

Math Vocabulary

- Amortization – A partial or complete reduction of a loan’s principal balance over the loan term, achieved by periodic payments which include principal as well as interest.
- Ad valorem tax – *The Latin phrase ad valorem means “according to value.”* A real property’s annual tax levied by taxing entities according to the property’s assessed value.
- Appraisal – An opinion of value of a property developed by a professional and disinterested third party and supported by data and evidence.
- Appreciation – Appreciation is any gain in the value of a property over time from any cause.
- Assessed value - The assessed value is the value of a property assigned to determine property taxes. A tax appraiser considers the area's comparable properties to calculate the fair market value for a property. The assessed value is then calculated as a percentage of the appraised value.
- Capitalization rate – The rate of return on capital an investor will demand from the investment property, or the rate of return that the property will actually produce.

Formula: Capitalization Rate = Net Operating Income / Cost of the Property (Current Asset Value of the Property)

- Cost approach – A method for determining value that takes into account the cost of the land and the replacement or reproduction cost of the improvements net of estimated depreciation.
- Debt ratio – An underwriting equation that is used to determine how much debt an individual can reasonably afford in view of the party’s or household’s income.
- Depreciation – Depreciation is any loss in the value of a property over time from any cause.
- Discount points – Fees the buyer pays directly to the lender at closing in exchange for a reduced interest rate. One point costs 1% of the total amount borrowed, or \$1,000 for every \$100,000 borrowed. Each discount point reduces the interest rate by approximately 1/8 of 1%.
- Down payment - The amount of money paid up front on a loan. If a buyer wants to purchase a \$200,000 home and the lender requires a 20% down payment, the funds needed would be $\$200,000 \times 0.20 = \$40,000$.
- Equity – The difference between the market value of your home and the amount you owe the lender who holds the mortgage.
- Gross rent multiplier (GRM) – A quick screening tool investors use to determine if the property offers a good return. Calculated using the formula $GRM = \text{Price} / \text{Gross Annual Rent}$, GRM doesn't include taxes or insurance.
- Interest – A lender’s charge for the use of the principal amount of a loan.
- Investment – Expenditure to purchase an asset with the expectation of deriving a future profit or benefit from the asset.
- Loan to value ratio - An assessment of risk that lenders evaluate before approving a mortgage. Individuals with low LTV ratios usually represent less risky borrowers and qualify for lower interest rates. They may have large down payments and more invested equity in the home. Borrowers with high LTV ratios are usually considered riskier investments, and they will probably pay higher interest rates and be required to buy mortgage insurance if they qualify for a loan.
- Market value or market price – An opinion of the price at which a willing seller and buyer would trade a property at a given time assuming a cash sale, reasonable exposure to the market, informed parties, marketable title, and no abnormal pressure to transact.

- Mill rate – The ad valorem tax rate of a taxing district, derived by dividing revenues required from taxpayers by the district's tax base. If the millage rate is 30, the tax rate is 3%, or \$3.00 per \$100 of assessed valuation (net of exemptions).
- Net listing – A listing which states a minimum sale or lease price the owner will accept, with any excess going to the broker as a commission. Professionally discouraged, if not illegal.
- Net operating income – The amount of pre-tax revenue generated from an income property after accounting for operating expenses and before accounting for any debt service.
- Property tax – Property tax is a real estate ad-valorem tax, calculated by the local government, which is paid by the owner of the property. The tax is usually based on the value of the owned property.
- Principal – The amount borrowed (such as the face value of a debt security).
- Proration - The proportional distribution of property ownership expenses between all relevant parties. A closing statement proration could include interest, insurance, rent, taxes, and assessments.
- Tax rate – The tax rate is the designated rate the government taxes a person, business, or entity.