Glossary of Terms

Acceleration Clause
The right of the mortgagee (lender) to demand the immediate repayment of the mortgage loan balance upon the default of the mortgagor (borrower), or by using the right vested in the Due-on-Sale Clause.

Accrued Interest
Interest earned but not yet paid.

Additional Principal Payment
A payment by a borrower of more than the scheduled principal amount due in order to reduce the remaining balance on the loan.

Adjusted Gross Income
A person's total income, as reported on his or her IRS 1040 tax return form, after allowable contributions, deductions and expenses.

Ad Valorem Tax
A tax based according to item value only, usually property tax based on the just or fair market value of the property.

Addendum
A change made to a contract.

Adjustable Rate Mortgage (ARM)
Loans with interest rates that are adjusted periodically based on changes in a pre-selected index. These mortgage loans must specify how their interest rate changes, usually in terms of a relation to a national index such as Treasury bill rates. An interest rate cap limits the amount by which the interest rate can change. Also sometimes known as the renegotiable rate mortgage, the variable rate mortgage or the Canadian rollover mortgage.

Adjusted Basis
The cost of a property plus the value of any capital expenditures for improvements to the property minus any depreciation taken.

Adjustment Date
The date that the interest rate changes on an adjustable-rate mortgage (ARM).

Adjustment Interval
On an adjustable rate mortgage, the time between changes in the interest rate and/or monthly payment, typically one, three or five years depending on the index.

Adjustment Period
The period elapsing between adjustment dates for an adjustable-rate mortgage (ARM).

Affordability Analysis
An analysis of a buyer's ability to afford the purchase of a home. Reviews income, liabilities, and available funds, and considers the type of mortgage you plan to use, the

area where you want to purchase a home, and the closing costs that are likely.

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

Amortization
Repayment of a debt with periodic payments of both principal and interest calculated to payoff the loan at the end of a fixed period of time.

Amortization Schedule
A timetable for payment of a mortgage showing the amount of each payment applied to interest and principal and the remaining balance.

Amortization Term
The length of time required to amortize the mortgage loan expressed as a number of months. For example, 360 months is the amortization term for a 30-year fixed-rate mortgage.

Annual Percentage Rate (A.P.R.)
The cost of credit expressed as a yearly rate. The annual percentage rate is often not the same as the interest rate. It will be higher than the interest rate stated in the note because it includes in addition to the interest rate, loan discount points, fees and mortgage insurance. Because all lenders apply the same rules in calculating the annual percentage rate, it provides consumers with a good basis for comparing the cost of loans.

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

Application 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 and a lock-in fee or other closing costs incurred during the process or the fee may be in addition to these charges.

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

Appraisal Fee
A fee charged by a licensed certified appraiser to render an opinion of market value as of a specific date.

Appraised Value
An opinion of a property's fair market value, based on an appraiser's knowledge, experience, and analysis of the property.

Appraiser
A licensed professional with knowledge of real estate markets who compiles a written estimate of a property's current market value.

Appreciation
The increase in the value of a property due to changes in market conditions, inflation, or other causes.

Assessed Value
The valuation placed on property by a public tax assessor for purposes of taxation.

Assessment
A local tax levied against a property for a specific purpose, such as a sewer or streetlights.

Assessor
A public official who establishes the value of a property for taxation purposes.

Asset
Items of value owned by an individual. Assets that can be quickly converted into cash are considered "liquid assets." These include bank accounts, stocks, bonds, mutual funds, and so on. Other assets include real estate, personal property, and debts owed to an individual by others.

Assignment
The transfer of a mortgage from one person to another.

Assumability
An assumable mortgage can be transferred from the seller to the new buyer. Generally requires a credit review of the new borrower and lenders may charge a fee for the assumption. If a mortgage contains a due-on-sale clause, a new buyer may not assume it.

Assumable Mortgage
A mortgage that can be taken over (assumed) by the buyer when a home is sold.

Assumption
The agreement between buyer and seller where the buyer takes over the payments on an existing mortgage from the seller. Assuming a loan can usually save the buyer money since this is an existing mortgage debt, unlike a new mortgage where closing cost and new, probably higher, market-rate interest charges will apply.

Assumption Fee
The fee paid to a lender (usually by the purchaser of real property) when an assumption takes place.

Back-End Ratio or Back Ratio
The sum of the house payment and all other monthly debt -- credit cards, car payments, student loans and the like -- divided by before-tax income. Traditionally, lenders were loath to extend borrowers' back-end ratios past 36 percent, but they often do now.

Balloon Mortgage
A loan that is amortized for a longer period than the term of the loan. Usually this refers to a thirty-year amortization and a fifteen-year term. At the end of the term of the loan, the remaining outstanding principal on the loan is due. This final payment is known as a balloon payment.

Balloon Payment
The final lump sum paid at the maturity date of a balloon mortgage.

Bankruptcy
A legal proceeding in a federal court to relieve certain debts of a person or a business that is unable to pay its debts. Chapter 7 gets rid of all debts. Chapter 13 allows a borrower with an income to pay bills off over a set period of time.

Bearer
The legal owner of a piece of property.

Bequest
A gift of personal property by will.

Bill of Sale
A written document that transfers title to personal property. For example, when selling an automobile to acquire funds that will be used as a source of down payment or for closing costs, the lender will usually require the bill of sale (in addition to other items) to help document this source of funds.

Biweekly Mortgage Payment
A plan to reduce the debt every two weeks (instead of the standard monthly payment schedule). The 26 (or possibly 27) biweekly payments are each equal to one-half of the monthly payment required if the loan were a standard 30-year fixed-rate mortgage. The result for the borrower is a substantial savings in interest.

Blanket Mortgage
A mortgage covering at least two pieces of real estate as security for the same mortgage.

Bona Fide
In good faith.

Bond Market
Usually refers to the daily buying and selling of thirty-year treasury bonds. Lenders follow this market intensely because as the yields of bonds go up and down, fixed rate mortgages do approximately the same thing. The same factors that affect the Treasury Bond market also affect mortgage rates at the same time. That is why rates change daily, and in a volatile market can and do change during the day as well.

Borrower (Mortgagor)
One who applies for and receives a loan in the form of a mortgage and is obligated to repay the loan in full under the terms of the loan.

Bridge Loan
A second trust that is collateralized by the borrower's present home allowing the proceeds to be used to close on a new house before the present home is sold. Also known as "swing loan."

Broker
An individual in the business of assisting in arranging funding or negotiating contracts for a client buy who does not loan the money himself. Brokers usually charge a fee or receive a commission for their services.

Buy-Down Mortgage
A mortgage loan with a less than market rate for a set period of time. The lender and/or the homebuilder subsidize the mortgage by lowering the interest rate during the first few years of the loan. While the payments are initially low, they will increase when the subsidy expires.

Buyer's Market
Market conditions that favor buyers. With too few buyers and too many properties for sale, the sellers may be forced to make substantial price discounts.

Call Option
A provision of a note, which allows the lender to require repayment of the loan in full before the end of the loan term. The option may be exercised due to breach of the terms of the loan or at the discretion of the lender.

Caps (interest)
Consumer safeguards, which limit the amount the interest rate on an adjustable rate mortgage that may change per year and/or the life of the loan.

Caps (payment)
Consumer safeguards, which limit the amount monthly payments on an adjustable-rate mortgage, may change.

Cash Flow
The amount of cash derived over a certain period of time from an income-producing property. The cash flow should be large enough to pay the expenses of the income producing property (mortgage payment, maintenance, utilities, etc).

Cash Out Refinancing
Money received when you get a new loan that is larger than the remaining balance of your current loan. This is based upon any equity that has been built up in the house. The cash out amount is calculated by subtracting the sum of the old loan and fees from the new mortgage loan.

Cashier's Check (or Bank Check)
A check whose payment is guaranteed because it was paid for in advance and is drawn on the bank's account instead of the customer's.

Cash to Close

Liquid assets that are readily available to be used to pay the closing costs involved in the closing of a mortgage transaction.

Ceiling
The maximum allowable interest rate of an adjustable rate mortgage.

Certificate of Deposit (COD)
A time deposit held in a bank that pays a certain amount of interest to the depositor.

Certificate of Deposit Index
One of the indexes used for determining interest rate changes on some adjustable rate mortgages. It is an average of what banks are paying on certificates of deposit.

Certificate of Eligibility
The document given to qualified veterans that entitles them to VA guaranteed loans for homes, business and mobile homes. Certificates of eligibility may be obtained by sending form DD-214 (Separation Paper) to the local VA office with VA form 1880 (request for Certificate of Eligibility)

Certificate of Reasonable Value (CRV)
An appraisal issued by the Veterans Administration showing the property's current market value.

Certificate of Veteran Status
The document given to veterans or reservists who have served 90 days of continuous active duty (including training time). It may be obtained by sending DD 214 to the local VA office with form 26-8261a (request for certificate of veteran status). This document enables veterans to obtain lower down payments on certain FHA insured loans.

Certificate of Title
Written viewpoint of the status of title to a property, given by an attorney or title company. This certificate does not offer the protection given by title insurance.

Chain of Title
The chronological order of conveyance of a property from the original owner to the present owner.

Change Frequency
The frequency (in months) of payment and/or interest rate changes in an adjustable-rate mortgage (ARM).

Clear Title
A title that is free of liens or legal questions as to ownership of the property.

Closing
The consummation of a real estate transaction. The closing includes the delivery of a deed, financial adjustments, signing of notes and disbursement of funds necessary to complete the sale and loan transaction. The meeting between the buyer, seller and lender or their agents where the property and funds legally change hands, also called settlement.

Closing Costs
These are expenses over and above the price of the property that are incurred by buyers and sellers when transferring ownership of a property. Closing costs usually include an origination fee, discount points, appraisal fee, title search and insurance, survey, taxes, deed recording fee, credit report charge and other costs assessed at settlement. The costs of closing usually are about 3 percent to 6 percent of the mortgage amount. Closing costs will vary according to the area of the country in the property is located and the lenders used.

Co-borrower
An additional individual who is both obligated on the loan and is on title to the property.

COFI
See Cost of Funds Index.

Collateral
Property (for example, your home) pledged as security for a debt.

Collection
When a borrower falls behind, the lender contacts them in an effort to bring the loan current. The loan goes to "collection." As part of the collection effort, the lender must mail and record certain documents in case they are eventually required to foreclose on the property.

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

Commitment
A promise by a lender to make a loan on specific terms or conditions to a borrower or builder. A promise by an investor to purchase mortgages from a lender with specific terms or conditions. An agreement, often in writing, between a lender and a borrower to loan money at a future date subject to the completion of paper work or compliance with stated conditions.

Commitment Letter
A formal offer by a lender stating the terms under which it agrees to loan money to a homebuyer.

Common Areas
Those portions of a building, land, and amenities owned (or managed) by a planned unit development (PUD) or condominium project's homeowners' association (or a cooperative project's cooperative corporation) that are used by all of the unit owners, who share in the common expenses of their operation and maintenance. Common areas include swimming pools, tennis courts, and other recreational facilities, as well as common corridors of buildings, parking areas, means of ingress and egress, etc.

Common Area Assessments

In some areas they are called Homeowners Association Fees. They are charges paid to the Homeowners Association by the owners of the individual units in a condominium or planned unit development (PUD) and are generally used to maintain the property and common areas.

Common Law
An unwritten body of law based on general custom in England and used to an extent in some states.

Community Property
In some states, especially the southwest, property acquired by a married couple during their marriage is considered to be owned jointly, except under special circumstances. This is an outgrowth of the Spanish and Mexican heritage of the area.

Comparable Sales
Recent sales of similar properties in nearby areas and used to help determine the market value of a property. Also referred to as "comps."

Condominium
A form of property ownership in which the homeowner holds title to an individual dwelling unit and a proportionate interest in common areas and facilities of a multi-unit project.

Condominium Conversion
Changing the ownership of an existing building (usually a rental project) to the condominium form of ownership.

Condominium Hotel (Condotel)
A condominium project that has rental or registration desks, short-term occupancy, food and telephone services, and daily cleaning services and that is operated as a commercial hotel even though the units are individually owned. These are often found in resort areas like Hawaii.

Conforming Loan
A mortgage loan that meets all requirements to be eligible for sale and delivery to Federal agencies such as FNMA and FHLMC. The maximum conforming loan amount is $417,000 for a one-unit property.

Construction Loan
A short-term interim loan to pay for the construction of buildings or homes. These are usually designed to provide periodic disbursements to the builder as he or she progresses.

Consumer Reporting Agency (or Bureau)
An organization that handles the preparation of reports used by lenders to determine a potential borrower's credit history. The agency gets data for these reports from a credit repository and from other sources.

Contingency

A condition that must be met before a contract is legally binding. For example, home purchasers often include a contingency that specifies that the contract is not binding until the purchaser obtains a satisfactory home inspection report from a qualified home inspector.

Contract
An oral or written agreement to do or not to do a certain thing.

Contract of Sale or Deed
A contract between purchaser and a seller of real estate to convey title after certain conditions have been met. It is a form of installment sale.

Conventional Loan
Loans that are not made under any government housing program; they are not subject to the restrictions of government insured housing programs, such as loan size limits. A mortgage not insured by FHA or guaranteed by the VA.

Conversion Clause
A provision in an ARM allowing the loan to be converted to a fixed-rate at some point during the term. Usually conversion is allowed at the end of the first adjustment period. The conversion feature may cost extra.

Convertible ARMs
A type of ARM loan that can be converted to a fixed-rate loan during a given time period.

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

Cooperative (Co-op)
A type of multiple ownership in which the residents of a multiunit housing complex own shares in the cooperative corporation that owns the property, giving each resident the right to occupy a specific apartment or unit.

Cost of Funds Index (COFI)
An index of the weighted-average interest rate paid by savings institutions for sources of funds. Some adjustable-rate mortgages use the cost-of-funds index.

Covenant
A clause in a contract that obligates or restricts the parties and which, if violated, can result in a legal action.

Credit Bureau
A credit bureau is a clearinghouse for credit history information.

Credit Report
A report detailing the credit history of an individual.

Credit Repository

An organization that gathers, records, updates, and stores financial and public records information about the payment records of individuals who are being considered for credit.

Credit Risk Score
A credit risk score is a statistical summary of the information contained in a consumer's credit report. The most well known type of credit risk score is the Fair Isaac or FICO score. This form of credit scoring is a mathematical summary calculation that assigns numerical values to various pieces of information in the credit report. The overall credit risk score is highly relative in the credit underwriting process for a mortgage loan.

Debt-to-Income Ratio
The ratio, expressed as a percentage, which results when a borrower's monthly payment obligation on long-term debts is divided by his or her gross monthly income. See housing expenses-to-income ratio.

Deed
Legal document conveying title to a property. The deed contains a description of the property, and is signed, witnessed and delivered to the buyer at closing.

Deed-In-Lieu
Short for "deed in lieu of foreclosure," this conveys title to the lender when the borrower is in default and wants to avoid foreclosure. The lender may or may not cease foreclosure activities if a borrower asks to provide a deed-in-lieu. Regardless of whether the lender accepts the deed-in-lieu, the avoidance and non-repayment of debt will most likely show on a credit history. What a deed-in-lieu may prevent is having the documents preparatory to a foreclosure being recorded and become a matter of public record.

Deed of Trust
In many states, this document is used in place of a mortgage to secure the payment of a note.

Default
Failure to meet legal obligations in a contract, specifically, failure to make the monthly payments on a mortgage.

Deferred Interest
When a mortgage is written with a monthly payment that is less than required to satisfy the note rate, the unpaid interest is deferred by adding it to the loan balance. See negative amortization.

Delinquency
Failure to make payments as agreed in the loan agreement. The payment is overdue but default has not yet been declared. This can eventually lead to foreclosure.

Department of Veterans Affairs (VA)
An independent agency of the federal government that guarantees long-term, low-or no-down payment mortgages to eligible veterans.

Depreciation
A decline in the value of property; the opposite of appreciation. Depreciation is also an accounting term that shows the declining monetary value of an asset and is used as an expense to reduce taxable income. Since this is not a true expense where money is actually paid, lenders will add back depreciation expense for self-employed borrowers and count it as income.

Disclosure
Information that is required by law relevant to specific transactions.

Discounted Loan
When the note rate on a loan is less than the market rate, it is a discounted loan. However, the lender requires additional points to raise the yield on the loan to the market rate.

Discount Points
A fee paid to the lender to permanently buy down or lower an interest rate. See points.

Down Payment
Money paid to make up the difference between the purchase price and the mortgage amount. For conventional loans, you should strive for a down payment that's at least 20% of your home's value, since lenders generally do not require private mortgage insurance ("PMI") with a down payment of at least 20% of your home's purchase price.

Due-on-Sale Clause
A provision in a mortgage or deed of trust that allows the lender to demand immediate payment of the balance of the mortgage if the mortgage holder sells the home.

Earnest Money
Money given by a buyer to a seller towards the down payment to bind a purchase contract.

Easement
A right of way giving persons other than the property owner access to or over a property.

Effective Age
An appraiser's estimate of the physical condition of a building. The actual age of a building may be shorter or longer than its effective age.

Eminent Domain
The right of a government to take private property for public use upon payment of its fair market value. Eminent domain is the basis for condemnation proceedings.

Encroachment
An improvement that illegally violates another's property or right to use that property.

Encumbrance
Anything that affects or limits the fee simple title to a property, such as mortgages, leases, easements, or restrictions.

Entitlement
The VA home loan benefit is called an entitlement (i.e. entitlement for a VA guaranteed home loan). This is also known as eligibility.

Equifax
One of the three largest credit bureaus in the United States.

Equal Credit Opportunity Act (ECOA)
Federal law requiring lenders and other creditors to make credit equally available without discrimination based on race, color, religion, national origin, age, sex, marital status or receipt of income from public assistance programs or past exercising or rights under the Consumer Credit Protection Act.

Equity
The difference between the current market value of a property and the total debt obligations against the property; also referred to as the owner's interest.

Escrow
An account held by the lender into which the homebuyer pays money for tax or insurance payments. In some parts of the US escrow of taxes and insurance premiums are called impound or reserves. Also earnest deposits held pending loan closing.

Escrow Account

The segregated trust account in which escrow funds are held. The lender disburses escrow account funds on behalf of the borrower when they are due.

Escrow Agent
A person or organization with fiduciary responsibility to the buyer and seller, or the borrower and lender, to ensure that the terms of the purchase/sale or loan are carried out.

Escrow Disbursements
The use of escrow funds to pay real estate taxes, hazard insurance, mortgage insurance, and other property expenses as they become due.

Escrow Payment
The part of a mortgagor’s monthly payment that is held by the servicer to pay for taxes, hazard insurance, mortgage insurance, lease payments, and other items as they become due.

Estate
The ownership interest of an individual in real property. The sum total of all the real property and personal property owned by an individual at time of death.

Eviction
The lawful expulsion of an occupant from real property.

Examination of Title
The report on the title of a property from the public records or an abstract of the title.

Exclusive Listing
A written contract that gives a licensed real estate agent the exclusive right to sell a property for a specified time.

Executor
A person named in a will to administer an estate. The court will appoint an administrator if no executor is named. "Executrix" is the feminine form.

Experian
One of the three largest credit bureaus in the United States.

Fair Credit Reporting Act
A consumer protection law that regulates the disclosure of consumer credit reports by consumer/credit reporting agencies and establishes procedures for correcting mistakes on one's credit record.

Fair, Isaac and Co.
The company that invented credit-scoring software. See FICO.

Fannie Mae
See Federal National Mortgage Association.

Farmers Home Administration (FmHA)
Provides financing to farmers and other qualified borrowers who are unable to obtain loans elsewhere.

FDIC
See Federal Deposit Insurance Corporation.

Federal Deposit Insurance Corporation (FDIC)
Independent deposit insurance agency created by Congress to maintain stability and public confidence in the nation's banking system.

Federal Home Loan Bank Board (FHLBB)
The former name for the regulatory and supervisory agency for federally chartered savings institutions. Agency is now called the Office of Thrift Supervision.

Federal Home Loan Mortgage Corporation (FHLMC or Freddie Mac)
A quasi-governmental agency that purchases conventional mortgages that are underwritten to its specific guidelines from insured depository institutions and HUD-approved mortgage bankers. These guidelines are an industry standard for residential conventional lending. Also known as "Freddie Mac."

Federal Housing Administration (FHA)
A federal agency within the Department of Housing and Urban Development (HUD), which insures residential mortgage loans made by private lenders and sets standards for underwriting mortgage loans.

Federal National Mortgage Association (FNMA or Fannie Mae)

A tax-paying corporation created by Congress that purchases and sells conventional residential mortgages as well as those insured by FHA or guaranteed by VA. This institution, which provides funds for one in seven mortgages, makes mortgage money more available and more affordable. Also known as "Fannie Mae."

Fee Simple
Absolute ownership of real property giving the right to dispose or pass on the property.

Fee Simple Estate
An unconditional, unlimited estate of inheritance that represents the greatest estate and most extensive interest in land that can be enjoyed. It is of perpetual duration. When the real estate is in a condominium project, the unit owner is the exclusive owner only of the air space within his or her portion of the building (the unit) and is an owner in common with respect to the land and other common portions of the property.

FHA
See Federal Housing Administration.

FHA Loan
A fixed or adjustable-rate loan insured by the Federal Housing Administration open to all qualified home purchasers. While there are limits to the size of FHA loans ($155,250 as of 1/1/96), they are generous enough to handle moderately priced homes almost anywhere in the country. These loans are designed to make housing more affordable, particularly for first-time homebuyers.

FHA Mortgage Insurance
Requires a fee (up to 2.25 percent of the loan amount) paid at closing to insure the loan with FHA. In addition, FHA mortgage insurance requires an annual fee of up to 0.5 percent of the current loan amount, paid in monthly installments. The lower the down payment, the more years the fee must be paid.

FICO
The most common credit-scoring model used by lenders. Your FICO can range from 200 to 900. According to this model, the higher your score, the less likely you are to default on your loan.

Firm Commitment
A promise by FHA to insure a mortgage loan for a specified property and borrower. A promise from a lender to make a mortgage loan.

First Mortgage
A mortgage that is in first lien position, taking priority over all other liens. In the case of a foreclosure, the first mortgage will be repaid before any other mortgages.

Fixed Installment
The monthly payment due on a mortgage loan including payment of both principal and interest.

Fixed Rate Mortgage
The mortgage interest rate and payment will remain the same on these mortgages for the life of the loan.

Fixture
Personal property that becomes real property when attached in a permanent manner to real estate.

Flood Insurance
Insurance that compensates for physical damage to a property by flood. Typically not covered under standard hazard insurance.

Forbearance
The act by the lender of refraining from taking legal action on a mortgage loan that is delinquent.

Foreclosure
A legal process by which the lender or the seller forces a sale of a mortgaged property because the borrower has not met the terms of the mortgage. Also known as a repossession of property.

Freddie Mac
See Federal Home Loan Mortgage Corporation.

Fully Amortized ARM
An adjustable-rate mortgage (ARM) with a monthly payment that is sufficient to amortize the remaining balance, at the interest accrual rate, over the amortization term.

Ginnie Mae (GNMA)
See Government National Mortgage Association.

Good Faith Estimate (GFE)
Written estimate of the settlement costs the borrower will likely have to pay at closing base on common local practices. Under the Real Estate Settlement Procedures Act (RESPA), the lender is required to provide this disclosure to the borrower within three days of receiving a loan application.

Government National Mortgage Association (GNMA)
This federal government corporation is a part of the Department of Housing and Urban Development. Among other governmental functions, it guarantees securities backed by mortgages that are insured or guaranteed by other government agencies including FHA and VA. Also known as "Ginnie Mae."

Grace Period
Time period as stated on the loan terms 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.

Graduated Payment Mortgage (GPM)
A type of flexible-payment mortgage where the payments increase for a specified period of time and then level off. This type of mortgage has negative amortization built into it.

Grantee
The person to whom an interest in real property is conveyed.

Grantor
The person conveying an interest in real property.

Gross Monthly Income
Total Monthly income before taxes or expenses are deducted.

Growing-Equity Mortgage (GEM)
A fixed-rate mortgage that provides scheduled payment increases over an established period of time. The increased amount of the monthly payment is applied directly toward reducing the remaining balance of the mortgage.

Guarantee Mortgage
A mortgage that is guaranteed by a third party.

Guaranty
A promise by one party to pay a debt or perform an obligation contracted by another if the original party fails to pay or perform according to a contract.

Hazard Insurance
A form of insurance in which the insurance company protects the insured from specified losses, such as fire, windstorm and the like.

Home Equity Conversion Mortgage (HECM)
Usually referred to as a reverse annuity mortgage, what makes this type of mortgage unique is that instead of making payments to a lender, the lender makes payments to you. It enables older homeowners to convert the equity they have in their homes into cash, usually in the form of monthly payments. Unlike traditional home equity loans, a borrower does not qualify on the basis of income but on the value of his or her home. In addition, the loan does not have to be repaid until the borrower no longer occupies the property.

Home Equity Line of Credit (HELOC)
A form of revolving credit in which your home serves as collateral.

Home Equity Loan
A loan based on the equity in the mortgagor's house. The property is the security for the loan, which is usable for any purpose.

Home Inspection
A thorough inspection by a professional that evaluates the structural and mechanical condition of a property. A satisfactory home inspection is often included as a contingency by the purchaser.

Homeowner's Association
A nonprofit association that manages the common areas of a planned unit development (PUD) or condominium project. In a condominium project, it has no ownership interest in the common elements. In a PUD project, it holds title to the common elements.

Homeowner's Insurance
An insurance policy that combines liability coverage and hazard insurance.

Homeowner's Warranty
A type of insurance often purchased by homebuyers that will cover repairs to certain items, such as heating or air conditioning, should they break down within the coverage period. The buyer often requests the seller to pay for this coverage as a condition of the sale, but either party can pay.

Housing Expenses-to-Income Ratio
The ratio, expressed as a percentage, which results when a borrower's housing expenses are divided by his/her gross monthly income. See debt-to-income ratio.

Housing and Urban Development (HUD)
A U.S. government agency established to implement federal housing and community development programs; oversees the Federal Housing Administration.

HUD Median Income
Median family income for a particular county or metropolitan statistical area (MSA), as estimated by the Department of Housing and Urban Development (HUD).

HUD-1 Uniform Settlement Statement
A document that provides an itemized listing of the funds that are payable at closing. Items that appear on the statement include real estate commissions, loan fees, points, and initial escrow amounts. A separate number within a standardized numbering system represents each item on the statement. The totals at the bottom of the HUD-1 statement define the seller's net proceeds and the buyer's net payment at closing.

Impound
That portion of a borrower's monthly payments held by the lender or servicer to pay for taxes, hazard insurance, mortgage insurance, lease payments, and other items as they become due. Also known as escrows or reserves.

Impound Account
See Escrow Account.

Index
An index is a widely published rate such as LIBOR, T-Bill or 11th District Cost of Funds (COFI). Lenders use these indices to establish the interest rates charged on mortgage loans. For an adjustable-rate mortgage (ARM), a predetermined margin is added to the index to compute the interest rate adjustment.

Indexed Rate
The sum of the published index plus the margin. For example if the index were 9% and the margin 2.75%, the indexed rate would be 11.75%. Often, lenders charge less than

the indexed rate the first year of an adjustable-rate mortgage.

Initial Cap
Consumer safeguard, which limits the amount the interest rate on an adjustable rate mortgage, can change during the first adjustment period.

Initial Interest Rate
This refers to the original interest rate of the adjustable-rate mortgage (ARM) at the time of closing. This rate adjusts either up or down during the adjustment period. It's also known as "start rate" or "teaser."

Installment
The regular periodic payment that a borrower agrees to make to a lender.

Insured Mortgage
A mortgage that is protected by the Federal Housing Administration (FHA) or by private mortgage insurance (PMI).

Interest
Consideration in the form of money paid for the use of money.

Interest Accrual Rate
The percentage rate at which interest accrues on the mortgage. In most cases, it is also the rate used to calculate the monthly payments.

Interest Rate Buy Down Plan
An arrangement that allows the property seller to deposit money to an account. That money is then released each month to reduce the mortgagor's monthly payments during the early years of a mortgage.

Interest Rate Cap
A provision of an ARM limiting how much interest rates may increase per adjustment period. See also Lifetime cap.

Interest Rate Ceiling
For an adjustable-rate mortgage (ARM), the maximum interest rate, as specified in the mortgage note.

Interest Rate Floor
For an adjustable-rate mortgage (ARM), the minimum interest rate, as specified in the mortgage note.

Interim Financing
A construction loan made during completion of a building or a project. A permanent loan usually replaces this loan after completion.

Investor
A money source for a lender.

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

Joint Tenancy
A form of joint ownership of property giving each person equal interest in the property. When one joint tenant dies the other has title to the entire property.

Judgment
A decision made by a court of law. In judgments that require the repayment of a debt, the court may place a lien against the debtor's real property as collateral for the judgment's creditor.

Judicial Foreclosure
A type of foreclosure proceeding used in some states that is handled as a civil lawsuit and conducted entirely under the auspices of a court. Other states use non-judicial foreclosure.

Jumbo Loan
A loan that is larger (more than $417,000 as of 1/1/06) than the limits set by the Federal National Mortgage Association (FNMA) and the Federal Home Loan Mortgage Corporation (FHLMC). Because jumbo loans cannot be funded by these two agencies, they usually carry a higher interest rate (generally one-eighth to one-quarter of a point higher than those for conforming loans).

Junior Mortgage
A mortgage subordinate to the claim of a prior lien or mortgage. In the case of a foreclosure, a senior mortgage or lien will be paid first.

Late Charge
The penalty (usually 5% of the payment amount) a borrower must pay when a payment is made a stated number of days (usually 15) after the due date.

Late Payment
A sum a borrower sends to a lender that is received past the date when it was due.

Lease
A written agreement between the property owner and a tenant that stipulates the payment and conditions under which the tenant may possess the real estate for a specified period of time.

Leasehold Estate
A way of holding title to a property wherein the mortgagor does not actually own the property but rather has a recorded long-term lease on it.

Lease-Purchase Mortgage Loan
An alternative financing option that allows low- and moderate-income home buyers to lease a home with an option to buy. Each month's rent payment consists of principal, interest, taxes and insurance (PITI) payments on the first mortgage plus an extra amount that accumulates in a savings account for a down payment.

Legal Description
A property description, recognized by law that is sufficient to locate and identify the property without oral testimony.

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

Letter of Intent
A formal notification that a buyer intends to buy a property. It is not legally enforceable.

Liabilities
A person's financial obligations. Liabilities include long-term and short-term debt, as well as any other amounts that are owed to others.

Liability Insurance
Insurance coverage that offers protection against claims alleging that a property owner's negligence or inappropriate action resulted in bodily injury or property damage to another party. It is usually part of a homeowner’s insurance policy.

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

Lifetime Payment Cap
For an adjustable-rate mortgage (ARM), a limit on the amount that payments can increase or decrease over the life of the mortgage.

Lifetime Rate Cap
For an adjustable-rate mortgage (ARM), a limit on the amount that the interest rate can increase or decrease over the life of the loan.

Line of Credit
An agreement by a commercial bank or other financial institution to extend credit up to a certain amount for a certain time to a specified borrower.

Liquid Asset
A cash asset or an asset that is easily converted into cash.

Loan
A sum of borrowed money (principal) that is generally repaid with interest.

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

Loan Application Fee
Fee charged by a lender to cover the initial costs of processing a loan application. The fee can include the cost of obtaining a property appraisal and a credit report.

Loan Commitment

A lender's promise to advance a specific sum on specific terms.

Loan Officer
Also referred to by a variety of other terms, such as lender, loan representative, loan "rep," account executive, and others. The loan officer serves several functions and has various responsibilities: they solicit loans, they are the representatives of the lending institution, and they represent the borrower to the lending institution.

Loan Origination Fee
Fee charged by a lender to cover administrative costs of processing a loan.

Loan-to-Value Ratio (LTV)
The relationship between the amount of the mortgage loan and the appraised value of the property expressed as a percentage.

Lock or Lock-In
A lender's guarantee of an interest rate for a set period of time. The time period is usually that between loan application approval and loan closing. The borrower wants the lock to stay in effect until closing.

Lock-in Period
The time period during which the lender has guaranteed an interest rate to a borrower.

Lowball Offer
A way-below-market bid a buyer makes on a property or item.

Margin
The amount predetermined by the lender that is added to the index on an adjustable rate mortgage to establish the adjusted interest rate.

Market Value
The highest price that a buyer would pay and the lowest price a seller would accept on a property. Market value may be different from the price a property could actually be sold for at a given time.

Maturity
The date on which the principal balance of a loan becomes due and payable.

Merged Credit Report
A credit report that reports the raw data pulled from two or more of the major credit repositories. Contrast with a Residential Mortgage Credit Report (RMCR) or a standard factual credit report.

Mixed-Income Housing
A neighborhood whose residents earn widely varying wages and salaries.

Modification
Occasionally, a lender will agree to modify the terms of your mortgage without requiring you t refinance. If any changes are made, it is called a modification.

Monthly Fixed Installment
That portion of the total monthly payment that is applied toward principal and interest. When a mortgage negatively amortizes, the monthly fixed installment does not include any amount for principal reduction and doesn't cover all of the interest. The loan balance therefore increases instead of decreasing.

Mortgage
A legal document by which real property is pledged as security for the repayment of a loan. A lender can take possession of the property if the borrower stops making payments.

Mortgagee
The lender in a mortgage loan transaction. Property is used as collateral to secure payment.

Mortgagor
The borrower in a mortgage loan transaction. Property is used as collateral to secure payment.

Mortgage Banker
One who originates home loans, sells them to investors, services monthly payments and handles escrow. Some mortgage bankers originate mortgages exclusively for resale in the secondary mortgage market.

Mortgage Broker
An individual or company that charges a service fee to bring borrowers and lenders together for the purpose of loan origination.

Mortgage Insurance
Insurance to protect the lender in case you default on your loan. With conventional loans, mortgage insurance is generally not required if you make a down payment of at least 20% of the home's appraised value. Also known as MI or PMI (Private Mortgage Insurance).

Mortgage Insurance Premium (MIP)
The amount paid by a mortgagor for mortgage insurance, either to a government agency such as the Federal Housing Administration (FHA) or to a private mortgage insurance (MI) company.

Mortgage Life and Disability Insurance
A type of term life insurance often bought by borrowers. The amount of coverage decreases as the principal balance declines. Some policies also cover the borrower in the event of disability. In the event that the borrower dies while the policy is in force, the debt is automatically satisfied by insurance proceeds. In the case of disability insurance, the insurance will make the mortgage payment for a specified amount of time during the disability. Be careful to read the terms of coverage, however, because often the coverage does not start immediately upon the disability, but after a specified period, sometime forty-five days.

Mortgage Note

Legal document obligating a borrower to repay a loan at a stated interest rate during a specified period of time. The agreement is secured by a mortgage or deed of trust or other security instrument. Also referred to as the note.

Mortgage Refinance
A refinanced mortgage is one in which a borrower pays off an old loan with a new loan. People who refinance a mortgage usually do so to get a lower interest rate, lower their payments or to take cash out of their equity.

Multi-Dwelling Units
Properties that provide separate housing units for more than one family, although they secure only a single mortgage.

Multiple Listing Service (MLS)
A database provided by the Board of Realtors that lists all properties in an area for sale or lease, excluding properties that are being sold directly by their owners without the aid of a real-estate agent.

Negative Amortization
A loan payment schedule in which the outstanding principal balance of a loan goes up rather than down because the payments do not cover the full amount of interest due. The monthly shortfall in payment is added to the unpaid principal balance of the loan. The danger of negative amortization is that the homeowner ends up owing more than the original amount of the loan. See deferred interest.

Net Income
The borrower's gross income after taxes have been paid.

Net Worth
The total value of all assets, such as house, car, furniture and investments, minus all debts, such as mortgages and credit card bills.

No Cash-Out Refinance
A home loan for a lower interest rate in an amount that does not exceed closing costs and the original mortgage's outstanding principal. This transaction is not intended to put cash in the hand of the borrower. Instead, the new balance is calculated to cover the balance due on the current loan and any costs associated with obtaining the new mortgage. Often referred to as a "rate and term refinance."

No-cost Loan
Many lenders offer loans that you can obtain at "no cost." You should inquire whether this means there are no "lender" costs associated with the loan, or if it also covers the other costs you would normally have in a purchase or refinance transactions, such as title insurance, escrow fees, settlement fees, appraisal, recording fees, notary fees, and others. These are fees and costs that may be associated with buying a home or obtaining a loan, but not charged directly by the lender. Keep in mind that, like a "no-point" loan, the interest rate will be higher than if you obtain a loan that has costs associated with it.

Non-Assumption Clause
A provision in a mortgage contract prohibiting the assumption of the mortgage by another borrower without the lenders permission.

Nonresident Alien
A person who is not a permanent resident or a citizen of the United States and who is generally taxed on income from U.S. sources.

Note
Legal document obligating a borrower to repay a loan at a stated interest rate during a specified period of time. See mortgage note.

Note Rate
The interest rate stated on a mortgage note.

Notice of Default
A step in the foreclosure process in which the lender formally tells a court that the borrower is in arrears.

Office of Thrift Supervision (OTS)
The regulatory and supervisory agency for federally chartered savings institutions. Formally known as Federal Home Loan Bank Board.

One-year Adjustable
Mortgage whose annual rate changes yearly. The rate is usually based on movements of a published index plus a specified margin, chosen by the lender.

Open House
A selling tool in which a real-estate agent advertises a property for sale and invites people to visit without making an appointment.

Option
A legal agreement giving someone the rights to buy, sell, or lease a property or item at specified terms for a specified period.

Origination Fee
The fee charged by a lender to prepare loan documents, make credit checks, inspect and sometimes appraise a property; usually computed as a percentage of the face value of the loan.

Owner Financing
A property purchase transaction in which the party selling the property provides all or part of the financing. See seller carry-back.

Partial Payment
A payment that is not sufficient to cover the scheduled monthly payment on a mortgage loan. Normally, a lender will not accept a partial payment, but in times of hardship you can make this request of the loan servicing collection department.

Payment Cap

A contractual limit on the size of the monthly payment of an adjustable-rate mortgage or other variable rate loan.

Payment Change Date
The date when a new monthly payment amount takes effect on an adjustable-rate mortgage (ARM) or a graduated-payment mortgage (GPM). Generally, the payment change date occurs in the month immediately after the adjustment date.

Per Diem Interest
Interest calculated per day

Periodic Payment Cap
A limit on the amount that payments can increase or decrease during any one-adjustment period.

Periodic Rate Cap
A limit on the amount that the interest rate can increase or decrease during any one-adjustment period, regardless of how high or low the index might be.

Permanent Loan
A long-term mortgage, usually ten years or more. Also called an "end loan."

Personal Property
Any property that is not real property.

PITI
Abbreviation for Principal, Interest, Taxes and Insurance -- the components of a monthly mortgage payment. See principal, interest, taxes, and insurance.

PITI Reserves
A cash amount that a borrower must have on hand after making a down payment and paying all closing costs for the purchase of a home. The principal, interest, taxes, and insurance (PITI) reserves must equal the amount that the borrower would have to pay for PITI for a predefined number of months.

Planned Unit Development (PUD)
A type of ownership where individuals actually own the building or unit they live in, but common areas are owned jointly with the other members of the development or association. Contrast with condominium, where an individual actually owns the airspace of his unit, but the buildings and common areas are owned jointly with the others in the development or association.

Pledged Account Mortgage (PAM)
Money is placed in a pledged savings account and this fund plus earned interest is gradually used to reduce mortgage payments.

Points (Loan Discount Points)
A point equals 1% of the mortgage loan amount. Some lenders charge "origination points" to cover expenses of making a loan. Some borrowers pay "discount points" to reduce the loan's interest rate.

Power of Attorney
A legal document in which the signer authorizes someone to conduct business in his or her name -- signing title documents and checks, for example.

Pre-Approval
The process of determining how much money a potential homebuyer could borrow before they apply for a loan.

Prepaid Expenses
Necessary to create an escrow account or to adjust the seller's existing escrow account. Can include taxes, hazard insurance, private mortgage insurance and special assessments.

Prepaid Interest
Interest that is paid in advance of when it is due. Typically charged to a borrower at closing to cover interest on the loan between the closing date and the first payment date.

Prepayment
A privilege in a mortgage permitting the borrower to make payments in advance of their due date.

Prepayment Penalty
A lender's charge to the borrower for paying off the loan before the end of the term. Prepayment penalties are allowed in some form (but not necessarily imposed) in many states.

Pre-Qualification
A non-binding process of determining how much money a prospective homebuyer will be eligible to borrow prior to application for a loan. Information submitted during pre-qualification is subject to verification at application.

Primary Mortgage Market
Lenders, such as savings and loan associations, commercial banks, and mortgage companies, who make mortgage loans directly to borrowers. These lenders sometimes sell their mortgages to the secondary mortgage markets such as to FNMA or GNMA, etc.

Prime Rate
The interest rate that banks charge to their preferred customers. Changes in the prime rate are widely publicized in the news media and are used as the indexes in some adjustable rate mortgages, especially home equity lines of credit. Changes in the prime rate do not directly affect other types of mortgages, but the same factors that influence the prime rate also affect the interest rates of mortgage loans.

Principal
The amount borrowed or remaining unpaid. The part of the monthly payment that reduces the remaining balance of a mortgage.

Principal Balance
The outstanding balance of principal on a mortgage not including interest or any other charges.

Principal, Interest, Taxes, and Insurance (PITI)
The four components of a monthly mortgage payment. Principal refers to the part of the monthly payment that reduces the remaining balance of the mortgage. Interest is the fee charged for borrowing money. Taxes and insurance refer to the monthly cost of property taxes and homeowners insurance, whether these amounts that are paid into an escrow account each month or not.

Private Mortgage Insurance (PMI)
Insurance to protect the lender in case you, as the borrower, default on your loan. With conventional loans, mortgage insurance is generally not required if you make a down payment of at least 20% of the home's purchase price. Although PMI protects the lender, it is paid monthly (or in a lump sum at closing) by the borrower.

Promissory Note
A written promise to repay a specified amount over a specified period of time.

Property Taxes
Taxes figured on the value of property you own, including real estate, boats, cars, recreational vehicles and business inventories.

Public Auction
A meeting in an announced public location to sell property to repay a mortgage that is in default.

PUD (Planned Unit Development)
A project or subdivision that includes common property that is owned and maintained by a homeowners' association for the benefit and use of the individual PUD unit owners.

Purchase Agreement
A document in which a property's buyer and seller approve the price and other terms of the transfer of the title. Also known as an agreement of sale, a purchase contract or a sale contract.

Purchase Money Transaction
The acquisition of property through the payment of money or its equivalent.

Qualifying Ratios
Calculations used to determine if a borrower can qualify for a mortgage. They consist of two separate calculations: a housing expense as a percent of income ratio and total debt obligations as a percent of income ratio.

Quitclaim Deed
A deed that transfers without warranty whatever interest or title a grantor may have at the time the conveyance is made.

Rate and Term Refinance
A home loan for a lower interest rate in an amount that does not exceed closing costs and the original mortgage's outstanding principal. This transaction is not intended to put cash in the hand of the borrower. Instead, the new balance is calculated to cover the balance due on the current loan and any costs associated with obtaining the new mortgage. Often referred to as a "no cash-out refinance."

Rate Lock
A commitment issued by a lender to a borrower or other mortgage originator guaranteeing a specified interest rate and lender costs for a specified period of time.

Realtor®
A real estate broker or an associate holding active membership in a local real estate board affiliated with the National Association of Realtors.

Real Estate Agent
A person licensed to negotiate and transact the sale of real estate on behalf of the property owner.

Real Estate Settlement Procedures Act (RESPA)
RESPA is a federal law that gives consumers the right to review estimated settlement costs. The law requires lenders to provide this information.

Real Financing Cost

The real financing cost is a consumer-oriented rate that takes into account the projected amount of time you tell us when you will actually have the loan, as well as the specific costs, fees and potential rate changes associated with it.

Real Property
Land and anything permanently affixed to it.

Reconveyance
The transfer of property back to the owner when a mortgage loan is fully repaid.

Recording
The act of entering documents concerning title to a property into public records.

Recording Fees
Money paid to the lender for recording a home sale with the local authorities, thereby making it part of the public records.

Refinance
Obtaining a new mortgage loan on a property already owned often to replace existing loans on the property.

Refinancing
The process of repayment of a debt with the proceeds from a new loan using the same property as security.

Remaining Balance
The amount of principal that has not yet been repaid. See principal balance.

Remaining Term
The original amortization term minus the number of payments that have been applied.

Rent Loss Insurance
Insurance that protects a landlord against loss of rent or rental value due to fire or other casualty that renders the leased premises unavailable for use and as a result of which the tenant is excused from paying rent.

Renegotiable Rate Mortgage
A loan in which the interest rate is adjusted periodically. See adjustable rate mortgage.

Repayment Plan
An arrangement made to repay delinquent installments or advances.

Replacement Reserve Fund
A fund set aside for replacement of common property in a condominium, PUD, or cooperative project -- particularly that which has a short life expectancy, such as carpeting, furniture, etc.

Repossession
A legal process by which the lender or the seller forces a sale of a mortgaged property because the borrower has not met the terms of the mortgage. Also known as a foreclosure.

Rescission
The cancellation of a contract. With respect to mortgage refinancing, the law that gives the homeowner three days to cancel a contract in some cases once it is signed if the transaction uses equity in the home as security.

Reverse Annuity Mortgage (RAM)
A form of mortgage in which the lender makes periodic payments to the borrower using the borrower's equity in the home as collateral for and repayment of the loan. The document issued by the mortgagee when the mortgage loan is paid in full. Also called a "release of mortgage."

Revolving Liability
A credit arrangement, such as a credit card, that allows a customer to borrow against a pre-approved line of credit when purchasing goods and services. The borrower is billed for the amount that is actually borrowed plus any interest due.

Right of First Refusal
A provision in an agreement that requires the owner of a property to give another party the first opportunity to purchase or lease the property before he or she offers it for sale or lease to others.

Right of Ingress or Egress
The right to enter or leave designated premises.

Right of Survivorship
In joint tenancy, the right of survivors to acquire the interest of a deceased joint tenant.

Sale Leaseback
A technique in which a seller deeds property to a buyer for a consideration, and the buyer simultaneously leases the property back to the seller.

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

Satisfaction of Mortgage
The document issued by the mortgagee when the mortgage loan is paid in full. Also called a "release of mortgage."

Second Mortgage
A mortgage made subsequent to another mortgage and whose rights are subordinate to the first mortgage.

Secondary Mortgage Market
The place where primary mortgage lenders sell the mortgages they make to obtain more funds to originate more new loans. It provides liquidity for the lenders.

Security
The property that will be pledged as collateral for a loan.

Security Instrument
Mortgage or deed of trust evidencing the pledge of real estate as collateral for the loan.

Seller Carry-back
An agreement in which the owner of a property provides financing, often in combination with an assumable mortgage. See owner financing.

Seller Contributions
Payment by the seller or any other interested party of some or all of the purchaser's closing costs.

Seller's Market
Market conditions that favor sellers. With too few sellers and too few properties for sale, the buyers may be forced to compete and pay more for the same property.

Servicer
An organization that collects principal and interest payments from borrowers and manages borrowers' escrow accounts. The servicer often services mortgages that have been purchased by an investor in the secondary mortgage market.

Servicing
All the steps and operations a lender performs to keep a loan in good standing, such as collection of payments, payment of taxes, insurance, property inspections and the like.

Settlement
The settlement or closing is the consummation of your real estate transaction. The closing transaction includes the delivery of a deed, signing of legal documents and the disbursement of the funds necessary to complete the sale and loan transaction. See closing.

Settlement Costs
Money paid by the borrowers and sellers to affect the closing of a mortgage. See closing costs.

Settlement Costs HUD guide
HUD-published booklet that provides an overview of the lending process, and that is given to consumers after completing loan application.

Settlement Sheet
The computation of costs payable at closing which determines the seller's net proceeds and the buyer's net payment. See HUD-1 Settlement Statement.

Shared Appreciation Mortgage (SAM)
A mortgage in which a borrower receives a below-market interest rate in return for which the lender (or another investor such as a family member or other partner) receives a portion of the future appreciation in the value of the property. May also apply to mortgage where the borrowers shares the monthly principal and interest payments with another party in exchange for part of the appreciation.

Simple Interest
Interest that is computed only on the principal balance.

Standard Payment Calculation
The method used to determine the monthly payment required to repay the remaining balance of a mortgage in substantially equal installments over the remaining term of the mortgage at the current interest rate.

Step-Rate Mortgage
A mortgage that allows for the interest rate to increase according to a specified schedule (i.e., seven years), resulting in increased payments as well. At the end of the specified period, the rate and payments will remain constant for the remainder of the loan.

Subdivision
A housing development that is created by dividing a tract of land into individual lots for sale or lease.

Subordinate Financing
Any mortgage or other lien that has a priority that is lower than that of the first mortgage.

Survey
A measurement of land, prepared by a licensed land surveyor, showing the location of

the land with reference to known points, its dimensions, and the location and dimensions of any buildings.

Sweat Equity
Equity created by a purchaser performing work on a property being purchased.

Swing Loan
A second trust that is collateralized by the borrower's present home allowing the proceeds to be used to close on a new house before the present home is sold. Also known as "bridge loan."

Tax Impound
Money paid to and held by a lender for annual tax payments.

Tax Lien
Claim against a property for unpaid taxes.

Tax Sale
Sale of property by a government body as a result of non-payment of taxes.

Tenancy in Common
As opposed to joint tenancy, when there are two or more individuals on title to a piece of property, this type of ownership does not pass ownership to the others in the event of death.

Term
The period of time within which a loan must be paid off.

Third-party Origination
When a lender uses another party to completely or partially originate, process, underwrite, close, fund, or package the mortgages it plans to deliver to the secondary mortgage market.

Title
A document that gives evidence of an individual's ownership of property. Also indicates the rights of ownership and possession of the property.

Title Insurance
A policy, usually issued by a title insurance company, which insures a homebuyer against errors in the title search. The cost of the policy is usually a function of the value of the property, and is often borne by the purchaser and/or seller. Policies are also available to protect the lender's interests.

Title Insurance Company
A company that insures title to property.

Title Search
An examination of public records to ensure that the seller is the legal owner of a property and that there are no liens or other claims against the property. Usually is performed by a title company.

Total Expense Ratio
Total obligations as a percentage of gross monthly income including monthly housing expenses plus other monthly debts.

Trans Union
One of the three largest credit bureaus in the United States.

Transfer of Ownership
Any means by which the ownership of a property changes hands. Lenders consider all of the following situations to be a transfer of ownership: the purchase of a property "subject to" the mortgage, the assumption of the mortgage debt by the property purchaser, and any exchange of possession of the property under a land sales contract or any other land trust device.

Transfer Tax
State of local tax paid when title passes from one owner to another.

Treasury Index
An index that is used to determine interest rate changes for certain adjustable-rate mortgage (ARM) plans. It is based on the results of auctions that the U.S. Treasury holds for its Treasury bills and securities or is derived from the U.S. Treasury's daily yield curve, which is based on the closing market bid yields on actively traded Treasury securities in the over-the-counter market.

Truth-In-Lending (TIL)
A federal law requiring disclosure of the Annual Percentage Rate to homebuyers shortly after they apply for the loan. Also known as Regulation Z.

Two-Step Mortgage
A mortgage in which the borrower receives a below-market interest rate for a specified number of years (most often seven or 10), and then receives a new interest rate adjusted (within certain limits) to market conditions at that time. The lender sometimes has the option to call the loan due with 30 days notice at the end of seven or 10 years. Also called "Super Seven" or "Premier" mortgage.

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

URLA
An acronym for Uniform Residential Loan Application.

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

VA Loan
A long-term, low or no-down payment loan guaranteed by the Department of Veterans Affairs. Restricted to individuals qualified by military service or other entitlements. These

fixed-rate loans guaranteed are designed to make housing affordable for eligible U.S. veterans.

VA Mortgage Funding Fee
A premium of up to 1-7/8 percent (depending on the size of the down payment) paid on a VA-backed loan. On a $75,000 fixed-rate mortgage with no down payment, this would amount to $1,406 either paid at closing or added to the amount financed.

Variable Rate
Interest rate that changes periodically in relation to a specific index.

Variable Rate Mortgage (VRM)
See adjustable rate mortgage.

Verification of Deposit (VOD)
A document signed by the borrower's financial institution verifying the status and balance of his/her financial accounts.

Verification of Employment (VOE)
A document signed by the borrower's employer verifying his/her position and salary.

Vested
Having the right to use a portion of a fund such as an individual retirement fund. For example, individuals who are 100 percent vested can withdraw all of the funds that are set-aside for them in a retirement fund. However, taxes may be due on any funds that are actually withdrawn.

Veterans Administration (VA)
An agency of the federal government that guarantees residential mortgages made to eligible veterans of the military services. The guarantee protects the lender against loss and thus encourages lenders to make mortgages to veterans.

Waiver
Voluntary relinquishment or surrender of some right or privilege.

Walk-through
A final inspection of a home to check for problems that may need to be addressed prior to closing.

Warehouse Fee
Many mortgage firms must borrow funds on a short-term basis in order to originate loans that are to be sold later in the secondary mortgage market (or to investors). When the prime rate of interest is higher on short-term loans than on mortgage loans, the mortgage firm has an economic loss that is offset by charging a warehouse fee.

Wraparound mortgage
Results when an existing assumable loan is combined with a new loan, resulting in an interest rate somewhere between the old rate and the current market rate. The payments are made to a second lender or the previous homeowner, who then forwards the payments to the first lender after taking the additional amount off the top.

Yield to Maturity
The lender's percentage of annual return on actual funds loaned, assuming that the loan will be paid in full at maturity.

Zoning Ordinances
Local law establishing building codes and usage regulations for properties in a specified area.

3/1, 5/1, 7/1 and 10/1 ARMs
Adjustable-rate mortgages in which rate is fixed for three-year, five-year, seven-year and 10-year periods, respectively, but may adjust annually after that.