pay the loan in full when the property is sold or otherwise transferred**, which is why most conventional mortgages cannot be assumed by a buyer. |
| Amortization | Amortization is **the gradual retirement of a loan through periodic payments that cover the interest due and apply the remainder to principal**. |
| Balloon payment | A balloon payment is **a large, one-time payment due at the end of a loan whose regular payments do not fully pay it off**. |
| Closing Disclosure | The Closing Disclosure is **the federal form showing the final terms and costs of a mortgage, which the borrower must receive at least three business days before consummation**. |
| Construction loan | A construction loan is **short-term financing for building or rehabilitating a home, paid out in a series of advances as the work progresses**. |
| Conventional loan | A conventional loan is **any mortgage that is not insured or guaranteed by the government**, such as through the FHA, the VA or the Department of Agriculture. |

## Financing (continued)

40 terms

| TERM | DEFINITION |
|---|---|
| Debt-to-income ratio (DTI) | The debt-to-income ratio is **the borrower's total monthly debt payments divided by gross monthly income**, stated as a percentage. |
| Deed of trust | A deed of trust is **a security instrument in which the borrower transfers an interest in the property to a neutral trustee, who holds it as security for the lender until the loan is repaid**. |
| Defeasance clause | A defeasance clause **obligates the lender to give up its claim on the property once the debt is paid in full**, reconveying title in a title-theory state and releasing the lien in a lien-theory state. |
| Equal Credit Opportunity Act (ECOA) | The Equal Credit Opportunity Act **bars lenders from discriminating in any part of a credit transaction on race, color, religion, national origin, sex, marital status, age, or receipt of public assistance**. |
| Equity | Equity is **the owner's financial stake in a property: what it is currently worth minus the amount owed on any mortgage against it**. |
| Escrow account | An escrow account is **an account the loan servicer controls to collect part of each mortgage payment and pay the borrower's property taxes and insurance premiums as they come due**. |
| FHA loan | An FHA loan is **a mortgage made by an FHA-approved lender and insured by the Federal Housing Administration, part of HUD, which protects the lender against loss if the borrower defaults**. |
| Foreclosure | Foreclosure is **the legal process a lender uses to take and sell mortgaged property after the borrower defaults**, either through the courts (judicial foreclosure) or, where state law allows, under a power of sale without a court order. |
| Hypothecation | Hypothecation is **pledging property as security for a debt while keeping possession of it**. |
| Installment sales contract | An installment sales contract is **seller financing in which the buyer takes possession now and pays the price in installments, while the seller keeps legal title until the last payment is made**. |
| Kickback | A kickback is **a fee or thing of value paid for referring settlement-service business on a federally related mortgage loan, which RESPA Section 8 bars anyone from giving or accepting**. |
| Lien theory | Lien theory is **the rule, followed by most states, that a mortgage gives the lender only a lien while legal title stays with the borrower**. |
| Loan Estimate | The Loan Estimate is **the federal form giving a mortgage applicant good-faith estimates of the loan's terms and closing costs, delivered or mailed within three business days after the lender receives the application**. |

## Financing (continued)

40 terms

| TERM | DEFINITION |
|---|---|
| Loan origination fee | A loan origination fee is **what the lender charges the borrower for making the mortgage loan, covering application processing, underwriting, funding and related administrative work**. |
| Loan-to-Value (LTV) | Loan-to-value is **the loan amount divided by the appraised value or sale price, whichever is lower, stated as a percentage**. |
| Mortgagor and mortgagee | The mortgagor is **the borrower who gives the mortgage, and the mortgagee is the lender who receives it**. |
| PITI | PITI is **the four parts of a monthly mortgage payment: principal, interest, property taxes and homeowners insurance**. |
| Points | Points are **prepaid loan charges of one percent of the loan amount each, paid at closing to buy the interest rate down or to compensate the lender for making the loan**. |
| Power of sale | A power of sale is **a clause in a mortgage or deed of trust that lets the trustee or lender sell the property after default without a court order**, a process called nonjudicial foreclosure. |
| Private mortgage insurance (PMI) | Private mortgage insurance **protects the lender, not the borrower, against loss if a low-down-payment conventional loan defaults**. |
| Promissory note | A promissory note is **the borrower's written, signed, unconditional promise to repay the loan**, and it is the evidence of the debt itself. |
| RESPA | RESPA is the **federal law governing settlement costs and closing disclosures on residential mortgages**. |
| Right of redemption | The right of redemption is **a defaulting borrower's right to reclaim the property by paying off the debt secured by it**. |
| Satisfaction of mortgage | A satisfaction of mortgage is **the document a lender prepares to prove the loan has been paid in full and to release the mortgage lien on the property**. |
| Short sale | A short sale is **the sale of a home for less than the balance owed on the mortgage, with the lender's agreement to accept the proceeds**, and it is a form of loss mitigation used to avoid foreclosure. |
| Subordination | Subordination is **an agreement that moves one lien behind another in priority, overriding the order recording dates would otherwise set**. |
| Title theory | Title theory is **the rule in a minority of states that a mortgage passes legal title to the lender until the loan is repaid, while the borrower keeps possession and equitable title**. |
| TRID | TRID is **the CFPB's TILA-RESPA Integrated Disclosure rule, which sets the two forms a mortgage borrower receives: the Loan Estimate after applying and the Closing Disclosure before closing**. |

## Financing (continued)

40 terms

| TERM | DEFINITION |
|---|---|
| Truth in Lending Act (TILA) | The Truth in Lending Act **requires lenders to disclose the true cost of consumer credit as a finance charge and an annual percentage rate before the borrower is committed**. |
| Underwriting | Underwriting is **the lender's evaluation of a loan application to decide whether to approve it, weighing the borrower's ability to repay and the property securing the loan**. |
| Usury | Usury is **charging interest above the ceiling a state statute allows**, and it makes the lender rather than the borrower the wrongdoer. |
| VA loan | A VA loan is **a mortgage for eligible servicemembers, veterans and their families that a private lender makes and the Department of Veterans Affairs guarantees**. |

## Fair housing & antitrust

16 terms

| TERM | DEFINITION |
|---|---|
| Americans with Disabilities Act (ADA) | In real estate, the Americans with Disabilities Act (ADA) **requires places of public accommodation, such as the rental office of an apartment complex, to be accessible to people with disabilities**. |
| Blockbusting | Blockbusting is a **fair housing violation in which an agent induces owners to sell by suggesting that people of a protected class are moving into the neighborhood**. |
| Civil Rights Act of 1866 | The Civil Rights Act of 1866 **bars all racial discrimination in the sale or rental of property, with no exemptions whatsoever**. |
| Fair Housing Act | The Fair Housing Act is the **federal law that prohibits discrimination in the sale, rental, financing and advertising of housing on the basis of seven protected classes**. |
| Familial status | Familial status is **the Fair Housing Act protected class covering households with children under 18 who live with a parent, legal custodian or that person's designee** , as well as anyone pregnant or in the process of securing custody of a child. |
| Group boycott | A group boycott is an **antitrust violation in which two or more brokerages agree to refuse to deal with a particular competitor in order to push it out of the market**. |
| HUD | HUD, the U.S. |
| Market allocation | Market allocation is an **antitrust violation in which competing brokerages agree to divide up territories, property types or classes of customer so that they stop competing**. |
| Mrs. Murphy exemption | The Mrs. |

## Fair housing & antitrust (continued)

16 terms

| TERM | DEFINITION |
|---|---|
| Price fixing | Price fixing is an **antitrust violation in which competing brokerages agree among themselves on the commission rates they will charge**. |
| Protected class | A protected class is a **group the Fair Housing Act shields from housing discrimination**, and there are seven federally: race, color, religion, national origin, sex, familial status and disability. |
| Reasonable accommodation | A reasonable accommodation is a **change to rules, policies, practices or services that a housing provider must make so a person with a disability can use the housing on equal terms**. |
| Redlining | Redlining is a **fair housing violation in which a lender or insurer refuses to lend or write coverage in a neighborhood because of the racial or ethnic makeup of that area**. |
| Sherman Antitrust Act | In real estate, the Sherman Antitrust Act **prohibits brokers from conspiring to fix commission rates, divide markets, boycott competitors, or tie services together**. |
| Steering | Steering is a **fair housing violation in which an agent guides buyers toward or away from neighborhoods based on a protected characteristic**. |
| Tie-In arrangement | A tie-in arrangement is an **antitrust violation in which one party will sell a desired product only if the buyer also buys a second, separate product or service**. |

## Leases & landlord-tenant

16 terms

| TERM | DEFINITION |
|---|---|
| Constructive eviction | Constructive eviction is **a landlord's act or failure to act that interferes so seriously with the tenant's use of the premises that the tenant may move out and stop paying rent**, even though the landlord never formally evicted them. |
| Estate at sufferance | An estate at sufferance is the **lowest leasehold, arising when a tenant who entered lawfully stays on after the lease ends without the landlord's permission**. |
| Estate at will | An estate at will is a **leasehold of indefinite duration that either the landlord or the tenant may end at any time, with the landlord's consent being what keeps it alive**. |
| Estate for years | An estate for years is a **leasehold that runs for a fixed term with a definite beginning and ending date, so it expires on its own without any notice**. |
| Gross lease | A gross lease is a **lease in which the tenant pays one flat rent and the landlord pays the taxes, insurance and maintenance out of it**. |
| Ground lease | A ground lease is **a lease of the land only, often with the tenant placing its own improvements on the land**. |
| Lessor and lessee | The lessor is **the owner who grants a lease (the landlord), and the lessee is the tenant who receives the right to possess the property for the lease term**. |

## Leases & landlord-tenant (continued)

16 terms

| TERM | DEFINITION |
|---|---|
| Net lease | A net lease is a **lease in which the tenant pays base rent plus some or all of the property's operating expenses, such as taxes, insurance and maintenance**. |
| Percentage lease | A percentage lease is a **lease in which rent is a minimum base amount plus a share of the tenant's gross sales**. |
| Periodic tenancy | A periodic tenancy is a **leasehold that runs for successive intervals of the same length and renews automatically until one party gives notice**. |
| Property management agreement | A property management agreement is **the contract in which an owner hires a property manager and sets out the manager's authority, duties and fee**. |
| Property manager | A property manager is **a person or firm hired by an owner to run rental property for a fee**: marketing and leasing units, collecting rents and security deposits, arranging maintenance and accounting for the owner's funds. |
| Quiet enjoyment | Quiet enjoyment is the **landlord's promise that the tenant may possess the premises without interference from the landlord or anyone with a superior claim of title**. |
| Security deposit | A security deposit is **money a tenant gives the landlord to secure the tenant's performance of the lease, including rent and damage to the premises**. |
| Sublease | A sublease is **a lease by the original tenant of all or part of the premises to a new tenant for a shorter term than the original tenant holds**. |
| Vacancy rate | Vacancy rate is **the percentage of a property's rentable space that is not rented over a given period**. |

## Valuation & appraisal

29 terms

| TERM | DEFINITION |
|---|---|
| 1031 exchange | A 1031 exchange is **a swap of real property held for business or investment for other like-kind real property, with no gain recognized at the time**, under Section 1031 of the Internal Revenue Code. |
| Appraisal | An appraisal is **a written opinion of a property's market value as of a specific date, prepared independently and impartially by a state-licensed or certified appraiser** and supported by analysis of relevant market information. |
| Broker price opinion (BPO) | A broker price opinion is **an estimate of a property's probable sale or listing price prepared by a real estate broker or sales agent rather than an appraiser**. |
| Capital gain | A capital gain is **the profit made when property sells for more than its adjusted basis**, measured as the amount realized minus that basis. |
| Capitalization rate | A capitalization rate is **the rate of return used to convert annual net operating income into a value estimate**, applied as value equals income divided by rate. |

## Valuation & appraisal (continued)

29 terms

| TERM | DEFINITION |
|---|---|
| Comparables (comps) | Comparables are **recently sold properties similar to the subject in physical and legal characteristics, used to estimate its value in the sales comparison approach**. |
| Comparative market analysis (CMA) | A comparative market analysis is **a pricing estimate a licensee prepares from recent sales, active listings and expired listings of comparable homes**. |
| Cost approach | The cost approach is **the appraisal method that values a property as land value plus the current cost to build the improvements new, minus accrued depreciation**. |
| Depreciation | In appraisal, depreciation is **a loss in a property's value from any cause, measured as the difference between its cost new and its market value on the same date**. |
| Economic life | Economic life is **the period during which an improvement contributes to the value of the property**, which is usually shorter than its physical life. |
| Effective age | Effective age is **the age a building is judged to be from its condition and utility, which can be more or less than its actual age**. |
| Effective gross income | Effective gross income is **potential gross income minus vacancy and collection losses**: the rent a property can realistically be expected to collect. |
| Elements of value | The elements of value are **the four conditions a property must meet before it can have market value: demand backed by purchasing power, utility, scarcity and transferability**, often remembered as DUST. |
| External obsolescence | External obsolescence is **loss in value caused by something outside the property lines, such as a new highway, a nearby landfill, or a decline in the local job market**. |
| Functional obsolescence | Functional obsolescence is **loss in value caused by a defect within the property itself, such as an outdated floor plan, a one-car garage, or a bedroom with no closet**. |
| Gross rent multiplier (GRM) | A gross rent multiplier is **the factor relating sale price to gross rent, found by dividing price by monthly gross rent**, so multiplying a subject rent by it gives a fast value estimate. |
| Highest and best use | Highest and best use is **the legally permitted, physically possible, financially feasible use that returns the greatest value to a site**. |
| Home sale exclusion (Section 121) | The home sale exclusion is **the federal tax rule that lets an owner exclude up to $250,000 of gain on selling a principal residence, or up to $500,000 for a qualifying married couple filing jointly**. |
| Income approach | The income approach is **the appraisal method that converts a property's expected income into a present value**, most simply by dividing net operating income by a capitalization rate (value equals NOI divided by the cap rate). |
| Market value | Market value is **the most probable price a property should bring in a competitive open market, with a willing buyer and seller who are informed and neither under duress**. |

## Valuation & appraisal (continued)

29 terms

| TERM | DEFINITION |
|---|---|
| Net operating income (NOI) | Net operating income is **annual income a property collects after vacancy losses and operating expenses, but before debt service and income tax**. |
| Physical deterioration | Physical deterioration is **loss in value from wear and tear, caused either by use or by the forces of nature**, such as peeling paint, a worn-out water heater or termite damage. |
| Principle of anticipation | The principle of anticipation holds that **value is created by the expectation of future benefits, not by past performance**. |
| Principle of contribution | The principle of contribution holds that **a component is worth what it adds to the value of the whole property, not what it cost to build**. |
| Principle of substitution | The principle of substitution holds that **a property is worth no more than the cost of acquiring an equally desirable substitute**, whether by buying one or by building one without undue delay. |
| Reconciliation | Reconciliation is **the appraisal step in which the appraiser weighs the value indications from the sales comparison, cost and income approaches to reach one final opinion of value**. |
| Replacement cost | Replacement cost is **the current cost to build a substitute with the same utility as the existing improvement**, leaving out features a substitute would not include. |
| Sales comparison approach | The sales comparison approach is **the appraisal method that estimates value from the recent sale prices of comparable properties, adjusted for their differences from the subject**. |
| USPAP | USPAP is **the set of professional standards appraisers must follow, published by the Appraisal Standards Board of the Appraisal Foundation**; the name stands for the Uniform Standards of Professional Appraisal Practice. |

## Transfer of title

28 terms

| TERM | DEFINITION |
|---|---|
| Acknowledgment | An acknowledgment is **a formal declaration before a notary public or other authorized officer that the person who signed a deed did so as a genuine and voluntary act**. |
| Actual notice | Actual notice is **knowledge a person has in fact, received directly or learned personally**, as opposed to constructive notice, which the law presumes from the public records whether or not the person looked. |
| Chain of title | Chain of title is **the historical record of every transfer of ownership of a property, traced back from the current owner through each earlier one**. |

## Transfer of title (continued)

28 terms

| TERM | DEFINITION |
|---|---|
| Closing | Closing is **the final step of a real estate sale, when the buyer pays, the seller delivers the deed and the parties sign the final documents**. |
| Closing costs | Closing costs are **the fees and charges, beyond the purchase price, that buyer and seller pay to complete a real estate transaction**. |
| Cloud on title | A cloud on title is **any claim, lien or encumbrance that casts doubt on a property's ownership, even if the claim later proves invalid**. |
| Constructive notice | Constructive notice is **the legal presumption that everyone knows what the public record shows, whether they actually looked or not**. |
| Debits and credits | On a closing statement, a debit is **an amount a party owes at closing and a credit is an amount owed to that party or already paid on its behalf**. |
| Dedication | Dedication is **a private owner's transfer of land, or of an easement over it, to the public for public use, such as a street or a park**. |
| Deed | A deed is **the written document a grantor signs and delivers to transfer title to real property to a grantee**. |
| Delivery and acceptance | Delivery and acceptance are **the steps that make a signed deed transfer title: the grantor must deliver it with the intent to pass title immediately, and the grantee must accept it**. |
| Devise | A devise is **a gift of real property made through a will**. |
| Escrow | Escrow is **an arrangement in which a neutral third party, the escrow agent, holds money and documents until every agreed condition of the transaction is met, then releases them**. |
| General warranty deed | A general warranty deed **gives the buyer the fullest protection, because the grantor warrants against title defects arising at any point in the chain of title, not only during their own ownership**. |
| Grant deed | A grant deed is **a deed in which the grantor implicitly promises not to have already conveyed the property to anyone else and that it is free of encumbrances the grantor created**. |
| Grantor and grantee | The grantor is **the party who transfers an interest in real property, and the grantee is the party who receives it**. |
| Habendum clause | The habendum clause is **the "to have and to hold" language in a deed that states which estate the grantee is receiving**: fee simple, a life estate, or something less. |
| Intestate succession | Intestate succession is **the statutory order in which a state distributes the property of someone who dies without a valid will**, typically to a surviving spouse, then children, then more distant kin. |

## Transfer of title (continued)

28 terms

| TERM | DEFINITION |
|---|---|
| Marketable title | Marketable title is **title free of reasonable doubt and serious defects, so an informed buyer would accept it and a lender would lend on it**. |
| Probate | Probate is **the court process that proves a will is valid and supervises collecting a deceased person's assets, paying debts and taxes, and distributing property to heirs or beneficiaries**. |
| Proration | Proration is **dividing an expense or income item, such as property tax or rent, between buyer and seller according to the part of the period each one owns the property**. |
| Quiet title action | A quiet title action is **a lawsuit that asks a court to decide who owns a property and to cut off everyone else's competing claims to it**. |
| Quitclaim deed | A quitclaim deed **transfers whatever interest the grantor happens to hold, with no warranties at all and no promise that any interest exists**. |
| Recording | Recording is **filing a deed, mortgage, lien or easement with the local public records office, which gives later buyers constructive notice of that interest**. |
| Special warranty deed | A special warranty deed **warrants title only against defects that arose while the grantor held the property, and disclaims anything earlier in the chain**. |
| Title insurance | Title insurance **indemnifies the insured against loss from title defects that already existed when the policy was issued**, unlike hazard insurance, which covers future events. |
| Title search | A title search is **an examination of the public records for defects, liens and other encumbrances in a property's chain of title**. |
| Transfer tax | A transfer tax is **a state or local tax charged when title to real property is conveyed, usually calculated on the price or other consideration paid**. |

## Land use

17 terms

| TERM | DEFINITION |
|---|---|
| Asbestos | Asbestos is **a mineral fiber once widely used in building materials such as insulation, roofing shingles and ceiling and floor tiles, which becomes a health hazard when its fibers are released into the air**. |
| Buffer zone | A buffer zone is a **strip of land or transitional zoning district placed between two incompatible uses to soften the change from one to the other**. |
| CERCLA (Superfund) | CERCLA, the federal Superfund law, **makes current and past owners and operators of a contaminated site liable for the cost of cleaning up hazardous substances released there**. |

## Land use (continued)

17 terms

| TERM | DEFINITION |
|---|---|
| Conditional use permit | A conditional use permit is **approval that lets an owner put land to a use the ordinance already lists as permissible in that district subject to review, such as a church or day care in a residential zone**. |
| Deed restriction | A deed restriction is a **privately created limit on how land may be used, written into the deed or a subdivision declaration and enforced by other owners rather than by government**. |
| Downzoning | Downzoning is **rezoning land into a district that allows a less intense or less dense use than before**, such as changing industrial land to residential. |
| Homeowners association (HOA) | A homeowners association is **an organization of owners in a subdivision or condominium that manages the common areas and enforces the community's covenants, conditions and restrictions (CC&Rs)**. |
| Inverse condemnation | Inverse condemnation is **an action brought by an owner to force the government to pay for property it has effectively taken or made unusable without ever filing a condemnation suit**. |
| Lead-based paint disclosure | The lead-based paint disclosure is **the federal rule that a seller or landlord of housing built before 1978 must disclose any known lead-based paint or hazards, provide any available reports and give the buyer or tenant an EPA pamphlet**. |
| Mold | Mold is **an environmental hazard that becomes a property problem once it starts growing indoors**. |
| Nonconforming use | A nonconforming use is a **use that was lawful when it began but no longer complies with a later zoning change, and is allowed to continue as grandfathered**. |
| Radon | Radon is **a naturally occurring radioactive gas, produced by the decay of uranium in soil and water, that is the second leading cause of lung cancer after smoking**. |
| Setback | A setback is **the minimum distance a zoning ordinance or building code requires between a property line and any structure**. |
| Spot zoning | Spot zoning is the **illegal rezoning of a single small parcel for the benefit of its owner in a way that conflicts with the surrounding district and the comprehensive plan**. |
| Subdivision regulations | Subdivision regulations are **local land-use rules that control how a tract may be divided into lots for sale or development, covering streets, utilities, lot sizes and the approval of the plat**. |
| Variance | A variance is **permission from the zoning board to depart from a dimensional requirement of the ordinance because strict compliance would impose a hardship unique to that parcel**. |
| Zoning | Zoning is the **exercise of a local government's police power that divides land into districts and dictates how property in each district may be used**. |