

Real Estate National Notes

-TikTok Miss.Prize

The indicated value using a GRM (Gross Rent Multiplier) is the (monthly rent x 12 (months)) x GRM.

The **principle of conformity** states that the property will maintain its value when it is located in an area with many similar properties.

An **appurtenance** is a right that runs with the land.

The value of real property fixed for purposes of computing taxes is called the **assessed value**.

An increase in the value of property, either due to positive improvements in the area or elimination of negative factors is called **appreciation**.

Assignment is the obligation to be personally liable for conditions in a contract.

The obligation and promise to be personally liable for conditions in a contract is **assumption**.

A defensible opinion or estimate of value of real property as of a certain date is an **appraisal**.

Features that enhance the desirability of real estate are known as **amenities**.

The **sale price** is always the market price.

Market value is a theoretical value a property could bring in an arm's length transaction.

Replacement cost is the value an insurance company may want when an improvement is destroyed by fire.

An **appraisal value** is an estimate or opinion of the value of a property as of a certain date.

Effective age is the age the property appears to be, not its actual age.

Functional obsolescence is when the property does not function well (e.g., a five-bedroom house with only one bath). Includes both undesirable or out-of-date design elements (such as the narrow hallways) and undesirable or out-of-date fixtures or appliances (such as the window units).

Economic obsolescence is a form of incurable depreciation.

When a property no longer returns an income attributable to the structure itself, it has exceeded its **economic life**.

The **cost approach** is the only possible method to estimate the value of a church. The cost approach is a method used by insurance companies; it estimates the value of real estate by figuring the cost of building the house or other improvements on the land, minus depreciation, plus the value of the vacant land.

A **replacement cost** estimate concerns the cost of replacing the subject property with one of equivalent utility, not a replica.

The **reproduction cost** is an estimate of the cost of building a replica.

The **market data** approach is best for single-family homes.

The **income approach** would be best for the apartment building and the retail shopping center --either using the capitalization rate or calculating the gross rent multiplier. The income approach is best used for income producing properties. Income-producing capabilities of commercial property.

Income capitalization is used on large income-producing properties. The formula is:
$$\text{Net Income} / \text{Rate of Return} = \text{Value}.$$

A **percolation test**, which measures the soil's capacity to absorb water, is usually performed to determine whether a property is suitable for a septic system that will meet applicable health standards.

To be on the roster of appraisers eligible to appraise properties associated with FHA loans, an **appraiser must be state certified**.

The gross income multiplier method involves dividing a comparable's sales price by its gross income to determine the multiplier.

A **site** is a piece of land that has been enhanced and is ready for a structure.

The **highest and best use** results in the highest net income attributable to the land

A **competitive market analysis** should be based on comparables that are as similar as possible to the subject property in size, age, quality, and location. A CMA can include current or expired listings in addition to recently sold properties.

Assessed value refers to the value of real property for purposes of computing taxes.

Mortgage value would be for the loan amount.

Cost replacement value is based on replacement costs rather than market conditions.

Value for listing purposes would be based on **market value**.

If an investor is using a method that focuses on a property's net income as a means of finding its value, they are using a capitalization rate approach to solving the problem. They need to multiply the monthly net income by 12 to find the annual net income, however, since the capitalization formula relies on annual income. (While the gross rent multiplier method could use monthly income to determine value, that approach involves gross, not net, income.)

Physical obsolescence is a result of wear and tear.

Plottage is the act of increasing value by combining several pieces of property into one large property.

Ad valorem literally means, according to valuation.

An **appurtenance** is something that runs with the land.

Abatement is the reduction of the assessment rate for tax computation.

A **restrictive covenant** is a promise to do or not do something; it runs with the land and is recorded as part of a deed or in a separate document.

An **easement** is a right to use another's property.

A **lien** is a financial encumbrance on title.

An **option** is a unilateral contract.

Ad valorem means according to value, which is how property is taxed.

Abatement usually refers to a decrease in the assessed value of an ad valorem tax or in the assessment rate used to compute the ad valorem tax. It's when the government reduces the property tax to stimulate development.

Amortization refers to payment of debt in regular periodic installments of principal and interest.

Assignment refers to transfer of real or personal property.

Special assessments are for improvements to the sewer system, streets, sidewalks, and other maintenance or services provided by the government.

Dedication is a transfer of real property by a private owner to a public agency.

Disintermediation is the movement of money out of savings accounts into a higher-yield investment.

A **buffer zone** is a parcel of land that separates two differently zoned parcels.

Building codes are government regulations specifying minimum construction and building standards.

A **deed restriction** (also called a restrictive covenant) is a private agreement that limits uses of a property. It runs with the land, so it affects future owners of the property.

Assessed property just describes property that tax values have been assessed to.

Under the **doctrine of laches**, a person can lose rights to claims of title for waiting too long to take action to preserve the rights.

The **doctrine of stare decisis** is the rule that requires a judge to follow precedent.

The **doctrine of constructive annexation** is when the law classifies something as real property even though it is not attached to the property.

The **doctrine of emblems** deals with tenant's crops.

A **buffer zone** is an area of land that separates two other parcels of differing land use.

Adverse possession is acquiring title to land.

An **easement** is a right to use another's property.

A **redlined** area would refer to an area that lenders will not lend to.

This process of the government acquiring real property when a property owner dies intestate is known as **escheat**.

Eminent domain is the right of the government to take private property for public use.

Condemnation is the process of obtaining property.

Adverse possession is acquiring title to someone else's property.

A **restriction** is a clause placed in a deed by a grantor, which restricts the grantee's use of the property.

Fee simple absolute is absolute ownership without any restriction.

A **fully capitalized property** is at the ceiling of its ability to generate income.

Escheat is when title passes to the government because a person died without a will and without heirs.

A **covenant** is a promise to do or not do something, but failure to comply does not result in forfeiture of title.

An **easement** is a transferable right to use another's property for a particular purpose.

A **condition** is similar to a covenant, but failure to comply will result in forfeiture and reversion of the title to the grantor.

Zoning ordinances set forth general uses for property in various areas of the community (e.g., residential, commercial, or industrial).

Setbacks require buildings to be a specified distance from front and side property lines. Rights of way generally define land for public streets and future expansion of streets.

Building codes establish standards for the construction of private and public buildings.

Standard title insurance will cover only those defects that could be found by a search of public records.

Standard title insurance does not cover items found on a survey (like encroachments).

Guarantee, or **extended title insurance**, would cover non-disclosed defects of record and survey defects

An **affidavit of title** is a sworn statement by the seller that title is good. It would cover the gap between a title search, which shows recorded liens, and any unrecorded liens that the seller knew of.

The **agency disclosure statement** is executed between a real estate broker and a buyer or seller, and is not given by the seller to the buyer.

While the **property disclosure** form is given to the buyer, it deals only with the condition of the property, not with the condition of the title.

The pledge of property as security for repayment of a debt is a clause in a mortgage known as the **hypothecation clause**.

In addition to standard policy coverage, an **extended policy** offers protection against unrecorded liens.

Habendum is the clause on a deed that describes the type of estate the deed conveys title to.

A **deed** transfers real property title.

A **bill of sale** transfers ownership of tangible property & personal property (e.g., furniture, cars, jewelry etc).

Real estate taxes are a debit to the seller, who must bring the taxes current up to and including the day of closing. They are credited to the buyer when taxes are prorated between the two parties.

People often think of a mortgage as a debt, but on the closing statement it is actually a **credit to the buyer** it reduces the amount of money the buyer must bring to the closing table.

Anyone can go to the public record and search for a **title**.

Who prepares the evidence of marketable title, **attorney-at-law**.

A **leasehold estate** is the interest in real property that conveys only a right of possession not title.

A **certificate of title**, also known as an **opinion letter**, is given by a lawyer who has examined an abstract of title the lawyer forms an opinion as to whom the title is vested in.

Court decisions, local ordinances, and state and federal legislations are all sources of law.

A **mortgage** is an instrument that creates a voluntary lien on real property to secure repayment of a debt.

A **blanket mortgage** covers more than one property.

A **quiet title action** is a lawsuit that is used to remove clouds from title to real property, by settling questions about the property's ownership or the legitimacy of other claims against it.

A **quitclaim deed** will also clear a cloud, but that requires the cooperation of whoever would need to sign the deed and often that's not an option.

To determine whether there are encroachments against a property, it may be necessary to identify the precise location of the property's boundaries, and that's done through a **survey**. That's why a title insurance company may have a survey performed as part of the process of issuing an extended coverage title insurance policy.

Inquiry notice is when circumstances should alert a person to a problem that should be investigated.

The law holds that everyone has **constructive notice**, or presumed knowledge, of recorded documents. a matter of public record.

Once an individual actually sees the documents that pertain to ownership of the property, they have **actual notice**. What a person sees or is told.

When signing a **quitclaim deed**, the grantor is saying, I hereby quitclaim, remise, and release whatever interest I have in the property, if any.

Only **the seller** signs the deed.

The **covenant of seisin** in a general warranty deed states that the seller is the owner of the property and has the right to transfer.

The deed **must contain** a legal description (i.e., metes and bounds, government rectangular, lot and block) so that the property being transferred can be found.

Title insurance is an insurance policy issued after reviewing all the documents no chronological summary is given to the buyer.

A **general warranty deed** does not show who the previous owners of the property were, but rather is a document used by the grantor to transfer interest to the grantee.

A **title search** is an inspection of the property records no summary of the findings of the title search is given to the potential buyer.

An **abstract of title** is a chronological summary of the essential provisions of every recorded document pertaining to a particular parcel of land (i.e., liens, encumbrances, chain of title, transfers, etc.). Compilation of all the deeds, liens, mortgages, and any or all other documents recorded on behalf of each and every owner of real property, put in a history book form.

Caveat emptor refers to letting the buyer beware of physical defects in the property; it has nothing to do with a title search.

In a real estate transaction, the seller signs the deed in front of a notary public. That is **acknowledgement**. When the buyer is getting financed, they will sign the mortgage contract in front of a notary public.

A string of successive conveyances from one owner to the next, arranged consecutively from the first recorded owner of the property to the current owner, is called a **chain of title**.

The open, and uninterrupted possession of the property of another under claim of title will gain even a trespasser the ownership, as long as they satisfy the prescribed number of years for **adverse possession**.

A person who has power of attorney is known as an **attorney in fact**.

Periodic Tenancy: A lease that starts on a specific date but has **no specific end date**. It automatically renews each period (month-to-month, year-to-year).

Estate for Years: A lease with a **specific start date AND specific end date**.

In **tenancy at will**, the tenant or landlord can terminate the lease at will without any notice.

Tenancy at sufferance exists when a holdover tenant remains in the property after the lease has expired. Also called a holdover tenant.

An **Estate for years** starts and ends on specific dates.

Joint Tenancy: Two or more people own property together **with the right of survivorship**. If one owner dies, **their share automatically goes to the surviving owner(s)** instead of their heirs.

Tenancy in common is co-ownership by two or more people without the right of survivorship (If one owner dies, **their share goes to their heirs**, NOT automatically to the other owner(s), and is not a leasehold estate).

Leasehold Estate: You **do NOT own** the property. You have the right to possess/use it as a tenant.

Tenancy in Common: You **DO own** the property with one or more other people. Each person owns a share.

A buyer receives **equitable title** to the property once the sales contract has been signed.

Agents have duties to principals that can't be waived, including the duty of loyalty, the duty to disclose conflicts of interest, and the duty to recommend expert advice when necessary. Ordinarily, agents must also disclose all offers, but the agent and parties may agree that no more offers need to be submitted once a sales contract has been formed.

A property management agreement creates a **general agency** relationship, in which the agent (ABC Realty) is authorized to handle all of the principal's (XYZ Apartment Rentals) affairs in one or more specified areas.

As the buyers are about to tell the sales agent a confidentiality, the agent should tell the buyers (before any home is shown) that the agent represents the seller, and that all confidentialities disclosed to the agent will be told to the seller. In this question, the agent is the listing agent and, unless there is disclosure that the agent is a dual agent, the presumption is that the listing agent represents the seller.

Duties that an agent owes to all parties (including the principal) are reasonable skill and care, honesty and good faith, presenting written communications, disclosure of material facts, accounting, providing an agency law pamphlet, and making an agency disclosure. In addition, an agent owes the principal the duties of loyalty, disclosure of conflicts of interest, confidentiality, advising the principal to obtain expert advice, and good faith and continuous effort. Compensation, indemnification, and performance are not duties an agent owes the principal.

Condemnation is the act of the government to take private property.

A **chattel** is personal property.

Accretion is the building up of property through natural processes.

Erosion is the gradual wearing away of property.

Alluvium is the term for the silt suspended in water.

An **encroachment** is a physical trespass on the property by a building or structure. This would be shown by a survey, not by a title search, title insurance policy, or abstract.

A **certificate of no defense** is a document used by a mortgagee to state the outstanding balance due on a mortgage which, if the mortgagor does not object, will stand as the correct amount.

Seller disclosure statements are by far the most commonly used type of disclosure statement, used in almost all transactions with only a few exceptions (such as agricultural land or foreclosures).

When a suit is filed that affects title to real estate, a special notice, known as a **lis pendens** (litigation pending) is recorded to protect the claimant's interest.

A **writ of execution** is issued after a judgment is awarded.

A **waiver of liens** is used to protect against Mechanic's Liens.

A **confession of judgment** is used to avoid the necessity of court action to enter judgment. It is executed by a debtor.

On a Closing Statement, **prorated taxes** appear as a credit to the buyer. The buyer will have to pay the tax bill when the time comes but they will bring less money to the closing table because of the credit of the seller's portion of the tax.

Abatement is reducing the degree or intensity of, or eliminating pollution.

Absorption is the uptake of water, other fluids, or dissolved chemicals by a cell or an organism.

An **activator** is a chemical added to a pesticide to increase its activity.

Aeration is a process that promotes biological degradation of organic matter in water.

Truth-in-Lending laws require the disclosure of loan-related costs via the Loan Estimate and the disclosure of the APR when advertising loan programs.

RESPA Real Estate Settlement Procedures Act – requires the use of the Closing Statement.

Property appraisal happens after the loan application in order to obtain a loan.

Tenancy by the entirety requires the couple to be married and living in the home.

Tenancy in common and tenancy in severalty do not have right of survivorship.

Severalty is ownership by one.

Fee simple estate is outright ownership.

Joint tenancy is a form of co-ownership in which the co-owners have equal undivided interest and the right of survivorship.

Under the **doctrine of emblements**, if the sale has occurred after planting but before harvest, a tenant farmer with an indefinite rental term who is not in default may re-enter the land and harvest the first crop to mature after the tenancy ends.

Fee simple absolute is the highest and best form of ownership; there are no conditions on the title.

Fee simple defeasible can be undone if the condition is violated.

A life estate is an interest that lasts only as long as a specified person lives.

Fee tail (Fee by the entrails) is a freehold estate that must be owned by a family member.

The government rectangular survey system consists of townships, which are drawn according to parallel lines of longitude and latitude.

The townships are then divided into sections that are further divided into quarters, halves of quarters, quarters of quarters, etc.

The recorded plat of subdivision method and the lot and block method are the same, and are usually used in residential subdivisions.

The metes and bounds legal description is based on points of beginning distances, directions, and degrees.

Most states have laws that require the use of the lot and block method to describe real property if newly created parcels are smaller than the minimum required by statute (i.e., a per-lot size of less than five acres).

A **fee simple determinable estate** is automatically terminated and immediately reverts to the grantor or his heir(s) upon the occurrence of the triggering event or condition.

Life estates involve one of two types of future interests:

1. If title goes back where it came from, the interest is **reversion**;
2. if the title goes on to someone who has never held the title, it is called **remainder**.

Leasehold is the temporary right to possession without a title of ownership.

Contract for deed is another name for a land contract.

A **mechanic's lien** is filed by a contractor, laborer, or materials supplier whose work or materials enhanced the value of real property.

A **chattel mortgage** creates a lien on personal property.

Joint tenancy includes the right of survivorship, which means that upon the death of one joint tenant, title passes immediately to the remaining joint tenant(s). The property interest is not subject to probate; the transfer of title is automatic.

Subdivided property is usually described in **deeds** and **purchase and sale agreements** by reference to a map of the subdivision and a particular lot. The map, known as a **plat map**, describes the boundaries of the lot and is prepared by a surveyor.

One acre contains **43,560 square feet**. There are 640 acres in a section of land. There are 5,280 linear feet in a mile.

Avulsion refers to a sudden change in a property due to natural forces. For example, avulsion occurs when a meandering river suddenly changes course. Land that used to be contiguous but is now on the wrong side of the river still belongs to the original owner. The original boundaries typically remain the same, but now they extend across the water.

A **lis pendens** is a recorded notice stating a lawsuit is pending that may affect title to the defendant's property.

A **tax lien** is placed on property to secure the payment of taxes.

A **mechanic's lien** is filed to assure payment for materials and labor expended on the property.

A **judgment lien** is filed to secure payment of a confirmed debt.

A **defeasible estate** could be defeated if the deed restrictions are not followed.

Property tax liens take priority over other liens, including construction liens. The priority of the construction liens would be based on the date that each claimant first supplied labor or materials for the project; but the tax lien takes priority over both

construction liens. Note that property tax liens attach automatically when the taxes are levied.

The interest that passes to a designated person upon the death of the life tenant (or other measuring life) is a **fee simple estate**. Will has a remainder interest only up until the moment Ben dies. Once Ben is dead, Will's interest immediately becomes a fee simple interest.

An option is a fully negotiated unilateral contract in which the optionor/offeree irrevocably agrees to hold the offer open for a certain time in return for the optionee/offeree's payment of the option money. While the optionor is obligated to complete the contract, the optionee is under no obligation to complete. However, when the optionee does give the optionor notice of intent to complete the contract, the optionee becomes bound and the contract becomes a bilateral contract with obligations on both sides.

A buyer receives equitable title to the property once the sales contract has been signed.

This assumption is actually a novation, because the lender released the seller from liability. The purchaser has entered into a new loan agreement with the lender that replaces the original agreement between the seller and the lender.

In an exclusive right to sell listing, the broker is entitled to the commission, regardless of who finds the buyer. If this were an exclusive agency agreement, the seller would not owe a commission, since the seller found the buyer.

Specific performance is a remedy at law that would require one party to specifically perform his obligation as called for under the contract (e.g., make the seller sign the deed as he promised to do).

The option agreement also serves as the sales contract once the option is exercised, so all terms and conditions of the sale need to be included in the option agreement. Option money is ordinarily not applied to the purchase price; it's an incentive that the seller keeps regardless of whether the sale happens.

An option is a unilateral contract; in other words, only one party is obligated to act. Exercising the option creates a bilateral purchase and sale contract.

The substitution of a new contract, with the withdrawing party relieved of liability, is novation. Assignment is the transfer of one party's interests in an existing contract to

someone else. The assignor is not relieved of liability. Subrogation is the substitution of one creditor for another, with the second creditor having the same legal claims and rights (e.g., the buyer of a mortgage note). A defeasance clause declares that a mortgage is satisfied when the final payment is made.

A fixture is defined as a piece of personal property that stays with the real property. Even though the large mirror might be removable, if it is identified as a fixture and made part of the real estate contract, it will remain after the sale.

Frontage is the distance along a lot's boundary with the road, the first measurement given in a property description. Depth is the second measurement given. A buffer zone is a property situated between two differently zoned properties (e.g., a vacant lot between commercial land and residential land). A setback is the required distance between improvements and property lines.

The right acquired by one owner of a parcel of land to use the adjacent land of another is an easement appurtenant. The fee charged by a lender to make up the difference between the current market interest rate and the rate a lender gives a borrower on a note is referred to as a discount point. A deed of trust is an instrument used in many states in place of a mortgage. The transfer of real property by a private owner to a public agency is dedication.

When a developer divides land they must get the government to approve the plat--which is a detailed survey map of the subdivision indicating where buildings, driveways, etc., will go.

Toxic mold sends spores into the air, which when inhaled can cause respiratory illness. Lead may be in the paint used in homes built before 1978. Urea formaldehyde foam insulation was pumped into houses before the ban in the 1970s. Radon is a gas.

Building codes protect the public from unsafe or unworkmanlike conditions, through the building permit system. Zoning regulations, by contrast, regulate the use of properties, dividing communities into zones for specific types of uses. Both are enforced at the city or county level.

Homeowners who wish to enforce a deed restriction against another owner who plans to violate the restriction may do so by seeking an injunction, which is a legal order that prohibits a person from taking a particular action.

Police power is the power of the government to impose laws and ordinances including building codes.

Setback requirements are usually dictated by subdivision regulations and restrictions put on the property by the original developer. It would be up to the neighbors to enforce the requirements

Deed restrictions are appurtenant to the real property and, thus, run with the land. They do not terminate upon the death of the grantor or grantee.

Any subdivision that will have more than one land use within the development must be approved as a planned unit development (referred to as PUDs). A plat would be a detailed survey map of the subdivision. Condominium status is what a developer declares when recording the declarations and by laws. CC & Rs are the recorded covenants, conditions, and restrictions imposed on the entire subdivision.

There is no federal law regarding radon mitigation. The federal government recommends mitigation on houses that test 4.0 pCi/L or higher. However, the buyer and seller, in their contract, could agree to whatever guideline they wish.

A property owner must obtain a building permit from the city or county before making significant alterations to an existing building.

The movie theater is an example of a nonconforming use, a use that was legal before a new zoning law went into effect but doesn't comply with the new requirements. Nonconforming uses are generally allowed to continue.

Historical preservation ordinances may protect existing buildings of historical value, and prohibit their destruction or modification without approval from an appropriate local authority.

As a rule, special assessments are allocated according to the benefits each property receives, instead of the market value of the property. Thus, a special assessment is not an ad valorem tax. Sometimes the allocation is based on the front footage of the lot, if the assessment is levied to pay for storm drains, curbs, and gutters.

Under the principle of anticipation, a property's value is based on expectations of what will happen to the property in the future. Generally commercial land is worth more than residential land. A small house on a large lot would be viewed as a tear down.

In order to calculate a property's value, an appraiser using the income approach would need to know the property's net income and capitalization rate. So, conversely, if the appraiser wanted to find the capitalization rate, they would need to know the property's value and net income.

Gross income is the total income a property produces; it is used to calculate a gross rent multiplier. Net income is the income after expenses and is used in the capitalization method. Effective gross income is gross income minus a figure for vacancy and collections. Capital gain is the portion of income that is taxed after a sale.

A **CMA** compares recent data from the market.

The **GRM (gross rent multiplier) approach** is also known as the income approach.

The **cost approach** involves the cost of building the home new and depreciating it for age and condition.

The **government** will often reduce taxes to encourage development of a depressed area.

There must be **growth** first, then **stability** when there are enough homes for buyers. **Decline** would happen when jobs leave an area. The government may offer tax abatement to stimulate **revitalization**.

An appraisal is an **opinion of value** based on objective evidence and data.

Adjustments are made to the comparables to reflect differences between the subject property and the comparable properties on the days they sold.

Only improvements (e.g., a building) are depreciated, **not land**.

Income capitalization is used on **large income producing properties**. The formula is:
$$\text{Net Income} / \text{Rate of Return} = \text{Value}$$

Demand, utility, scarcity, and transferability (think D U S T) are the features of value.

The **principle of conformity** states that the property will maintain its value when it is located in an area with many similar properties.

The gross income multiplier method involves **dividing** a comparable's **sales price by** its **gross income** to determine the multiplier.

The **cost approach** is the only possible method to estimate the value of a church.

The **market data approach** is best for single-family homes.

The **income approach** would be best for the apartment building and the retail shopping center.

Puffing is a term for sales patter that emphasizes desirable aspects of a property.

Unilateral - one person acts alone

Bilateral - Both parties agree

When a licensee represents a seller in a specific transaction, and is authorized to perform typical duties associated with listing a property, they act as a **special agent**.

An **agent** is a subagent in the listing. The listing belongs to the broker, and thus the broker is the agent. The sales agent is an agent of the broker, making them a subagent under the broker. The listing agreement is between the broker and the seller, not the buyer.

A **special agent** is committed to doing one thing for a client (e.g., marketing the home).

A **universal agent** must do everything for someone (e.g., guardian, power of attorney).

A **general agent** does more than one thing, but not everything for a client (e.g., property manager).

OPEN LISTING - The seller can hire **multiple brokers/agents** to try to find a buyer.

The broker who **actually finds/procures the buyer** gets the commission.

EXCLUSIVE AGENCY LISTING - The seller agrees to work with **ONE broker**, BUT the seller keeps the right to find a buyer themselves. IF THE seller finds their buyer THE BROKER GETS \$0

EXCLUSIVE RIGHT-TO-SELL LISTING - "You are my exclusive broker, and you get paid regardless of who finds the buyer."

A **deed of trust** is an instrument used in many states in place of a mortgage. Lien theory states use mortgages, which convey only a lien interest to the bank. Title theory states use deeds of trust, which actually convey equitable title to a trust with the lender who is the beneficiary of the trust which holds the equitable title while the loan is outstanding. A property is transferred to a trustee by the borrower in favor of the lender and is reconveyed upon payment in full. A deed of reconveyance is an instrument used to transfer title from a trustee to the equitable owner of real estate after the loan is paid. If default occurs, the lender has the trustee sell the property. The instrument the trustee would use is a trustee deed.

A **short sale** is a good option for borrowers who are underwater on a loan but who need to sell; if approved, the lender will allow the borrower to sell the property for less than is owed on the loan. However, this is not consequence-free for the borrower. It will impact the borrower's credit score, which in turn will limit the borrower's ability to obtain a loan in the future. In some cases, the lender may reserve the right to seek a deficiency judgment to recover any outstanding balance. And if the lender writes off a large enough amount of the debt, this amount could be considered income from the perspective of the Internal Revenue Service; the lender would document this income on a Form 1099.