



HOME LENDING TERMS

Additional Principal Payment

A payment by a borrower in excess of the scheduled principal amount due, in order to reduce the remaining balance of the loan.

Adjustable-Rate Mortgage (ARM)

An ARM is a type of loan that allows the lender to adjust the interest rate during the term of the loan. Generally, these changes are determined by a margin and an index so that changes in the interest rate are based on current market conditions. Most often these interest rate changes are limited by periodic and lifetime rate change caps, which are defined in the ARM Program Disclosure the lender is required to provide.

Amortization Schedule

A timetable for mortgage loan payments that shows the amount of each payment applied to principal and interest.

Annual Percentage Rate (APR)

The APR is a standard format that was developed by the federal government to make it easier for consumers to compare mortgage loan interest rates. Some of the costs that you pay at closing are factored into the APR for ease of comparison. Your actual monthly payments are based on the periodic interest rate, not the APR.

Appraisal

An analysis used to determine the estimated value of a home. The appraisal is generally performed by a qualified professional who is familiar with home values in the area.

Appraised Value

The fair market value of a property based upon a determination made by an appraiser.

Assessed Value

The valuation placed on property by a public tax assessor for purposes of taxation, which may be different from the appraised value.

Assessment

The process of placing a value on property for taxation purposes only.

Asset

Anything of monetary value that is owned by a person, including real property, personal property, bank accounts, investments, and enforceable claims against others.

Assumable Mortgage

A mortgage that is transferable from one borrower to another, typically from the home seller to the home buyer. The new owner takes over payments on the previous owner's home loan and often pays the difference between the sales price and the balance on the loan to the seller.

Assessor

A public official who establishes property values for taxation purposes.

Attorney Opinion or Title Opinion

A document issued by an attorney listing any liens or encumbrances that could affect the property and are a matter of public record.

Attorney-in-Fact

One who has been designated to execute documents and contracts on behalf of another, authorized via a legal Power of Attorney.

Bi-Weekly Payment Mortgage

A mortgage that requires payments be made every two weeks instead of monthly. Each of the 26 (sometimes 27) bi-weekly payments are equal to half of the monthly payment that would be required with a standard 30-year fixed-rate mortgage. The result is a faster loan balance reduction with a substantial savings in interest.

Bill of Sale

A written instrument that transfers title to personal property.

Blanket Insurance Policy

A single insurance policy that extends coverage across multiple properties.

Breach of Contract

A violation of the terms of any legal obligation or agreement.

Bridge Loan or Gap Loan, Swing Loan

A loan that is secured by a borrower's current residence to obtain the funds needed to purchase a new home if the current residence will not be sold prior to the purchase of a new home.

Buydown

A process that allows a borrower to obtain a lower interest rate on a mortgage by paying discount points to a lender. A temporary buydown will reduce the interest rate paid during the first few years of the loan. A permanent buydown reduces the interest rate for the entire life of the loan.

Cap

A provision of an ARM that limits how much the interest rate or payment can increase or decrease.

Cash-Out Refinance

A refinance loan that provides the borrower with cash that exceeds the amount required to pay off existing mortgages on the home.

Certificate of Eligibility

A document issued by the federal government certifying a veteran's eligibility for a VA loan.

Certificate of Reasonable Value (CRV)

A document issued by the Department of Veterans Affairs (VA) that establishes the maximum value and loan amount for a VA loan.

Certificate of Title

A statement of opinion indicating that a title to real property is legally held by the current owner.

City/County Tax Stamp

A tax that is required in some municipalities if a property changes hands or a new mortgage is obtained.

Clear Title

A title that is free of clouds, liens, disputed interests, or legal questions as to ownership of the property.

Closing or Close of Escrow

A meeting held by the parties involved in a real estate transaction to finalize the loan process. In the case of a purchase, a closing usually involves the seller, buyer, real estate broker, and lender. In the case of a refinance, the closing involves the borrower and the lender. Closing is sometimes referred to as the settlement or the close of escrow.

Closing Disclosure

A document that provides line-by-line detail of the financial information related to a specific real estate transaction, such as the fees paid by the seller and the buyer for a purchase transaction, or the fees paid by the borrower for refinances.

Co-maker or Co-signer

A person who signs a promissory note in addition to the primary borrower. A co-maker's signature guarantees that the loan will be repaid and that the borrower and the co-maker are equally responsible for the repayment.

Collateral

Property pledged as security for a debt. The borrower may lose the collateral if the debt is not repaid according to the terms of the contract.

Community Property

In some Western and Southwestern states, a form of ownership where property accumulated through joint efforts of husband and wife is presumed to be owned equally by them unless acquired as separate property of either spouse.

Comparables or Comparable Properties

Properties that have been sold recently and are very similar to a property that is being appraised—approximately the same size, location, and features. Comparables are used to help an appraiser determine the fair market value of the subject property.

Condominium

A form of real estate ownership in which each owner has title to a specific unit in a project and joint ownership in the common areas of the project.

Conforming Loan

A loan that does not exceed the maximum loan amount allowed for the most common mortgage investors.

Construction Loan

A short-term loan that provides financing for the construction of a new home. During the term of the loan, the lender makes payments to the builder as the work progresses, and the borrower makes interest payments on only the funds that have been disbursed to the builder. Usually, the construction loan is refinanced into a permanent loan after the home is completed.

Contingency

A condition that must be met before a contract is legally binding.

Contract

An oral or written agreement to perform or not perform a certain transaction/task.

Conventional Mortgage

A mortgage loan that is not insured or guaranteed by a government agency.

Convertible ARM

An ARM that allows a borrower to convert their mortgage to a fixed-rate loan for the remainder of the loan term if certain conditions are met.

Covenant

A promise—written into deeds, mortgages and other financial instruments—that obligates or restricts the borrower.

Credit Bureau

An agency that gathers, maintains, and reports your credit record.

Credit Life Insurance

A type of life insurance that will repay a debt if the borrower dies while the policy is in force.

Credit Report

A record of an individual's current and past debt repayment patterns that helps a lender to determine whether a borrower has a history of repaying debts in a timely manner.

Debit

In a closing statement or settlement, it is an item that is charged to a buyer or seller.

Debt

An obligation to pay another.

Deed

The written instrument that passes a property from the seller to the buyer; the deed is recorded at the local courthouse so the transfer of ownership becomes public record.

Deed of Trust

This document, referred to as a mortgage in some states, pledges a property to a lender or trustee as security for the repayment of a debt.

Deed-in-Lieu

A legal process in which a homeowner transfers ownership of their property to their lender in order to avoid a foreclosure.

Default

Any breach of the agreement with a lender which can include the failure to make loan payments in a timely manner.

Delinquency

The failure to make payments on debts when they are due.

Department of Veterans Affairs (VA)

An agency of the federal government that provides services and loan guarantees for residential mortgages for eligible members of the armed forces and veterans.

Depreciation

A decline in the value of real or personal property.

Disclosures

Information that must be given to consumers as part of certain financial transactions.

Discount Point

A fee equivalent to 1% of the loan amount that is collected by the lender in exchange for a lower interest rate.

Documentary Stamp

A tax levied by some local or state governments at the time the deed and mortgage are entered into public record.

Down Payment

The amount of money a homebuyer will pay in cash toward the purchase of a home.

Due-on-Sale Clause

A mortgage provision that allows the lender to demand repayment in full. If the borrower sells the property, it serves as security for the loan.

Earnest Money or Binder Deposit

A sum of cash a buyer pays the seller prior to the closing to show that the buyer is serious about purchasing the house. The earnest money is deducted from the purchase price at closing.

Encumbrance

Any issue that affects the ability to obtain clear property title such as a mortgage, judgment, or easement.

Endorsements

Additions to a title insurance policy for special coverage such as surveys, environmental, and state particular endorsements that are not included in the standard insurance policy.

Equal Credit Opportunity Act (ECOA)

Federal regulations that require lenders to make credit equally available to all without discrimination based on race, color, religion, national origin, age, sex, marital status, or receipt of income from public assistance programs.

Equity

Equity is the difference between a property's market value and the amount that is owed on mortgages.

Escrow or Impounds

Funds paid by one party to another to hold until a specific date when the funds are released to a designated individual.

Generally, an escrow account refers to the funds a mortgagor pays to the lender along with their principal and interest payments

for the payment of real estates taxes and hazard insurance. This is also referred to as impounds. The money is held by the lender to make payments when they are due. An escrow can also refer to funds that are held by a third party to ensure the completion of repairs or improvements that cannot be done prior to closing.

Escrow Analysis

A periodic review of escrow accounts to determine if current monthly deposit balances will provide sufficient funds to pay property taxes, hazard insurance, and other bills when they are due.

Fair Credit Reporting Act

A federal consumer protection regulation that outlines procedures for the disclosure of credit information and establishes procedures for correcting mistakes in credit files.

Fair Market Value

The highest price that a willing, but not compelled, buyer would pay, and the lowest price that a willing, but not compelled, seller would accept.

Fannie Mae

The Federal National Mortgage Association (FNMA) is a congressionally chartered, publicly owned company that is among the largest source of home mortgage funds.

Federal Housing Administration (FHA)

An agency of the U.S. Department of Housing and Urban Development (HUD) that insures certain mortgages obtained with low down payments. The loan must meet the established guidelines of the FHA in order to qualify for the insurance.

Fee Simple

Absolute ownership of real property; the greatest possible interest a person can have in real estate.

Fee Simple Estate

An unconditional, unlimited estate of inheritance that represents the greatest possible interest in land that can be enjoyed.

FHA Mortgage or FHA Loan

A mortgage insured by the FHA.

Finance Charge

The total dollar amount credit will cost.

Fixed-Rate Mortgage

A mortgage in which the monthly principal and interest payments remain the same throughout the life of the loan, typically available in terms of 15 and 30 years. With a 30-year fixed-rate mortgage, your monthly principal and interest payments are lower than they would be on a 15-year fixed-rate loan. But, a 15-year loan allows you to repay your loan twice as fast and save more than half the total interest costs.

Float

If the lender has not yet guaranteed or locked the interest rate on a loan, it is considered floating and could change prior to closing.

Flood Certification

A determination of whether or not a property is located in an area prone to flooding or a flood plain. The federal government determines whether an area is in a flood plain. Lenders generally rely on the flood certification to determine if flood insurance will be required in order to obtain a mortgage.

Flood Insurance

Insurance that protects a homeowner from the cost of damages to a property due to flooding or high water. It is required by law that properties located in areas prone to flooding have flood insurance.

Foreclosure

The legal proceeding by a mortgagee or other lienholder to take possession of a property due to borrower default. Typically, the property is sold at a public auction, and the proceeds are used to pay the loan in full.

Freddie Mac

The Federal Home Loan Mortgage Corporation (FHLMC) is a congressionally chartered, publicly owned company that is among the largest source of home mortgage funds.

Government Mortgage

A mortgage guaranteed by the VA or insured by the FHA.

Government National Mortgage Association (GNMA)

A government-owned corporation within HUD that is responsible for the special assistance loan program; commonly called Ginnie Mae.

Hazard Insurance or Homeowners Insurance

Insurance that protects a homeowner against the cost of damages to property caused by fire, windstorm, and other common hazards, but does not provide flood protection.

Home Equity Conversion Mortgage (HECM)

Also referred to as a "reverse mortgage", an HECM is a special type of home loan that allows homeowners to convert the equity in their homes into cash that is paid to them in a lump sum or in scheduled payments.

Home Equity Line of Credit (HELOC)

A loan secured by real property, usually in a subordinate position on one's principal residence, generally to be used for some non-housing expenditure. Borrowers receive loan proceeds in the form of multiple advances up to a limit that represents a maximum percentage of the borrower's equity in a property.

Home Equity Loan

A loan secured by real property, usually in a subordinate position on one's principal residence, generally to be used for some non-housing expenditure.

Home Inspection

After a detailed evaluation, it is the report that outlines the condition of the mechanical and structural features of a property.

Homeowner's Warranty

A type of insurance policy that covers repairs to certain parts of a home for an agreed-upon period of time.

Homeowners Association (HOA)

A nonprofit association established to manage the common areas of a condominium project or Planned Unit Development (PUD). In a condominium development, the association has no ownership interest in the common elements. In a PUD, it holds title to the common elements of the project.

Home Value Code of Conduct (HVCC)

A code of conduct to enhance the independence and accuracy of the appraisal process and provide added protections for homebuyers, mortgage investors, and the housing market.

Housing Ratio or Top Ratio, Front-end Ratio

A standard calculation performed by mortgage lenders to determine if a borrower qualifies for a specific loan type and amount. It is calculated by dividing the monthly housing expense (principal, interest, taxes and insurance) by the borrower's monthly gross income.

Index

A published interest rate used to establish the interest rate offered on an ARM. Some of the most common indices are treasury bills, treasury securities, London Inter-Bank Offering Rates (LIBOR), and the Cost of Funds Index (COFI).

Initial Interest Rate or Teaser Rate

The interest rate charged at the start of an ARM, prior to periodic rate changes.

Installment

A regularly scheduled, periodic payment made by a borrower to a lender.

Installment Loan

A loan that is repaid with scheduled periodic payments from the borrower. Cars and furniture are often paid for with installment loans.

Insurance

Protection that ensures claims reimbursement for specific losses that are the result of covered hazards and risks.

Interest Rate

The cost for using borrowed money, which is often based upon the risk and cost to the lender for a loan.

Investment Property

A property that is not occupied by the owner, typically purchased to generate rental income.

Joint Account

A credit account held by two or more borrowers, where all assume legal responsibility to repay.

Joint Tenancy

A form of co-ownership that gives each tenant equal rights in the property, including the right of survivorship.

Judgment

A decree made by a court of law that requires the repayment of a debt. The court may place a lien against the debtor's real property as collateral for the judgment's creditor.

Jumbo Mortgage or Non-Conforming Loan

A loan amount that exceeds the maximum limit allowed by the most common mortgage investors.

Lease

A contract between a property owner and a tenant that provides the specific conditions under which the tenant may occupy the real estate for a specified period of time and rent.

Lease-Purchase Mortgage Loan

A financing option in which an individual leases a home for a certain amount of time and, at a later date, is able to purchase the property.

Leasehold Estate

A situation where a property title indicates the mortgagor does not actually own the property but instead has a long-term recorded lease on it.

Legal Description

A specific legal property description that is sufficient to locate and identify the property.

Lender Fees

Fees that are kept by the lender to offset a portion of the origination expenses and help ensure profitability goals are met.

Liabilities

In financial situations, these are the financial obligations, including both long-term and short-term debt, as well as any other amounts that are owed to others.

Lien

An encumbrance against a property for money due. The lien can be voluntary such as a mortgage or involuntary such as a judgment.

Lifetime Interest Rate Cap

On an ARM, a limit on how much the interest rate can increase or decrease over the term of the loan.

Lifetime Payment Cap

On an ARM, a limit on how much the payments can increase or decrease over the term of the loan.

Liquid Asset

An item of value that can easily be sold or exchanged for cash, if necessary.

Loan Estimate

A written estimate of the closing costs the borrower will have to pay at closing. Under the TILA/RESPA Integrated Disclosures Act, the lender is required to provide this disclosure to the borrower within three days of receiving a loan application.

Loan Origination

The steps taken by a lender to create a mortgage loan secured by real property.

Loan Term

Typically, the total number of months in which a borrower must repay a loan.

Loan-to-Value Ratio (LTV)

A ratio used by lenders to calculate the loan amount requested as a percentage of the value of a home. To determine the LTV ratio, divide the loan amount by the home's value.

Lock

A written agreement in which a lender guarantees a specific interest rate if the loan closes within a set period of time.

Lock Period

The number of days that the lender will guarantee the interest rate offered for a loan. In order to hold the guaranteed interest rate for a loan, the loan closing must occur during the lock period.

Maturity

The date a financial instrument becomes due and payable.

Merged Credit Report

A report of credit information for an individual or company that has been collected from multiple credit bureaus.

Mortgage or Deed of Trust

The legal document used by a borrower to pledge their property as security in order to obtain a loan.

Mortgage Banker

A company that originates mortgage loans and, after loan closing, sells them in the secondary market.

Mortgage Insurance or Private Mortgage Insurance (PMI)

Insurance provided by a private company to protect the mortgage lender against losses that might be incurred if a loan defaults. The borrower usually pays the cost of the insurance, and it is most often required if the loan amount is more than 80% of the home's value.

Mortgage Insurance Premium (MIP)

Amount paid by a borrower for mortgage insurance, typically paid to a government agency such as the FHA.

Mortgage Tax

A tax charged by some state or local governments that is paid to the state when a mortgage is obtained.

Mortgagee

The person or company who provides the loan funds to the borrower.

Mortgagor or Borrower

The person who receives loan proceeds from a lender in exchange for a security interest in a property.

National Association of REALTORS® (NAR)

A trade association devoted to encouraging professionalism in real estate activities. Members of NAR adhere to its strict Code of Ethics and Standards of Practice and are engaged in all aspects of the real estate industry. REALTOR® is also a registered membership mark and is used to identify members of this organization.

No Cash-Out Refinance

A refinance loan is an amount that pays off the existing mortgage balance on a property and does not provide the borrower with any cash at closing.

Note

The written agreement signed by the borrower at closing that contains the promise to repay the loan. The note also contains the terms of the loan such as interest rate, payment, and term or repayment period.

Offer to Purchase or Sales Contract

An agreement between the buyer and seller of real estate that secures the right of the buyer to purchase the property upon agreed terms for a limited period of time.

Original Principal Balance

Total amount of principal owed on a loan before any payments are made.

Origination Fee

A fee charged by a lender as a way to offset processing expenses or to increase their profitability for originating a mortgage loan. The origination fee is typically expressed as a percent of the loan amount.

Premium and Interest (P&I)

The monthly principal and interest payment required when repaying a mortgage in accordance with its terms.

Planned Unit Development (PUD)

A housing project or subdivision that includes common property which must be maintained by a homeowners' association for the benefit and use of the individual homeowners.

Power of Attorney

A legal instrument that gives another person either complete or limited authority to act on one's behalf.

Pre-Qualification

Procedure to determine how much money a potential homebuyer will be eligible to borrow prior to actually applying for a loan.

Prepays

Expenses of property ownership or expenses incurred while obtaining a mortgage that must be paid at closing. Prepays typically include real estate taxes, hazard insurance, and interest.

Prepayment Penalty

A monetary penalty sometimes charged by a lender if all or part of a loan is paid off before it is due or becomes mature.

Principal

The balance of a mortgage loan, not including accrued interest or fees. Also refers to the amount of the monthly mortgage payment that will be applied to the actual balance.

Property Taxes

Taxes based on the assessed value of the home, paid by the homeowner either directly or as part of the monthly mortgage payment for community services such as schools, public works, and other local government costs.

Public Record

A collection of legal documents that are filed with the local government registry so that the public will know what liens, encumbrances, or judgments may affect any piece of real estate.

Purchase Agreement

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

Qualifying Ratios

Calculations performed by lenders to help determine your ability to repay a loan. The first qualifying ratio is calculated by dividing the monthly principal, interest, taxes, and insurance (PITI) by the gross monthly income. The second ratio is calculated by dividing the monthly PITI and all other monthly debts by the gross monthly income.

Quitclaim Deed

A deed that transfers, without warranty, whatever interest or rights a grantor may have in a property at the time the transfer is made.

Rate Change Cap

The maximum amount an interest rate for an ARM can change, either at an adjustment period or during the entire life of the loan.

Real Estate Settlement Procedures Act (RESPA)

RESPA is a consumer protection law that requires consumers receive disclosures at various times in the transaction and outlaws kickbacks that increase the cost of settlement services. RESPA is a HUD-enforced consumer protection statute designed to help homebuyers be better informed during the home-buying process.

Real Property

Land and anything permanently affixed to the land, including structures, trees, minerals, and the interest, benefits, and rights thereof.

Recording Fees

A fee charged by a government agency for registering or recording the details of a real estate transaction into public record so that any interested party is aware that a lender has an interest in the property.

Refinance

To repay an existing mortgage loan with proceeds from a new mortgage loan obtained by the same borrower for the same property.

Rescission

The cancellation of a contract; in some circumstances, borrowers have the right to cancel a transaction within three business days after closing.

Right of First Refusal

A contract provision that requires a property owner to give another party the first opportunity to purchase or lease the property before it is offered to others.

Right of Survivorship

An ownership provision between multiple people that ensures if one person dies, the surviving joint tenant(s) gain possession of the decedent's property or asset.

Second Mortgage

A mortgage that is subordinate to another loan on the same property.

Secondary Mortgage Market

A forum for buying and selling loans secured by real estate.

Secured Loan

A loan that is guaranteed with collateral owned and pledged by the borrower.

Security Interest

Per Black's Law Dictionary, a security interest is a property interest created by agreement or by operation of law over assets to secure the performance of an obligation, usually the payment of a debt. It enforces the lender's rights against collateral in case the debtor defaults on the obligation. If the debtor goes bankrupt, a secured creditor takes precedence over unsecured creditor in the distribution.

Servicer

The original lender or a servicing company that collects principal and interest payments and performs other administrative functions associated with mortgage loan escrow accounts.

Subordinate Financing

Any mortgage or other lien with a lower priority than that of the first mortgage.

Survey

A fee associated with obtaining the precise measurement of a piece of property by a licensed surveyor. The survey is typically a written map of the property showing locations of buildings and boundaries. In some states, a survey is required by a title company in order to issue a title insurance policy.

Tax Certificate

A tax charged by some state or local governments at the time a real estate title is transferred from one owner to another.

Tax Service Fee

A fee charged to a borrower by a lender so that another company will assume responsibility for verifying the amount of real estate taxes due and confirming that taxes are paid appropriately.

Term

The loan term is the number of months that you will make monthly payments. If the loan term is the same as the payment calculation term, you will pay the loan in full during the loan term and no balance will be due. If the payment calculation term is greater than the loan term, a balance or "balloon payment" may be due at the end of the loan term.

Title

A legal instrument identifying the owners of a property.

Title Company

A company that specializes in examining real estate titles in order to issue title insurance.

Title Examination

A fee charged by a title company, or attorney in some states, to cover the cost of searching the public record to make sure the buyer is purchasing a house from the legal owner and that there are no liens, overdue assessments, or other claims filed that

would adversely affect the transfer of the title.

Title Insurance

An insurance policy that protects the lender (and sometimes the property owner as well) against loss due to disputes over the ownership of a property and defects in the title that were not found in the search of the public record.

Title Opinion or Attorney Opinion

A statement issued by an attorney as to the quality of title after examining an abstract of title.

Total Debt Ratio or Bottom Ratio, Back-End Ratio

A standard calculation performed by mortgage lenders to determine if a borrower qualifies for a specific loan type. It is calculated by dividing the monthly housing plus all other monthly debt obligation by the borrower's monthly gross income.

Transfer Tax or Intangible Tax

A tax charged by some state or local governments at the time a real estate title is transferred from one owner to another.

Treasury Index

An index that is used to determine interest rate changes for some ARM programs. It is often based on the U.S. Treasury's daily yield curve.

Trustee

An individual who holds property on behalf of a beneficiary.

Truth in Lending Act or Regulation Z

A federal regulation that requires lenders to provide borrowers with an estimate for the cost of the loan within three business days of the application, including the total finance charge and the APR. This act is designed to provide consumers with a standard method of comparing the financing costs from lender to lender.

Underwriting

Detailed process of evaluating a borrower's loan application to determine the risk involved for the lender. Underwriting involves analysis of the borrower's credit history and examination of the value and quality of the subject property.

Unsecured Loan

A loan that is not guaranteed with a borrower's collateral; for example, a signature loan.

VA Loan

A mortgage loan that requires low or no down payment for veterans and service personnel, which is guaranteed by the VA.

Waiver

The voluntary abandonment or surrender of some claim, right, or privilege.

Warehousing

The packaging together of many mortgages for the purpose of selling them in the secondary market, usually by a mortgage banker who has originated the loans.

Warranty

A promise contained in a contract.

Yield

A measurement of the rate of earnings from an investment, usually expressed as a percentage.

Yield-to-Maturity (YTM)

The internal rate of return on an investment that typically takes into account all investment returns and their timing.

