



GLOSSARY

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ADJUSTABLE-RATE MORTGAGE (ARM)

The interest rate on an adjustable-rate mortgage loan changes at specific times over the life of the loan, based on changes in an independent index. Interest rate or payment changes may be capped; if the latter occurs, negative amortization may result.

AMORTIZATION

A loan is repaid in equal installments, calculated over the term or life of the loan. In the early years, most of the loan payment is applied to interest, while in the latter years, most of it is applied to principal.

ANNUAL ESCROW STATEMENT

Each year, the servicer will forward borrowers an itemized statement showing the payments collected over the prior 12 months and how they were applied to principal, interest, taxes, and insurance. The statement should also disclose when the tax and insurance payments were made.

ANNUAL PERCENTAGE RATE (APR)

The total cost of a loan calculated on an annualized basis. APRs make it easier to compare loan products with different rate and point combinations.

APPRAISAL

Appraisals estimate the market value of a home based on comparisons with similar properties. Unlike a home inspection, the appraisal does not produced a detailed assessment of the systems or structure of the property.

APPRECIATION

The value of a property may increase, or appreciate, over time. Two factors that influence the value of a home are the economic health of the region and how well the property is maintained.

ASSUMPTION

Under an assumption, an individual takes over the existing mortgage of a property with the approval of the servicer. However, not all mortgage products may be assumed.

AUTOMATED UNDERWRITING

Automated underwriting is a computer-based approach that enables a lender to process a loan application more quickly, efficiently and objectively—and use more sophisticated measures of risk.



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BIWEEKLY	For most loans, payments are made on a monthly basis. However, with biweekly mortgages, payments are made every other week. Because each payment is equal to one-half the monthly payment, the equivalent of 13 monthly payments are made over a year. (In other words, 52 weeks divided by 2 equals 26 biweekly payments; 26 biweekly payments equal 13 monthly payments.)
CLOSING	At the closing or settlement, ownership of the property is legally transferred from the seller to the buyer.
CLOSING COSTS	The costs paid at closing by the buyer and seller. These costs are itemized on Closing Disclosure. Closing costs may range from 3% to 10% of the sales price of the home.
CLOSING DISCLOSURE (CD)	Lenders are required to provide borrowers the CD at least 3 business days before the scheduled closing. Replacing the 3 disclosures previously required before October 2015—the Good Faith Disclosure, the HUD-1 Settlement Statement, and the Truth in Lending disclosure—the CD summarizes the details of a borrower’s loan. Borrowers should check the specifics and resolve any discrepancies during the 3 days before closing.
COMMUNITY PROPERTY	Property acquired by husband, wife or both during marriage, which gives each spouse an interest in the property whether or not each appears in title.
CONDOMINIUM	A type of property ownership in which the owner holds title to an individual living unit and shares ownership of the common areas.
CONTINGENCY	A condition on the sales contract that must be met to make the contract legally binding. Typical contingencies include financing and appraisal.
CONVENTIONAL MORTGAGE	If a mortgage loan is not insured or guaranteed by the federal government, it is considered to be a conventional loan.
CO-OP	Co-ops or Co-operatives are a type of property ownership in which each Co-op owner holds a share in the corporation that owns the entire building.



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CREDIT SCORE	A credit score is a statistical method of measuring an individual's management of credit. It predicts the relative likelihood that the individual will repay a mortgage or other forms of debt. Most mortgage lenders use the credit score formula developed by Fair Isaac Corporation, known as the FICO® score.
DEED-IN-LIEU OF FORECLOSURE	The servicer agrees to accept the deed to your property in case of loan default. This option is typically considered only after all others have been explored.
DEPRECIATION	The value of a property may decrease, or depreciate, over time. Two factors that influence the value of a home are the economic health of the region and how well the property is maintained.
DISCOUNT POINTS	One discount point is 1% of the loan amount. These points represent interest paid up-front to the lender, rather than over the life of the loan. Typically, the higher the interest rate, the lower the discount points, and vice versa.
DISCRETIONARY EXPENSE	Discretionary expenses are within the control of the individual (<i>food, entertainment, etc.</i>), unlike fixed expenses that cannot be changed (<i>car payment, cable bill, etc.</i>).
DOWN PAYMENT	The portion of the sales price paid in cash. Down payments typically range from 3-5% for first-time homebuyers.
EARNEST MONEY	A portion of the down payment that is placed in escrow with the real estate agent when the sales contract is accepted. The earnest money deposit indicates the buyer's firm intention to purchase the property in question. If the contract is accepted by the seller, these funds will be for the purchaser's down payment and closing costs.
EQUITY	The difference between the value of the property and the amount owed on the mortgage. Equity increases over time as the mortgage is paid down or if the property increases in value.



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ESCROW ACCOUNTS

Lenders typically collect 1/12 of the annual payments due on property taxes, plus hazard and mortgage insurance premiums. These monthly payments are placed in an escrow account, from which the lender draws the tax and premium payments when they fall due.

FIXED-RATE LOAN

The interest rate on a fixed-rate mortgage loan will not change throughout the life of the loan.

FORBEARANCE

Under the terms of a formal, written agreement between the borrower and the servicer, the borrower's mortgage payments are reduced or suspended for a specific period of time. At the end of the period, the borrower is required to resume regular monthly payments, plus an additional amount to make up for the past-due amount.

FORECLOSURE

The legal process by which a lender sells a property because the loan is in default.

FOUR CS

In traditional underwriting, the lender examines the Four Cs to determine whether to grant the loan—Collateral, Capacity, Credit, and Capital.

GOVERNMENT MORTGAGES

Mortgage loans that are insured or guaranteed by the federal government.

GROSS MONTHLY INCOME

The amount an individual earns before taxes and other deduction are taken out of the paycheck.

HVAC

HVAC refers to the heating, ventilation and air-conditioning system of a home.

HOME ENERGY AUDIT

A home energy audit reviews where energy is used and wasted in a home.

HOME ENERGY RATING SYSTEM

A HERS audit examines the energy performance of the heating, cooling and hot-water use of a home in comparison with a "standard" home. The results of the study can be used to decide which energy-saving steps to take.



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- HOME EQUITY LOAN** Loans secured by a home that can be used for a broad variety of purposes—to consolidate loans, pay college tuition, take a vacation in New Zealand. The interest on home equity loan or lines of credit may be tax-deductible. Please consult your tax advisor for details. Borrowers should carefully review the terms of such loans and whether they are affordable—because, in the end, the home is at stake!
- HOME INSPECTION** A home inspection, conducted by a certified inspector, includes a detailed review of the structure and systems of the home. The inspection report itemizes the condition of each item inspected and makes recommendations on how to address any deficiencies. This inspection is not required by a lender, but is strongly recommended.
- HOME WARRANTY** Home warranties generally cover repairs to a specified part of a home, such as major appliances or the plumbing, electrical, heating and air-conditioning systems.
- HOUSING EXPENSE RATIO** In traditional mortgage underwriting, the housing expense ratio is used as a guideline to calculate how large the monthly housing expense payments should be, based on gross monthly income. For example, if a mortgage product has a housing expense ratio of 33%, the borrower's monthly housing expenses should not exceed 33% of his or her gross monthly income.
- JOINT TENANCY** A form of ownership under which owners have equal interest in the property and may sell their interest to whomever they choose. When one owner dies, the surviving owner(s) automatically inherit that share.
- LOAN ESTIMATE (LE)** Lenders must provide an LE to borrowers within 3 days of receiving a loan application. The LE summarizes the key information about the loan, including estimated interest rate, monthly payments and total closing costs, as well as estimated taxes and insurance. The LE should also explain whether the loan carries any prepayment penalty or negative amortization features. The LE is a standard form designed to help borrowers better understand the terms of a loan and allow them to compare different terms from different lenders, before the loan is approved or denied.



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LOAN MODIFICATION	With a loan modification, the servicer changes one or more of the terms of the loan to help the borrower bring the defaulted amount current. This option is generally used with borrowers whose financial problems are expected to be long-term.
LOAN OFFICER	Unlike a mortgage broker who has relationships with dozens of lenders, a loan officer works for only one lender. The loan officer should work with an applicant to make the best “match” between the applicant’s financial situation and the lender’s loan products.
LOAN TO VALUE (LTV)	The loan-to-value ratio is calculated by dividing the unpaid loan balance by the current value of the property.
MANUFACTURED (CHASSIS-BUILT) HOME	A factory-built home on a permanent frame with a removable transportation system, delivered and permanently attached to a site-built foundation.
MORTGAGE OR DEED OF TRUST	The Mortgage or Deed of Trust is the recorded evidence of the promise to repay the loan; if the loan is not repaid as promised, the lender may take over the property.
MORTGAGE BROKER	A mortgage broker acts as the intermediary between a borrower and the lender. Brokers must specify up-front exactly how they are being paid for their services.
MORTGAGE INSURANCE	Mortgage insurance reimburses the lender or investor for losses incurred during a foreclosure. The borrower pays the monthly mortgage insurance premium.
MULTIPLE LISTING SERVICE	A listing of properties for sale maintained by local members of the National Association of Realtors®.
NEGATIVE AMORTIZATION	Negative amortization may occur on adjustable-rate mortgage loans with payment caps. If the cap is reached, the difference between what the borrower is paying and what he or she would pay without the cap is added to the loan balance—resulting in negative amortization.



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NON-TRADITIONAL CREDIT	Limited or no traditional credit history— such as from use of credit cards, student or car loans—but individuals may document a good payment record using other sources, including rent, utilities, telephone, cable payments and other accounts.
NOTE	The Note is signed by the borrower at closing and is the formal promise to repay the mortgage loan according to the terms specified in the Note.
ORIGINATION POINT	Lenders may charge origination points to offset the administrative costs of processing and underwriting the loan. Each point is 1% of the loan amount.
PANELIZED HOME	Walls, floors and roof in small panel form are assembled at the site and attached to a foundation.
PITI	A mortgage payment includes four parts—Principal, Interest, Taxes and Insurance.
PRE-CUT HOME	Lumber is cut to specific lengths at the factory and then the home is constructed by workmen at the permanent site.
PREDATORY LENDERS	There is no single, clear-cut definition of predatory lending. Basically, a lender exhibits predatory behavior when placing its interests above the interests of the borrower. For example, a predatory lender will not hesitate to approve borrowers for a loan amount they cannot possibly afford.
PREFORECLOSURE SALE	Also called a “short sale.” Under this arrangement, the servicer agrees to accept the proceeds from the sale of a home even though the amount is less than owed.
PREPAYMENT PENALTY	If the borrower makes an additional principal payment or pays off the loan more quickly than the prescribed payment schedule, that borrower could incur a prepayment penalty.
PREPAYS	The lender may collect certain expenses at closing in advance of when they are due, such as collecting 1 full year’s premium for mortgage insurance and/or hazard insurance to set up the escrow accounts.



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RATE LOCK-IN	A written agreement under which the lender will lock in or guarantee an interest rate/point combination for a period of time after taking the loan application.
REFINANCE	To pay off one or more existing mortgage loans with funds received from a new mortgage on the same property -- usually done to reduce the interest rate or mortgage payment, or to draw out cash from the equity in the home.
REVERSE MORTGAGE	A mortgage in which a homeowner (age 62 or older) borrows money against the equity in the home in the form of periodic payments according to a selected schedule. The amount owed is typically repaid when the home is sold or it passes into an estate. Neither the senior nor the estate can be required to pay more than the value of this home. The borrower remains responsible for property taxes, homeowners insurance and other non-mortgage home expenses.
SECOND MORTGAGE	Second mortgages are so-called because the loan is subordinated to the first mortgage. In other words, the second mortgage lender stands in line behind the holder of the first mortgage in case of a foreclosure.
SERVICING	Collection of loan payments and performance of other mortgage-related services, including interactions with the borrowers, which may be performed by the lender itself or by a servicing company ("servicer") authorized to perform these tasks.
SOLE OWNERSHIP	Under sole ownership, title to the property is held in one person's name only.
SURVEY	A drawing or map of the precise boundaries of the property as well as easements, rights of way and other physical features.
TENANCY BY ENTIRETY	Married couples may hold title as "tenants by entirety." When one spouse dies, the property is automatically inherited by the surviving spouse.
TENANCY IN COMMON	If title to the property is held using this option and one owner dies, that ownership may go to his or her heirs, rather than to the surviving owner(s).



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TERM	The term is the maximum period of time over which the mortgage is repaid.
TITLE	A legal document evidencing the legal ownership of a property.
TITLE INSURANCE	Title insurance protects the holder of the policy against loss resulting from disputes over ownership of the property. The borrower is required to buy a policy for the lender and should also buy a policy to protect their own interests as well.
TOTAL DEBT RATIO	In traditional mortgage underwriting, the total debt ratio is used to calculate how large the monthly payments on housing expenses and other debts (<i>student and car loans, credit card debt, etc.</i>) should be, based on gross monthly income. For example, if a mortgage product has a total debt ratio of 38%, the borrower's housing expenses plus other debts should not exceed 38% of his or her gross monthly income.
TOWNHOUSE	A type of condominium in which one owns an individual townhouse living unit and shares ownership of the common areas.
TRANSFER OF SERVICING	At any point, the lender or servicer collecting the mortgage payments may transfer that responsibility to another servicer. The basic terms of the mortgage will remain unchanged and borrowers have a 60-day grace period in case their payments go to the wrong place.





Roadmap to
HOMEOWNERSHIP