



Glossary of Property Terminology

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A.

Access Bond

This facility allows you to draw funds up to a predetermined loan amount.

Accrued Interest

Interest earned but not yet paid.

Administration Fee

Fee charged by a lender to cover the initial costs of processing a loan application. The fee may include the cost of obtaining a property appraisal, a credit report, or other closing costs incurred during the process, or the fee may be in addition to these charges.

Affordability

The lender needs to assess whether you can afford the monthly instalments on the home loan. Your monthly income must be of a permanent nature and joint income may be taken into account where appropriate. The general rule of thumb is that your monthly instalment should not exceed 30% of your gross monthly income. This calculation is referred to as the Affordability factor. $\text{Affordability factor (AF)} = \{\text{monthly loan instalment divided by gross monthly income}\} \times 100$.

Agreement of Sale

Contract signed by buyer and seller stating the terms and conditions under which a property will be sold.

Annual Premium

This is the premium payable once a year in respect of a life assurance or a homeowner's insurance policy.

Assessment

The Bank's assessed value of the property.

Assessment fee

This fee pays for the administration work that accompanies a property assessment.

B.

BA Linked Rate

Rate linked to 3 month BA SAFEX rate which can be monitored on an ongoing basis. This option guarantees a fixed rate for three months. The rate will change every three months in line with the cost of short-term funding rates. This type of product normally has a minimum loan size and a maximum loan to value qualification criteria.

Balance Sheet

Used for the recording of the financial positions of private individuals, companies, CCs, and trusts.

Bearer / Seller

The legal owner of a piece of property.

Bona Fide

In good faith.

Bond Costs

These are the conveyancer's fees, stamp duty and VAT. They are payable by the buyer to the attorney attending

to the registration of the bond on behalf of the bank. Conveyancing fees and stamp duty are calculated on a sliding scale based on the bond registered.

Bond registration fee

The fee charged for the registration of the home loan in the buyer's name.

Bond Term

This is the original term of the loan.

Borrower (Mortgagor)

An individual who applies for and receives funds in the form of a loan and is obligated to repay the loan in full under the terms of the loan.

Broker / Estate Agent

An individual who brings buyers and sellers together and assists in negotiating contracts for a client.

Building Contract

A Contract between the land buyer and the builder, outlining the specifications of the building.

Building Loan

A Loan granted to a buyer who buys a vacant plot of land on which he intends to build.

Buyer's Market

Market conditions that favour buyers. With more sellers than buyers in the market, sellers may be forced to make substantial price concessions.

C.

Capped Rate

Consumer safeguards which limit the amount the interest rate on an adjustable rate mortgage can change in an adjustment interval and/or over the life of the loan.

Ceiling

The maximum allowable interest rate of a variable rate mortgage.

Collateral

Assets (such as your home) pledged as security for a home loan.

Commission

Money paid to a real estate agent or broker for negotiating a real estate or loan transaction.

Contract of Sale

The agreement between the buyer and seller on the purchase price, terms, and conditions of a sale.

Conveyance

The document used to effect a transfer, such as a deed, or mortgage.

Cooling off period

This clause is included in an offer to purchase a property under R250 000. It is based on a new law allowing first time home buyers the opportunity to change their minds within five days of signing the offer.

Credit Bureau

A credit bureau is a clearinghouse for credit history information.

Credit Report / profile

A report detailing the credit history of a prospective borrower that's used to help determine borrower creditworthiness. There are 2 main Credit companies used by lenders in South Africa, namely ITC and Experian. These companies collate credit history on individuals and companies, which they obtain from various sources in the retail marketplace and legal system. Your bank account history is another important source of credit information used by lenders in assessing your credit profile.

Credit Score

A statistical method of assessing your creditworthiness. Your credit card history; amount of outstanding debt; the type of credit you use; negative information such as bankruptcies or late payments; collection accounts and judgement; too little credit history and too many credit lines with the maximum amount borrowed are all included in credit-scoring models to determine your credit score.

D.

Deed

Legal document by which title to real property is transferred from one owner to another. The deed contains a description of the property, and is signed, witnessed, and delivered to the buyer at closing.

Deeds Office

This is a government department whose task it is to attend to the registration of transfers of Immovable property

Deeds Office Registration Fees

These fees are charged by the Deeds Office for registering the mortgage bond and the title deed.

Default

Failure to meet legal obligations in a contract, including failure to make payments on a loan.

Deposit / collateral

The deposit is the part of the purchase price of the property that you pay in cash up front and reduces the amount that you will need to borrow. A lender prefers a deposit as it means that the borrower has a financial commitment, in the property and the home loan required is less than the current market value of the property. For this reason, the loan to value concept is an important factor in negotiating rate concessions and obtaining loan approval with minimum supporting documentation. Collateral other than property is also taken into account when calculating your loan to value ratio. When a borrower does not have cash available for a deposit, other acceptable types of collateral security include, but are not limited to the following: Shares, fixed deposit, bank/company/government guarantees, debt free immovable property, life assurance policies.

E.

Equity

This is the amount by which the value of a bonded property exceeds the amount owing on the loan.

F.

Fictional Fulfilment

If a party to a contract which is subject to a Suspensive Condition (usually the likes of bond finance from a financial institution in property contracts) deliberately prevents fulfilment of the condition to avoid being bound by the contract, the condition may be deemed to be fulfilled.

Finance Charge

This is the interest charged on the loan.

Fixed Rate

Regardless of whether variable home loan rates fall or rise, the fixed interest rate for the agreed period will continue to apply. This facility would be taken up if the borrower is of the view that interest rates are rising and may do so during the contracted period. Should this option be terminated before the expiry date an additional finance charge will be levied by the lender. Once the fixed rate period has expired, you may negotiate a new rate with the lender.

Foreclosure (or Repossession)

Legal process by which a mortgaged property may be sold to pay off a mortgage loan that is in default.

Freehold

This is when you own the property as well as the land it is built on.

G.

Grace Period

Period of time during which a loan payment may be made after its due date without incurring a late penalty. The grace period is specified as part of the terms of the loan in the Note.

Gross Income

Total income before taxes or expenses are deducted.

H.

Homeloan Application

An initial statement of personal and financial information required to apply for a loan.

I.

Instalment amount

This is the basic monthly instalment amount payable on the home loan, excluding insurance or assurance premium, where applicable.

Interest

Charge paid for borrowing money, calculated as a percentage of the remaining balance of the amount borrowed.

Interest Rate

The annual rate of interest on the loan, expressed as a percentage of 100.

J.

Joint Liability

Liability shared among two or more people, each of whom is liable for the full debt.

K.

None

L.

Latent Defect

This is a fault or flaw that is not immediately detectable or is hidden from view on inspection of the property.

Lender

The bank, mortgage company, or mortgage broker offering the loan.

Lien

A legal claim by one person on the property of another for security for payment of a debt.

Loan + Costs

This product allows the borrower to borrow more than 100% of the property value. It is geared for the first-time homeowner and allows the borrower to include registration and transfer costs with the purchase price of the home.

Loan-to-Value Ratio (LTV)

This is the percentage the bank is willing to lend you, expressed as a percentage of the bank's estimated value of the property and the loan amount required. $\text{Loan to Value (LTV)} = \frac{\text{home loan amount required}}{\text{assessed property value}} \times 100$ Home loans of up to and exceeding a LTV of 100% may in certain circumstances be granted, subject to an acceptable Affordability Factor and valuation of the property in question.

M.

Monthly instalments

Over the term of your loan, you will repay your home loan by way of regular monthly payments of principal and interest. Monthly instalments are normally paid to the lender via debit order from your account. During the first few years, most of your payments will be applied towards interest. During the final years of your loan, your payment amounts will be applied primarily to the remaining principal debt. The amount of your monthly instalment can be affected by changes in interest rate and changes to the principal amount of your loan. As a rule of thumb your monthly instalment should not exceed 30% of your gross monthly income.

Mortgage Broker

An individual or company that arranges financing for borrowers.

Mortgage or Bond

An agreement between you and the bank, stating that the bank will lend you a certain amount of money in the form of a home loan, and that you will pay the bank back over a certain period, on a monthly basis, and at a certain interest rate.

N.

Notice of Default

Written notice to a borrower that a default has occurred and that legal action may be taken.

O.

Occupation

This is the date the buyer moves into the property.

Occupational Rental

This is paid by the buyer to the seller at an agreed amount, if the buyer decides to move into the property before transfer of ownership takes place.

Offer to Purchase

This is an offer in writing from the buyer to the seller, which is usually prepared by the estate agent. Once signed, by all parties it becomes a legal and binding contract between the buyer and the seller.

P.

Power of Attorney

Legal document authorizing one person to act on behalf of another.

Pre-approval

A lender's firm commitment on a loan and it enables you to enter into negotiations with confidence. A pre-approval includes a preliminary screening of a borrower's credit history. Information submitted during pre-approval is subject to verification at application.

Prequalification

Prequalifying gives you a general idea of your borrowing power. It is the process of determining how much money you will be eligible to borrow.

Purchase Agreement / Deed of Sale

Contract signed by buyer and seller stating the terms and conditions under which a property will be sold.

Q.

None

R.

Reducing/Step Down Rate

Regardless of whether the variable home loan interest rate falls or rises, the reducing interest rate option will apply for the agreed period (usually less than 5 years). This facility guarantees that your interest rate will decrease

by a set percentage every three to six months for the agreed period. Should this option be terminated before the expiry date an additional finance charge can be levied by the lender.

Refinancing

The process of paying off one loan with the proceeds from a new loan secured by the same property.

Registration

This is the process whereby ownership of the property is transferred from the seller to the buyer via a deed of transfer. Your home loan will be secured at the Deeds Office as a mortgage bond.

Repayment Terms

The length of your loan repayment period will directly affect your required monthly instalments. The longer your repayment period, the lower your monthly instalments will be, however the total interest cost over the life of the loan will increase. The maximum repayment term is 20 - 30 years and is dependent on the home loan amount.

S.

Second Mortgage

An additional mortgage placed on a property that has rights that are subordinate to the first mortgage.

Sectional Title

This is an entire complex (flats and townhouses) divided into individual units and sold separately.

Stamp Duty

Stamp duty is a tax imposed by the government.

Suspensive Condition

This is a clause in the agreement of sale whereby the validity of the contract is made subject to the occurrence or non-occurrence of a future event.

T.

Term

The period of time between the beginning loan date on the legal documents and the date the entire balance of the loan is due.

Title Deed

Document which gives evidence of ownership of a property. Also indicates the rights of ownership and possession of the property.

Transfer fee

Fee paid to transfer the property from the seller into the name of the buyer.

U.

Underwriting

In mortgage lending, the process of determining the risks involved in a particular loan and establishing suitable terms and conditions for the loan.

Usury

Interest charged in excess of the legal rate established by law.

V.

Valuation

A written estimate of a property's current market value completed by a person with knowledge of real estate markets.

Variable Rate Loan

If interest rates rise or drop, the borrower's home loan rate will rise or fall accordingly. This facility is usually taken up if the borrower believes that interest rates are falling and is not too concerned about rising rates. Interest rates only apply to outstanding balances on the loan.

Voetstoots

This clause is always found in a sale document and means "let the buyer beware". All defects must be mentioned to the buyer upfront. If there are any defects in the property of which the seller was unaware, the buyer will acquire the property with such defects.

W.

Waiver of Suspensive Conditions

A party can waive the fulfilment of a suspensive condition if the suspensive condition is included for the benefit of the party who wants to waive the same.

X. Y. Z.

None