Mortgage Glossary

203(b): FHA program which provides mortgage insurance to protect lenders from default; used to finance the purchase of new or existing one- to four family housing; characterized by low down payment, flexible qualifying guidelines, limited fees, and a limit on maximum loan amount.

203(k): this FHA mortgage insurance program enables homebuyers to finance both the purchase of a house and the cost of its rehabilitation through a single mortgage loan.

A

Amenity: a feature of the home or property that serves as a benefit to the buyer but that is not necessary to its use; may be natural (like location, Woods, water) or man-made (like a swimming pool or garden).

Amortization: repayment of a mortgage loan through monthly installments of principal and interest; the monthly payment amount is based on a schedule that will allow you to own your home at the end of a specific time period (for example, 15 or 30 years)

Annual Percentage Rate (APR): calculated by using a standard formula, the APR shows the cost of a loan; expressed as a yearly interest rate, it includes the interest, points, mortgage insurance, and other fees associated with the loan.

Application: the first step in the official loan approval process; this form is used to record important information about the potential borrower necessary to the underwriting process.

Appraisal: a document that gives an estimate of a property's fair market value; an appraisal is generally required by a lender before loan approval to ensure that the mortgage loan amount is not more than the value of the property.

Appraiser: a qualified individual who uses his or her experience and knowledge to prepare the appraisal estimate.

ARM: Adjustable Rate Mortgage; a mortgage loan subject to changes in interest rates; when rates change, ARM monthly payments increase or decrease at intervals determined by the lender; the Change in monthly -payment amount, however, is usually subject to a Cap.

Assessor: a government official who is responsible for determining the value of a property for the purpose of taxation.

Assumable mortgage: a mortgage that can be transferred from a seller to a buyer; once the loan is assumed by the buyer the seller is no longer responsible for repaying it; there may be a fee and/or a credit package involved in the transfer of an assumable mortgage.

B

Balloon Mortgage: a mortgage that typically offers low rates for an initial period of time (usually 5, 7, or 10) years; after that time period elapses, the balance is due or is refinanced by the borrower.

Bankruptcy: a federal law whereby a person's assets are turned over to a trustee and used to pay off outstanding debts; this usually occurs when someone owes more than they have the ability to repay.

Borrower: a person who has been approved to receive a loan and is then obligated to repay it and any additional fees according to the loan terms.

Building code: based on agreed upon safety standards within a specific area, a building code is a regulation that determines the design, construction, and materials used in building.

Budget: a detailed record of all income earned and spent during a specific period of time.

C

Cap: a limit, such as that placed on an adjustable rate mortgage, on how much a monthly payment or interest rate can increase or decrease.

Cash reserves: a cash amount sometimes required to be held in reserve in addition to the down payment and closing costs; the amount is determined by the lender.

Certificate of title: a document provided by a qualified source (such as a title company) that shows the property legally belongs to the current owner; before the title is transferred at closing, it should be clear and free of all liens or other claims.

Closing: also known as settlement, this is the time at which the property is formally sold and transferred from the seller to the buyer; it is at this time that the borrower takes on the loan obligation, pays all closing costs, and receives title from the seller.

Closing costs: customary costs above and beyond the sale price of the property that must be paid to cover the transfer of ownership at closing; these costs generally vary by geographic location and are typically detailed to the borrower after submission of a loan application.

Commission: an amount, usually a percentage of the property sales price, that is collected by a real estate professional as a fee for negotiating the transaction..

Condominium: a form of ownership in which individuals purchase and own a unit of housing in a multi-unit complex; the owner also shares financial responsibility for common areas.

Conventional loan: a private sector loan, one that is not guaranteed or insured by the U.S. government.

Cooperative (Co-op): residents purchase stock in a cooperative corporation that owns a structure; each stockholder is then entitled to live in a specific unit of the structure and is responsible for paying a portion of the loan.

Credit history: history of an individual's debt payment; lenders use this information to gouge a potential borrower's ability to repay a loan.

Credit report: a record that lists all past and present debts and the timeliness of their repayment; it documents an individual's credit history.

Credit bureau score: a number representing the possibility a borrower may default; it is based upon credit history and is used to determine ability to qualify for a mortgage loan.

D

Debt-to-income ratio: a comparison of gross income to housing and non-housing expenses; With the FHA, the-monthly mortgage payment should be no more than 29% of monthly gross income (before taxes) and the mortgage payment combined with non-housing debts should not exceed 41% of income.

Deed: the document that transfers ownership of a property.

Deed-in-lieu: to avoid foreclosure ("in lieu" of foreclosure), a deed is given to the lender to fulfill the obligation to repay the debt; this process doesn't allow the borrower to remain in the house but helps avoid the costs, time, and effort associated with foreclosure.

Default: the inability to pay monthly mortgage payments in a timely manner or to otherwise meet the mortgage terms.

Delinquency: failure of a borrower to make timely mortgage payments under a loan agreement.

Discount point: normally paid at closing and generally calculated to be equivalent to 1% of the total loan amount, discount points are paid to reduce the interest rate on a loan.

Down payment: the portion of a home's purchase price that is paid in cash and is not part of the mortgage loan.

E

Earnest money: money put down by a potential buyer to show that he or she is serious about purchasing the home; it becomes part of the down payment if the offer is accepted, is returned if the offer is rejected, or is forfeited if the buyer pulls out of the deal.

EEM: Energy Efficient Mortgage; an FHA program that helps homebuyers save money on utility bills by enabling them to finance the cost of adding energy efficiency features to a new or existing home as part of the home purchase

Equity: an owner's financial interest in a property; calculated by subtracting the amount still owed on the mortgage loon(s) from the fair market value of the property.

Escrow account: a separate account into which the lender puts a portion of each monthly mortgage payment; an escrow account provides the funds needed for such expenses as property taxes, homeowners insurance, mortgage insurance, etc.

F

Fair Housing Act: a law that prohibits discrimination in all facets of the home buying process on the basis of race, color, national origin, religion, sex, familial status, or disability.

Fair market value: the hypothetical price that a willing buyer and seller will agree upon when they are acting freely, carefully, and with complete knowledge of the situation.

Fannie Mae: Federal National Mortgage Association (FNMA); a federally-chartered enterprise owned by private stockholders that purchases residential mortgages and converts them into securities for sale to investors; by purchasing mortgages, Fannie Mae supplies funds that lenders may loan to potential homebuyers.

FHA: Federal Housing Administration; established in 1934 to advance homeownership opportunities for all Americans; assists homebuyers by providing mortgage insurance to lenders to cover most losses that may occur when a borrower defaults; this encourages lenders to make loans to borrowers who might not qualify for conventional mortgages.

Fixed-rate mortgage: a mortgage with payments that remain the same throughout the life of the loan because the interest rate and other terms are fixed and do not change.

Flood insurance: insurance that protects homeowners against losses from a flood; if a home is located in a flood plain, the lender will require flood insurance before approving a loan.

Foreclosure: a legal process in which mortgaged property is sold to pay the loan of the defaulting borrower.

Freddie Mac: Federal Home Loan Mortgage Corporation (FHLM); a federally-chartered corporation that purchases residential mortgages, securitizes them, and sells them to investors; this provides lenders with funds for new homebuyers.

G

Ginnie Mae: Government National Mortgage Association (GNMA); a government-owned corporation overseen by the U.S. Department of Housing and Urban Development, Ginnie Mae pools FHA-insured and VA-guaranteed loans to back securities for private investment; as With Fannie Mae and Freddie Mac, the investment income provides funding that may then be lent to eligible borrowers by lenders.

Good faith estimate: an estimate of all closing fees including pre-paid and escrow items as well as lender charges; must be given to the borrower within three days after submission of a loan application.

H

HELP: Homebuyer Education Learning Program; an educational program from the FHA that counsels people about the home buying process; HELP covers topics like budgeting, finding a home, getting a loan, and home maintenance; in most cases, completion of the program may entitle the homebuyer to a reduced initial FHA mortgage insurance premium-from 2.25% to 1.75% of the home purchase price.

Home inspection: an examination of the structure and mechanical systems to determine a home's safety; makes the potential homebuyer aware of any repairs that may be needed.

Home warranty: offers protection for mechanical systems and attached appliances against unexpected repairs not covered by homeowner's insurance; coverage extends over a specific time period and does not cover the home's structure.

Homeowner's insurance: an insurance policy that combines protection against damage to a dwelling and its contents with protection against claims of negligence) inappropriate action that result in someone's injury or property damage.

Housing counseling agency- provides counseling and assistance to individuals on a variety of issues, including loan default, fair housing, and home buying.

HUD: the U.S. Department of Housing and Urban Development; established in 1965, HUD works to create a decent home and suitable living environment for all Americans; it does this by addressing housing needs, improving and developing American communities, and enforcing fair housing laws.

HUD1 Statement: also known as the "settlement sheet," it itemizes all closing costs; must be given to the borrower at or before closing.

HVAC: Heating, Ventilation and Air Conditioning; a home's heating and cooling system.

I

Index: a measurement used by lenders to determine changes to the Interest rate charged on an adjustable rate mortgage.

Inflation: the number of dollars in circulation exceeds the amount of goods and services available for purchase; inflation results in a decrease in the dollar's value.

Interest: a fee charged for the use of money.

Interest rate: the amount of interest charged on a monthly loan payment; usually expressed as a percentage.

Insurance: protection against a specific loss over a period of time that is secured by the payment of a regularly scheduled premium.

J

Judgment: a legal decision; when requiring debt repayment, a judgment may include a property lien that secures the creditor's claim by providing a collateral source.

L

Lease purchase: assists low- to moderate-income homebuyers in purchasing a home by allowing them to lease a home with an option to buy; the rent payment is made up of the monthly rental payment plus an additional amount that is credited to an account for use as a down payment.

Lien: a legal claim against property that must be satisfied when the property is sold.

Loan: money borrowed that is usually repaid with interest.

Loan fraud: purposely giving incorrect information on a loan application in order to better qualify for a loan; may result in civil liability or criminal penalties.

Loan-to-value (LTV) ratio.- a percentage calculated by dividing the amount borrowed by the price or appraised value of the home to be purchased; the higher the LTV, the less cash a borrower is required to pay as down payment.

Lock-in: since interest rates can change frequently, many lenders offer an interest rate lock-in that guarantees a specific interest rate if the loan is closed within a specific time.

Loss mitigation: a process to avoid foreclosure; the lender tries to help a borrower who has been unable to make loan payments and is in danger of defaulting on his or her loan.

M

Margin: an amount the lender adds to an index to determine the interest rate on an adjustable rate mortgage.

Mortgage: a lien on the property that secures the Promise to repay a loan.

Mortgage banker: a company that originates loans and resells them to secondary mortgage lenders like Fannie Mae or Freddie Mac.

Mortgage broker: a firm that originates and processes loans for a number of lenders.

Mortgage insurance: a policy that protects lenders against some or most of the losses that can occur when a borrower defaults on a mortgage loan; mortgage insurance is required primarily for borrowers with a down payment of less than 20% of the home's purchase price.

Mortgage insurance premium (MIP): a monthly payment -usually part of the mortgage payment - paid by a borrower for mortgage insurance.

Mortgage Modification: a loss mitigation option that allows a borrower to refinance and/or extend the term of the mortgage loan and thus reduce the monthly payments.

O

Offer: indication by a potential buyer of a willingness to purchase a home at a specific price; generally put forth in writing.

Origination: the process of preparing, submitting, and evaluating a loan application; generally includes a credit check, verification of employment, and a property appraisal.

Origination fee: the charge for originating a loan; is usually calculated in the form of points and paid at closing.

P

Partial Claim: a loss mitigation option offered by the FHA that allows a borrower, with help from a lender, to get an interest-free loan from HUD to bring their mortgage payments up to date.

PITI: Principal, Interest, Taxes, and Insurance - the four elements of a monthly mortgage payment; payments of principal and interest go directly towards repaying the loan while the portion that covers taxes and insurance (homeowner's and mortgage, if applicable) goes into an escrow account to cover the fees when they are due.

PMI: Private Mortgage Insurance; privately-owned companies that offer standard and special affordable mortgage insurance programs for qualified borrowers with down payments of less than 20% of a purchase price.

Pre-approve: lender commits to lend to a potential borrower; commitment remains as long as the borrower still meets the qualification requirements at the time of purchase.

Pre-foreclosure sale: allows a defaulting borrower to sell the mortgaged property to satisfy the loan and avoid foreclosure.

Pre-qualify: a lender informally determines the maximum amount an individual is eligible to borrow.

Premium: an amount paid on a regular schedule by a policyholder that maintains insurance coverage.

Prepayment: payment of the mortgage loan before the scheduled due date; may be Subject to a prepayment penalty.

Principal: the amount borrowed from a lender; doesn't include interest or additional fees.

R

Radon: a radioactive gas found in some homes that, if occurring in strong enough concentrations, can cause health problems.

Real estate agent: an individual who is licensed to negotiate and arrange real estate sales; works for a real estate broker.

REALTOR: a real estate agent or broker who is a member of the NATIONAL ASSOCIATION OF REALTORS, and its local and state associations.

Refinancing: paying off one loan by obtaining another; refinancing is generally done to secure better loan terms (like a lower interest rate).

Rehabilitation mortgage: a mortgage that covers the costs of rehabilitating (repairing or Improving) a property; some rehabilitation mortgages - like the FHA's 203(k) - allow a borrower to roll the costs of rehabilitation and home purchase into one mortgage loan.

RESPA: Real Estate Settlement Procedures Act; a law protecting consumers from abuses during the residential real estate purchase and loan process by requiring lenders to disclose all settlement costs, practices, and relationships.

S

Settlement: another name for closing.

Special Forbearance: a loss mitigation option where the lender arranges a revised repayment plan for the borrower that may include a temporary reduction or suspension of monthly loan payments.

Subordinate: to place in a rank of lesser importance or to make one claim secondary to another.

Survey: a property diagram that indicates legal boundaries, easements, encroachments, rights of way, improvement locations, etc.

Sweat equity: using labor to build or improve a property as part of the down payment.

T

Title 1: an FHA-insured loan that allows a borrower to make non-luxury improvements (like renovations or repairs) to their home; Title I loans less than $7,500 don't require a property lien.

Title insurance: insurance that protects the lender against any claims that arise from arguments about ownership of the property; also available for homebuyers.

Title search: a check of public records to be sure that the seller is the recognized owner of the real estate and that there are no unsettled liens or other claims against the property.

Truth-in-Lending: a federal law obligating a lender to give fuII, written disclosure of aII fees, terms, and conditions associated with the loan initial period and then adjusts to another rate that lasts for the term of the loan.

U

Underwriting: the process of analyzing a loan application to determine the amount of risk involved in making the loan; it includes a review of the potential borrower's credit history and a judgment of the property value.

V

VA: Department of Veterans Affairs: a federal agency which guarantees loans made to veterans; similar to mortgage insurance, a loan guarantee protects lenders against loss that may result from a borrower default.