

Terms and Definitions

Terms and Definitions **203(b):** FHA program which provides mortgage insurance to protect lenders from default; used to finance the purchase of new or existing one- to four family housing; characterized by low down payment, flexible qualifying guidelines, limited fees, and a limit on maximum loan amount of taxation **203(k):** this FHA mortgage insurance program enables homebuyers to finance both the purchase of a house and the cost of its rehabilitation through a single mortgage loan **A** **Amenity:** a feature of the home or property that serves as a benefit to the buyer but that is not necessary to its use; may be natural (like location, woods, water) or man-made (like a swimming pool or garden) **Amortization:** repayment of a mortgage loan through monthly installments of principal and interest; the monthly payment amount is based on a schedule that will allow you to own your home at the end of a specific time period (for example, 15 or 30 years) **Annual Percentage Rate (APR):** calculated by using a standard formula, the APR shows the cost of a loan; expressed as a yearly interest rate, it includes the interest, points, mortgage insurance, and other fees associated with the loan **Application:** the first step in the official loan approval process; this form is used to record important information about the potential borrower necessary to the underwriting process **Appraisal:** a document that gives an estimate of a property's fair market value; an appraisal is generally required by a lender before loan approval to ensure that the mortgage loan amount is not more than the value of the property **Appraiser:** a qualified individual who uses his or her experience and knowledge to prepare the appraisal estimate **ARM:** Adjustable Rate Mortgage; a mortgage loan subject to changes in interest rates; when rates change, ARM monthly payments increase or decrease at intervals determined by the lender; the change in monthly payment amount, however, is usually subject to cap **Assessor:** a government official who is responsible for determining the value of a property for the purpose of taxation **Assumable mortgage:** a mortgage that can be transferred from a seller to a buyer; once the loan is assumed by the buyer, the seller is no longer responsible for repaying it; there may be a fee and / or credit package involved in the transfer of an assumable mortgage. **B** **Balloon Mortgage:** a mortgage that typically offers low rates for an initial period of time (usually 5, 7, or 10) years; after that time period elapses, the balance is due or is refinanced by the borrower **Bankruptcy:** a federal law whereby a person's assets are turned over to a trustee and used to pay off outstanding debts; this usually occurs when someone owes more than they have the ability to repay **Borrower:** a person who has been approved to receive a loan and is then obligated to repay it and any additional fees according to the loan terms **Bridal Registry:** a program supported by the FHA that allows couples to open ("register" for) a bridal registry account into which family and friends can deposit gifts of cash; the funds in this account may then be used for a down payment on a house **Building code:** based on agreed upon safety standards within a specific area, a building code is a regulation that determines the design, construction, and materials used in building **Budget:** a detailed record of all income earned and spent during a specific period of time **C** **Cap:** a limit, such as that placed on an adjustable rate mortgage, on how much a monthly payment or interest rate can increase or decrease **Cash reserves:** a cash amount sometimes required to be held in reserve in addition to the down payment and closing costs; the amount is determined by the lender **Certificate of title:** a document provided by a qualified source (such as a title company) that shows the property legally belongs to the current owner; before the title is transferred at closing, it should be clear and free of all liens or other claims **Closing:** also known as settlement, this is the time at which the property is formally sold and transferred from the seller to the buyer; it is at this time that the borrower takes on the loan obligation, pays all closing costs, and receives title from the seller **Closing costs:** customary costs above and beyond the sale price of the property that must be paid to cover the vary by geographic location and are typically detailed to the borrower after submission of a loan application **Commission:** an amount, usually a percentage of the property sales price, that is collected by a real estate professional as a fee for negotiating the transaction **Condominium:** a form of ownership in which individuals purchase and own a unit of housing in a multi-unit complex; the owner also shares financial responsibility for common areas **Conventional loan:** a private sector loan, one that is not guaranteed or insured by the U.S. government **Cooperative (Co-op):** residents purchase stock in a cooperative corporation that owns a structure; each stockholder is then entitled to live in a specific unit of the structure and is responsible for paying a portion of the loan **Credit history:** history of an individual's debt payment; lenders use this information to gauge a potential borrower's ability to repay a loan **Credit report:** a record that lists all past and present debts and the timeliness of their repayment; it documents an individual's credit history **Credit bureau score:** number representing the of possibility a borrower may default; it is based upon credit history and is used to determine ability to qualify for a mortgage loan transfer of ownership at closing; these costs generally **D** **Debt-to-income ratio:** a comparison of gross income to housing and non-housing expenses; with the FHA, the monthly mortgage payment should be no more than 29% of monthly gross income (before taxes) and the mortgage payment combined with non-housing debts should not exceed 41% of income **Deed:** the document that transfers ownership of a property **Deed-in-lieu:** to avoid foreclosure ("in lieu" of foreclosure), a deed is given to the lender to fulfill the obligation to repay the debt; this process doesn't allow the borrower to remain in the house but helps avoid the costs, time, and effort associated with foreclosure **Default:** the inability to pay monthly mortgage payments in a timely manner or to otherwise meet

the mortgage terms agreement
 Delinquency: failure of a borrower to make timely mortgage payments under a loan
 Discount point: normally paid at closing and generally calculated to be equivalent
 to 1% of the total loan amount, discount points are paid to reduce the interest rate on a loan
 Down payment: the portion of a home's purchase price that is paid in cash and is not part of the mortgage loan
 E Earnest money: money put down by a potential buyer to show that he or she is serious
 about purchasing the home; it becomes part of the down payment if the offer is accepted, is returned if the offer
 is rejected, or is forfeited if the buyer pulls out of the deal
 EEM: Energy Efficient Mortgage; an
 FHA program that helps homebuyers save money on utility bills by enabling them to finance the cost of
 adding energy- efficiency features to a new or existing home as part the home purchase
 Equity: an owner's financial interest in a property; calculated by subtracting the amount still owed on the mortgage
 loan(s) from the fair market value of the property
 Escrow account: a with separate account into
 which the lender puts a portion of each monthly mortgage payment; an escrow account provides the
 funds needed for such expenses as property taxes, homeowner's insurance, mortgage insurance, etc. F
 Fair Housing Act: a law that prohibits discrimination in all facets of the home buying process on
 the basis of race, color, national origin, religion, sex, familial status, or disability
 Fair market value: the hypothetical price that a willing buyer and seller will agree upon when they are acting freely, carefully,
 and with complete knowledge of the situation
 Fannie Mae: Federal National Mortgage
 Association (FNMA); a federally-chartered enterprise owned by private stockholders that purchases residential
 mortgages and converts them into securities for sale an to investors; by purchasing mortgages, Fannie
 Mae supplies funds that lenders may loan to potential homebuyers
 FHA: Federal Housing
 Administration; established in 1934 to advance homeownership opportunities for all Americans; assists
 homebuyers by providing mortgage insurance to lenders to cover most losses that may occur when a
 borrower defaults; this encourages lenders to make loans to borrowers who might not qualify for conventional
 mortgages
 Fixed-rate mortgage: a mortgage with payments that remain the same throughout the
 life of the loan because the interest rate and other terms are fixed and do not change
 Flood Insurance: insurance that protects homeowners against losses from a flood; if a home is located in a flood plain, the
 lender will require flood insurance before approving a loan
 Foreclosure: a legal process in which
 mortgaged property is sold to pay the loan of the defaulting borrower
 Freddie Mac: Federal
 Home Loan Mortgage Corporation (FHLM); a federally-chartered corporation that purchases residential
 mortgages, securitizes them, and sells them to investors; this provides lenders with funds for new
 homebuyers
 G Ginnie Mae: Government National Mortgage Association (GNMA); a government-
 owned corporation overseen by the U.S. Department of Housing and Urban Development, Ginnie Mae
 pools FHA-insured and VA-guaranteed loans to back securities for private investment; as with Fannie Mae and
 Freddie Mac, the investment income provides funding that may then be lent to eligible borrowers by
 lenders
 Good faith estimate: an estimate of all closing fees including pre-paid and escrow items
 as well as lender charges; must be given to the borrower within three of the situation days after submission
 of a loan application
 H HELP: Homebuyer Education Learning Program; an educational
 program from the FHA that counsels people about the home buying process; HELP covers topics like
 budgeting, finding a home, getting a loan, and home maintenance; in most cases, completion of the program
 may entitle the homebuyer to a reduced initial FHA mortgage insurance premium-from 2.25% to 1.75%
 of the home purchase price
 Home inspection: an examination of the structure and mechanical systems to
 determine a home's safety; makes the potential homebuyer aware of any repairs that may be needed
 Home warranty: offers protection for mechanical systems and attached appliances against
 unexpected repairs not covered by home owners insurance; coverage extends over a specific time period and
 does not cover home's structure
 Homeowner's insurance: an insurance policy that
 combines protection against damage to a dwelling and its contents with protection against claims of
 negligence or inappropriate action that results in someone's injury or property damage
 Housing
 counseling agency: provides counseling and assistance to individuals on a variety of issues, including loan
 default, fair housing, and home buying
 HUD: the U.S. Department of Housing and Urban
 Development; established in 1965, HUD works to create a decent home and suitable living environment
 for all Americans; it does this by addressing housing needs, improving and developing American communities,
 and enforcing fair housing laws
 HUD-1 Statement: also known as the 'settlement sheet," it
 Itemizes all closing costs; must be given to the borrower at or before closing
 HVAC: Heating,
 Ventilation and Air Conditioning; a home's heating and cooling system
 I Index: a
 measurement used by lenders to determine changes to the interest rate charged on an adjustable rate mortgage
 Inflation: the number of dollars in circulation exceeds the amount of goods and services available
 for purchase; inflation results in a decrease in the dollar's value
 Interest: a fee charged for the
 use of money
 Interest rate: the amount of interest charged on a monthly loan payment; usually
 expressed as a percentage
 Insurance: protection against a specific loss over a period of time that is
 secured by the payment of a regularly scheduled premium
 J Judgment: a legal decision; when
 requiring debt repayment, a judgment may include a property lien that secures the creditor's claim by
 providing a collateral source
 L Lease purchase: assists low-to moderate-income homebuyers in
 purchasing a home by allowing them to lease a home with an option to buy; the rent
 payment is made up
 of the monthly rental payment plus an additional amount that is credited to an account for use as a down
 payment
 Lien: a legal claim against property that must be satisfied when the property is sold

Loan: money borrowed that is usually repaid with interest
Loan fraud: purposely giving incorrect information on a loan application in order to better qualify for a loan; may result in civil liability or criminal penalties
Loan-to-value (LTV) ratio: a percentage calculated by dividing the amount borrowed by the price or appraised value of the home to be purchased; the higher the LTV, the less cash a borrower is required to pay as down payment
Lock-in: since interest rates can change frequently, many lenders offer an interest rate lock-in that guarantees a specific interest rate if the loan is closed within a specific time
Loss mitigation: a process to avoid foreclosure; the lender tries to help a borrower who has been unable to make loan payments and is in danger of defaulting on his or her loan
M
Margin: an amount the lender adds to an index to determine the interest rate on an adjustable rate mortgage
Mortgage: a lien on the property that secures the promise to repay a loan
Mortgage banker: a company that originates loans and resells them to secondary mortgage lenders like Fannie Mae or Freddie Mac
Mortgage broker: a firm that originates and processes loans for a number of lenders
Mortgage insurance: a policy that protects lenders against some or most of the losses that can occur when a borrower defaults on a mortgage loan; mortgage insurance is required primarily for borrowers with a down payment of less than 20% of the home's purchase price
Mortgage insurance premium (MIP): a monthly payment - usually part of the mortgage payment – paid by a borrower for mortgage insurance
Mortgage Modification: a loss mitigation option that allows a borrower to refinance and/or extend the term of the mortgage loan and thus reduce the monthly payments
O
Offer: indication by a potential buyer of a willingness to purchase a home at a specific price; generally put forth in writing
Origination: the process of preparing, submitting, and evaluating a loan application; generally includes a credit check, verification of employment, and a property appraisal
Origination Fee: the charge for originating a loan; is usually calculated in the form of points and paid at closing
P
Partial Claim: a loss mitigation option offered by the FHA that allows a borrower, with help from a lender, to get an interest-free loan from HUD to bring their mortgage payments up to date
PITI: Principal, Interest, Taxes and Insurance -the four elements of a monthly mortgage payment; payments of principal and interest go directly towards repaying the loan while the portion that covers taxes and insurance (homeowner's and mortgage, if applicable) goes into an escrow account to cover the fees when they are due
PMI: Private Mortgage Insurance; privately-owned companies that offer standard and special affordable mortgage insurance programs for qualified borrowers
Pre-approve: lender commits to lend to a potential borrower; commitment remains as long as the borrower still meets the qualification requirements at the time of purchase
Pre-foreclosure sale: allows a defaulting borrower to sell the mortgaged property to satisfy the loan and avoid foreclosure
Pre-qualify: a lender informally determines the maximum amount an individual is eligible to borrow
Premium: an amount paid on a regular schedule by a policyholder that maintains insurance coverage
Prepayment: payment of the mortgage loan before the scheduled due date; may be subject to a prepayment penalty
Principal: the amount borrowed from a lender; doesn't include interest or additional fees
R
Radon: a radioactive gas found in some homes that, if occurring in strong enough concentrations, can cause health problems
Real estate agent: an individual who is licensed to negotiate and arrange real estate sales; works for a real estate broker
REALTOR: a real estate agent or broker who is a member of the NATIONAL ASSOCIATION OF REALTORS and its local and state associations
Refinancing: paying off one loan by obtaining another; refinancing is generally done to secure better loan terms (like a lower interest rate) costs of rehabilitation and home purchase into one
Rehabilitation mortgage: a mortgage that covers the costs of rehabilitating (repairing or improving) a property; some rehabilitation mortgages- like FHA's 203(k) - allow a borrower to roll the mortgage loan
RESPA: Real Estate Settlement Procedures Act; a law protecting consumers from abuses during the residential real estate purchase and loan process by requiring lenders to disclose all settlement costs, practices, and relationships
S
Settlement: another name for closing
Special Forbearance: a loss mitigation option where the lender arranges a revised repayment plan for the borrower that may include a temporary reduction or suspension of monthly loan payments
Subordinate: to place in a rank of lesser importance or to make one claim secondary to another
Survey: a property diagram that indicates legal boundaries, easements, encroachments, rights of way, improvement locations, etc.
Sweat equity: using labor to build or improve a property as part of the down payment
T
Title I: an FHA-insured loan that allows a borrower to make non-luxury improvements (like renovations or repairs) to their home; Title I loans less than \$7,500 don't require a property lien
Title insurance: insurance that protects the lender against any claims that arise from arguments about ownership of the property; also available for homebuyers
Title search: a check of public records to be sure that the seller is the recognized owner of the real estate and that there are no unsettled liens or other claims against the property
Truth-in-Lending: a federal law obligating a lender to give full written disclosure of all fees, terms, and conditions associated with the loan
Two-step mortgage: a type of adjustable rate mortgage that has one interest rate for a predetermined initial period and then adjusts to another rate that lasts for the term of the loan
U
Underwriting: the process of analyzing a loan application to determine the amount of risk involved in making the loan; it includes a review of the potential borrower's credit history and a judgment of the property value
V
VA: Department of Veterans Affairs: a federal agency which guarantees loans made to veterans; similar to mortgage insurance, a loan guarantee protects lenders against loss that may result from a borrower default

