

Mortgage Term Glossary

Table of Contents

Numbers.....	2
A.....	2
B.....	6
C.....	8
D.....	15
E.....	17
F.....	20
G.....	24
H.....	26
I.....	29
J.....	31
K.....	32
L.....	32
M.....	35
N.....	38
O.....	40
P.....	41
Q.....	45
R.....	45
S.....	48
T.....	52
U.....	55
V.....	55
W.....	56
Y.....	57
Z.....	57

Numbers

1003

A Fannie Mae loan application form designed by Fannie Mae and Freddie Mac that is used by lenders to obtain personal financial information from borrowers who apply for a mortgage loan secured by a one-to-four-unit residential real estate. Also known as: Uniform Residential Loan Application (URLA). It has been widely adopted by mortgage lenders as a standard loan application form and is often pronounced "ten-oh-three." Freddie Mac also uses the same application form, referring to it as the Freddie Mac Form 65.

1031 Exchange

A 1031 exchange allows resident and non-resident United States federal taxpayers to defer capital gains and recaptured depreciation taxes when exchanging real or personal property held for productive use in a trade, business, or for investment for like-kind real or personal property held for productive use in a trade, business, or for investment. The tax otherwise paid in a traditional sale is deferred indefinitely until the replacement property is sold or another 1031 exchange is initiated.

2-1 Buydown

A 2-1 buydown is a type of financing that lowers the interest rate on a mortgage for the first two years before reaching a permanent rate. Sellers and builders may offer buydown options to make a property more attractive to buyers, making payments during the initial period to the lender to subsidize the difference

4506-T

An IRS Form used to retrieve past tax returns, W-2, and 1099 transcripts that are on file with the IRS. It is used to validate income documentation for underwriting and quality control purposes.

A

Abstract of Title

A concise statement, usually prepared for a mortgagee or purchaser of real property, summarizing the history of a piece of loan, including all conveyances, interests, liens, and encumbrances that affect title to the property. A good and merchantable abstract of title shows

clear and marketable title, rather than showing only the history of the property.

Acceleration Clause

A loan-agreement provision that requires the debtor to pay off the balance sooner than the due date if some specified event occurs, such as failure to pay an installment or to maintain insurance.

Accrued Interest

Interest that is earned but not yet paid. For example: If your payment is August 1, you are paying interest for the previous month. Unlike rent, it is paid for the month, you are going to live in the apartment.

Acquisition Costs

The original cost of an asset.

Adjustable Rate Mortgage (ARM)

A mortgage in which the lender can periodically adjust the mortgage interest rate in accordance with fluctuations in an external market index. Also known as: Variable Rate Mortgage (VRM).

Adjusted Basis

Basis increased by capital improvements and decreased by depreciation deductions.

Adjustment Interval

On an Adjustable Rate Mortgage (ARM), the time between changes in the interest rate and/or monthly payment. Typically, one, three, or five years depending on the index.

Adjustment Period

Time between the adjustment dates for an Adjustable Rate Mortgage (ARM).

Affiliated Business Arrangement (ABA)

An arrangement in which a person refers a business to a real estate service involving a federally related mortgage loan that has either an affiliate relationship with as little as 1% ownership interest. Such persons directly or indirectly refer business to that provider and may influence the selection of that provider. An MLO that is also a Licensed Real Estate Agent requires an Affiliated Business Arrangement (AfBA) disclosure. AfBA is a violation of Section 8 of the Real Estate Settlement Procedures Act (RESPA), if not disclosed to the borrower with three business days of informing the borrower of the conflict of interest.

Agreement of Sale

An agreement that obligates someone to sell and may include a corresponding obligation for someone else to buy.

Alienation Clause

An alienation clause is a provision in the contract signed with the lender that states that the borrower must pay the mortgage in full before the borrower can transfer the property to another person. This is also known as a due-on-sale clause.

Alternative Documentation

A method of documenting a loan file by using information such as pay stubs, W-2 forms, tax returns and bank stubs instead of waiting on verifications sent to third parties for confirmation of statements made on the application.

American Land Title Association (ALTA)

The mission of ALTA is to improve the skills and knowledge of providers in the real property transaction, effectively advocate member concerns, and standardize products for industry use.

Amortization

The act or result of gradually extinguishing a debt, such as a mortgage, usually by contributing payments or principal each time a periodic interest payment is due.

Amortization Term

The length of time it will take to amortize the mortgage loan expressed in months. For example, a 30-year mortgage is a 360-month amortization term.

Annual Percentage Rate (APR)

The actual cost of borrowing money expressed in the form of an annualized interest rate.

Annuity

A fixed sum of money payable periodically, usually monthly or annually. These payments terminate upon the death of the designated beneficiary. Also, a right, often acquired under a life-insurance contract, to receive fixed payments periodically for a specified duration.

Appraisal

The determination of what constitutes a fair price for something or how its condition can be fairly stated at a point in time.

Appraisal Fee

A fee charged by a licensed certified appraiser to determine the fair market value.

Appraiser

An impartial person who estimates the value of something such as real estate.

Appreciation

An increase in an asset's value (often because of inflation).

Arbitration

A dispute-resolution process in which the disputing parties choose one or more neutral third parties to make a final and binding decision resolving the dispute. A third party may be chosen directly by mutual agreement, or indirectly by agreeing to have an arbitration organization select the third party.

Adjustable Rate Mortgage Disclosure

Describes the features of the Adjustable Rate Mortgage (ARM) loan which must be presented to the consumer within 3 days of application.

Adjustable Rate Mortgage Handbook (CHARM)

The consumer Handbook to Adjustable-Rate Mortgages must be presented within 3 days of application.

Asbestos

A soft gray mineral that was used as a building material in the past. It is no longer in use but can still be found in some older homes. When asbestos dust is inhaled it can cause serious diseases of the lungs.

Assessed Value

The value of an asset as determined by an appraiser for tax purposes.

Assessment

Determination of the rate or amount of something, such as a tax or damages.

Assessor

An official who evaluates or makes assessments, especially for purposes of taxation.

Asset

An owned item that has value.

Assignment

The transfer of rights or property.

Assignment of Mortgage/Assigned Loan

An assignment in which a mortgage lender or borrower transfers the mortgage to a third party.

Assumption (of Mortgage or Trust Deed)/Assumable

The acquisition of real property coupled with the assumption of personal liability for debt secured by that property. Assumption is not allowed by Fannie Mae, Freddie Mac or USDA. FHA and VA do allow for assumptions in certain situations.

Assumption Fee

The fee paid to a lender when an assumption takes place. It is usually paid by the purchaser.

Average Prime Offer Rate

The Average Prime Offer Rate (APOR) is an annual percentage rate that is based on average interest rates, fees, and other terms on mortgages offered to highly qualified borrowers.

B**Balance Sheet**

A statement of financial position as of the statement's date, disclosing the value of assets, liabilities, and equity.

Balloon Mortgage

A mortgage requiring periodic payments for a specified time and a lump-sum payment of the outstanding balance at maturity. The minimum term for a balloon mortgage under HOEPA is five (5) years.

Balloon Payment

A final loan payment that is usually much larger than the preceding regular payments. This payment discharges the principal balance of the loan.

Bait and Switch

The action (generally illegal) of advertising goods which are an apparent bargain, with the intention of substituting inferior or more expensive goods.

Basis Point

Basis points are used in computing and calculating the interest rate in real estate transaction. One basis point is equal to 1/100th of 1%, or 0.01%, and is used to denote the percentage change in a financial instrument.

Bankruptcy

A statutory procedure by which a usually insolvent debtor obtains financial relief and undergoes a judicially supervised reorganization or liquidation of the debtor's assets for the benefit of lenders. Chapter 11 or 13 remains on the credit report for 7 years, a Chapter 7 for 10 years.

Blanket Mortgage

A mortgage that covers an aggregation of property, or that secures indebtedness previously existing in various forms. For example: a mortgage covering two or more properties that are pledged to support a debt.

Bona fide

Made in good faith without fraud or deceit.

Bona-Fide Nonprofit Organization

Bona fide nonprofit organization means any organization that is exempt from taxation under Section 501(c)(3) of the Internal Revenue Code of 1986, or any subsequent corresponding internal revenue code of the United States, as amended from time to time.

Borrower (Mortgagor)

Someone who mortgages property.

Borrowers Signature Authorization

A form signed by the applicant authorizing the lender to obtain and verify information and documentation from third parties that is needed in connection with the application for mortgage loan.

Bridge Loan

A short-term loan that uses the borrower's equity to make a down payment on a new home. The Bridge Loan will be paid upon the sale of the existing home.

Building Code

A law or regulation setting forth standards for the construction, maintenance, occupancy, use, or appearance of buildings and dwelling units.

Buy-Down

Money paid by the buyer of a house to reduce the mortgage-interest payments.

Buy-Down Account for Temporary Buydowns

The account in which funds are held so they can be applied as each payment comes due for an interest rate buy-down plan.

Buyer's Broker/Agent

A real estate broker who acts as the agent of a purchaser of property. Statutes in many states permit prospective buyers to retain a licensed real estate agent. In some states, a buyer's broker is treated as the subagent of the broker with whom the owner lists property for sale and not the agent of the buyer.

Buyer's Market

A market in which supply significantly exceeds demand, resulting in lower prices.

C

Call Option

An option to buy something at a fixed rate price even if the market rises; the right to require another to sell.

Capacity

Gross income X the Debt to Income (DTI) ratio = the maximum mortgage and debt payments, the borrower can afford.

Cash Flow

The movement of cash through a business as a measure of profitability or liquidity.

Cash Out Refinance

Cash-out refinance gives the borrower a lump sum when they close their refinance loan. The loan proceeds are first used to pay off the borrower's existing mortgage(s), including closing costs and any prepaid items (for example real estate taxes or homeowners insurance); any remaining funds are the borrower to use as they wish.

Cashier's Check

A check drawn by a bank payable to another person. This is evidence that the payee has authorization from the bank for the amount of money represented by the check.

Certificate of Deposit

A banker's certificate acknowledging the receipt of money and promising to repay the depositor.

Certificate of Eligibility

A certificate issued by the Department of Veterans Affairs (VA) certifying a veteran's maximum benefits for a VA loan. This certificate is also known as the Certificate of Entitlement.

Certificate of Occupancy

A document indicating that a building complies with zoning and building ordinances and is ready to be occupied. A certificate of occupancy is often required before title can be transferred and the building occupied.

Certificate of Reasonable Value (CRV)

An appraisal issued by the Department of Veterans Affairs (VA) showing the property's fair market value.

Certificate of Title

A document indicating the ownership of real or personal property. This document also identifies any liens or other encumbrances.

Certificate of Veteran Status

Certificate given to veterans or reservists who have served 90 days of continuous active duty (including training time), which enables veterans to obtain lower down payments on VA loans.

Chain of Title

The ownership history of a piece of land, from its first owner to the present one. For the holder to have a good title, every prior negotiation must have been proper. If the necessary indorsement is missing or forged, the chain of title is broken, and no later transferee can become a holder.

Change Orders

A modification of the original construction plans ordered by the property owner or general contractor.

Clear Title

A title free from any encumbrances, burdens, or other limitations. I.e. a good and marketable title.

Civil Rights Act (1964)

Is a landmark civil rights and labor law in the United States that outlaw's discrimination based on race, color, religion, sex, or national origin. It prohibits unequal application of voter registration requirements, and racial segregation in schools, employment, and public accommodations. Enacted July 2, 1964.

Change Frequency

Change in the frequency of payment or interest rate of Adjustable Rate Mortgage (ARM).

Closing/Settlement

The final transaction between the buyer and seller whereby the conveyance of documents is concluded, and the money and property are transferred.

Closing Agent

An agent who represents the buyer and seller in the negotiation and closing of real property transactions by handling financial calculations and transfer of documents.

Closing Costs

The expenses that must be paid, usually in a lump sum at closing, apart from the purchase price and interest. These may include taxes, title insurance, and attorney's fees and any other cost assessed to the borrower to obtain the loan

Closing Date

The date scheduled for the signing of the documents on the real estate transaction.

Closing Statement

A written breakdown of the costs involved in the real estate transaction, usually prepared by a lender or an escrow agent.

Cloud on Title

A defect or potential defect in the owner's title to a piece of land arising from some claim or encumbrance, such as a lien, an easement, or a court order.

Co-Borrower

Any borrower in addition to the primary borrower whose name appears on the application. The co-borrower's along with the borrower's income, assets, liabilities, and credit history are considered in determining creditworthiness.

Collateral

Property that is pledged as security against a debt, such as mortgage.

Combined Loan-to-Value (CLTV)

Ratio of the total mortgage liens against the property to the lesser of either the appraised value or the sales price. On a refinance, it is first mortgage and the amount of the HELOC, or second mortgage drawn divided by the value.

Commission

The fee paid to an agent for a transaction usually as a percentage of the money received from the transaction.

Commitment

A binding offer by a lender to make a loan under certain terms or conditions to a borrower. Includes the amount of the mortgage, the interest rate, and repayment terms.

Common Areas

The common areas (ex. hallways, lobby, workout facilities) that all tenants may use, though the landlord retains control over and responsibility for it.

Community Property State

In community property states, the assets of each spouse are considered assets of the marital unit. The assets of each partner in the relationship are not legally separate from those of the spouse. That is, while a couple is married, creditors of one spouse, with certain restrictions, can seize the assets of both spouses

Community Reinvestment Act (1977)

Intended to encourage depository institutions to help meet the credit needs of the communities in which they operate, including low to moderate income neighborhoods, consistent with safe and sound banking operations.

Comparables

An abbreviation for "comparable properties" used in the appraisal process. Comparables are properties similar to the property under consideration. They have reasonably the same size, location, and amenities and have recently been sold. They must be similar property, within one mile of the subject property and no more than 6 months old. Comparables help the appraiser determine the approximate fair market value of the subject property.

Concession

The voluntary yielding to a demand for the sake of a settlement. In a real estate transaction, something given up or agreed to in sale negotiations. For example, the sellers may agree to help pay for closing costs.

Condition

A stipulation or prerequisite in a sales contract. If a court construes a contractual term to be a condition, then its breach will entitle the party to whom it is made to be discharged from all liabilities under the contract.

Condominium

A single real estate unit in a multi-unit development in which a person has both separate ownership of a unit and a common interest, along with the development's other owners, in the common areas.

Conforming Loan

A mortgage loan meeting the guidelines and are under the maximum amount of loans that Fannie Mae and Freddie Mac are legally allowed to buy.

Construction Mortgage

A mortgage used to finance a construction project.

Consumer Credit

Credit advanced to consumers for the purchase of goods or services.

Consumer Financial Protection Bureau (CFPB)

An independent federal agency that regulates consumer financial products and services. The Bureau protects consumers by restricting unfair and deceptive business practices, by promoting financial education, taking consumer complaints, and enforcing federal consumer-financial-protection laws. It was established by the Dodd-Frank Act in 2010 and began operating in 2011.

Consumer Reporting Agency (Credit Bureau)

An independent firm that collects, compiles and reports the credit activities of individuals which is made available, for a fee, to lenders or credit issuing entities investigating the creditworthiness of those applying for credit. Consumers may also access reports from each of the three major reporting agencies for free as required by law.

Contingency Clause

A clause within the sales contract stating that a certain condition must be met before a contract is legally binding, and the sale can close. Real estate contracts often have a specific date by which the contingency must be met. E.g. The buyer will often include an inspection contingency, requiring the home to be inspected for physical damages or problems before the sales contract is binding. The buyer will have the right to rescind if the contingency is not met.

Conventional Mortgage

A mortgage which the borrower gives a voluntary lien to the mortgage lender or other financial institution. These mortgages, which feature a fixed periodic payment and interest throughout the mortgage term, are typically used for home financing.

Conversion Clause/Option

A provision in an Adjustable Rate Mortgage (ARM) which allows the loan to be converted from an ARM to a fixed-rate mortgage at specified times during the term. Usually allowed at the end of the first adjustment period. Also known as a Convertible ARM.

Conveyance

The voluntary transfer of property.

Cooperative (Co-op) Project

A project in which a corporation holds the title to a residential property and sells shares to individual buyers, who then receive a proprietary lease as their title.

Counteroffer

An offeree's new offer that varies the terms of the original offer and that ordinarily rejects and terminates the original offer. A late or defective acceptance is considered a counteroffer.

Covenants

A formal agreement or promise to perform, or not perform, a particular act.

Credit

One's ability to borrow money.

Credit History

Information in the files of a credit bureau regarding an individual's debts and repayments (or non-repayments).

Credit Life Insurance

Life insurance on a borrower, usually in a consumer installment loan, in which the amount due is paid if the borrower dies.

Credit Report

A credit bureau's report on a person's financial status, usually including the approximate amounts and locations of a person's bank accounts, charge accounts, loans, other debts, bill-paying habits, defaults, bankruptcies, foreclosures, marital status, occupation, income, and lawsuits. It may indicate a High, Middle or Low Credit Score.

Credit Score

Statistically derived numeric expression of a person's creditworthiness that is used by lenders to assess the likelihood that the individual will repay their debts. Payment history, inquiries and credit utilization are some of the factors determining credit score.

Creditworthy

Financially sound enough that a lender will extend credit in the belief that default is unlikely.

D

Debt

Liability on a loan.

Declaration Page

The front page (or pages) of a policy that specifies the named insured, address, policy period, location of premises, policy limits, and other key information that varies from insured to insured. The declarations page is also known as the information page.

Delinquent loan

Delinquency means that a borrower is behind on payments. Once a borrower is delinquent for a certain period of time, the lender will declare the loan to be in default. The entire loan balance will become due at that time.

DD-214

Known as the Certificate of Release or Discharge from Active Duty, generally referred to as a "DD 214", is a document of the United States Department of Defense, issued upon a military service member's retirement, separation, or discharge from active duty in the Armed Forces of the United States

Debt-to-Income Ratio/Debt Ratio

The percentage of verified gross monthly income divided into total payments for monthly housing expenses, alimony, child support, car payments, and other installment debts, and payments on revolving or open-ended accounts such as credit cards.

Deed

A legal document that is signed and delivered from the seller to the borrower showing ownership of property.

Deed-in-Lieu of Foreclosure

Deed in which the mortgagor conveys all interest in the property to the mortgagee to satisfy a loan that is in default to avoid foreclosure proceedings. A written settlement agreement will always accompany deed-in-lieu. The lender waives the right to collect any deficiency based on a promissory note.

Deed of Reconveyance

A mortgage holder issues a deed of reconveyance to indicate that the borrower has been released from the mortgage debt. The deed transfers the property title from the lender, also called the beneficiary, to the borrower. This document is most commonly used when a mortgage has been paid in full.

Deed of Trust

A deed conveying the title of real property to a trustee as security until the grantor repays a loan. This type of deed resembles a mortgage. It is an alternative to a mortgage preferred by lenders because it is faster and cheaper to foreclose.

Default

The omission or failure to perform a legal or contractual duty, especially the failure to pay a debt when due.

Delinquency

A debt that is overdue in payment.

Department of Veterans Affairs (VA)

The cabinet-level department of the federal government responsible for operating programs that benefit veterans of military service and their families. It is headed by the Secretary of Veterans Affairs.

Depreciation

A reduction in the value or price of something, specifically, a decline in an asset's value because of use, wear, obsolescence, or age.

Discount Point

A fee equal to 1 percent of the loan amount that is prepaid interest on the mortgage loan. The more points, the lower the interest rate. Discount Points can only be used to reduce the interest rate. Borrowers can typically pay from 0-4 points.

Dodd-Frank Wall Street Reform & Consumer Protection Act

A 2010 federal statute that promotes the financial stability of the United States by improving account- ability and transparency in the financial system. The statute affects nearly every federal agency with jurisdiction over finance or consumer protection, and nearly every segment of the financial-services industry.

Double Selling

Double selling is a type of real estate or mortgage fraud that generally involves a mortgage broker. The mortgage broker takes the information from a potential borrower in order to obtain a mortgage loan. The borrower is usually in on the mortgage fraud scam.

Down Payment

A portion of the purchase price paid in cash (or its equivalent) at the time the sale agreement is executed.

Due-on-Sale Clause

A mortgage provision that gives a lender the option to accelerate the debt if the borrower transfers any part of the mortgaged real estate without the lender's consent.

E

Early Payment Default

Early Payment Default means, with respect to a Mortgage Loan, the failure of the Mortgagor to make any of the first three Monthly Payments due under the Mortgage Loan on or before its scheduled Due Date.

Earnest Money Deposit

A deposit paid (often in escrow) by a prospective buyer to show a good-faith intention to complete the transaction, and ordinarily forfeited if the buyer defaults. It is generally a percentage of the purchase price and it rarely exceeds 10 percent.

Easement

An interest in land owned by another person, consisting of the right to use or control the land, or an area above or below it, for a specific limited purpose. E.g., an ingress and egress easement for the right to access the land through the land of another. The land benefitting from an easement is called the dominant estate, while the land burdened by an easement is called the servient estate. Unlike a lease or license, an easement may last forever, but it does not give the holder the right to possess, take from, improve upon, or sell the land.

The primary recognized easements are:

- A right-of-way.
- A right of entry for any purpose relating to the dominant estate.
- A right to support of land and buildings.
- A right of light and air.
- A right to water.
- A right to do some act that would otherwise amount to a nuisance; and
- A right to place or keep something on the servient estate.

Economic Obsolescence

Obsolescence that results from external economic factors, such as decreased demand or changed governmental regulations.

Effective Interest Rate

The actual annual rate, which incorporates compounding when calculating interest, rather than the stated rate or coupon rate.

Eminent Domain

The inherent power of a governmental entity to take privately owned property and convert it to public use, subject to reasonable compensation for the taking.

Employer-Assisted Housing

A program in which an employer assists its employees in purchasing homes by helping with the down payment, closing costs, or monthly payments.

Encroachment

An interference with or intrusion onto another's property.

Encumbrance

A claim or liability that is attached to property and that may lessen its value, such as a lien or mortgage. An encumbrance cannot defeat the transfer of possession, but it remains after the property or right is transferred.

Entitlement

An absolute right to a benefit granted immediately upon legal requirement.

Equal Credit Opportunity Act (ECOA/Regulation B)

A federal statute that prohibits lenders from discriminating against credit applicants based on race, color, religion, national origin, age, sex, or marital status with respect to any aspect of a credit transaction.

Equitable Mortgage

A transaction that has the intent but not the form of a mortgage, and that a court of equity will treat as a mortgage.

Equity

The amount by which an interest in property exceeds secured claims or liens. The difference between the value of the property and all encumbrances on it.

Escrow

A legal document or property delivered by a promisor to a third party to be held by that third party for a given amount of time or until the occurrence of a condition at which time the third party is to hand over the document or property to the promiser.

Escrow Account(s)

A bank account generally held in the name of the depositor and an escrow agent that is returnable to the depositor or paid to a third person on the fulfillment of specified conditions.

Escrow Agent

The third-party depository of an escrow. An escrow holder is not a common-law agent because the holder does not act subject to the control of the parties to the escrow agreement.

Escrow Agreement

The instruction given to the third-party depository of an escrow.

Escrow Contract

The contract among buyer, seller, and escrow holder, setting forth the rights and responsibilities of each.

Escrow Holdback

An escrow holdback is simple money set aside that assures the seller will finish agreed upon work at a later time.

Eviction

The act or process of legally dispossessing a person of land or rental property.

Exclusive Right-to-Sell Listing

The right to sell a principal's products or to act as the seller's real estate agent to the exclusion of all others, including the owner. The listing agreement upon which the broker gets commission even if seller is the one who sells the house during the agreement period or for a certain period thereafter.

Exclusive Agency Listing

A listing giving one agent the right to be the only person, other than the owner, to sell the property during a specified period. A listing agreement upon which the broker does not get a commission if the seller sells the property themselves.

Executor

A person named by a testator to carry out the provisions of the testator's will.

F

Fair and Accurate Credit Transactions Act (FACT Act) 2003

A 2003 amendment to the federal Fair Credit Reporting Act providing free annual credit reports to consumers and establishing measures intended to help prevent identity theft. One of the Act's better-known and more heavily litigated provisions prohibits merchants from printing the expiration date or more than the last five digits of the card number on a point-of-sale credit card or debit card receipts.

Fair Credit Reporting Act (FCRA/Regulation V)

A 1970 federal statute that regulates disclosure and use of consumer-credit information and ensures the right of consumers to have access to and to correct their credit reports. Many states have enacted similar statutes.

Fair Housing Act (FHA)

A 1968 federal statute that prohibits discrimination based on race, sex, religion, family status, or national origin in the sale or rental of a dwelling, especially in the refusal to sell or rent.

Fair Market Value

The price that a seller is willing to accept and a buyer is willing to pay on the open market and in an arm's-length transaction, the point at which, supply and demand intersect.

Fannie Mae/Freddie Mac Loan Limit

The loan limits as set by FHFA for Fannie Mae and Freddie Mac loans. These numbers are higher in Alaska, Hawaii, Guam, and the U.S. Virgin Islands. They change yearly.

Federal Mortgage Loans

Federal Mortgage Loans are loans insured or guaranteed by the federal government. Examples are FHA, VA and USDA loans.

Federal National Mortgage Association (Fannie Mae/FNMA)

A privately owned and managed corporation chartered by the U.S. government that provides a secondary mortgage market for the purchase and sale of conventional conforming mortgages.

Federal Home Loan Mortgage Corporation (Freddie Mac/FHLMC)

A corporation that purchases both conventional conforming first mortgages from members of the Federal Reserve System and other approved banks.

Federal Housing Administration (FHA)

An agency in the U.S. Department of Housing and Urban Development responsible for facilitating FHA mortgage lending by insuring mortgage loans on houses meeting the agency's standards. The FHA was created in 1934.

Federal Reserve System (FRS)

The central bank that sets credit and monetary policy by fixing the reserves to be maintained by depository institutions, determining the discount rate charged by Federal Reserve Banks, and regulating the amount of credit that may be extended on any security. The Federal Reserve System was established by the Federal Reserve Act of 1913. It incorporates 12 central banks supervised by a Board of Governors whose members are appointed by the President and confirmed by the Senate.

Fee Simple

An interest in land that, being the broadest property interest allowed by law, endures until the current holder dies without heirs.

FHA Mortgage

A mortgage that is insured fully or partially by the Federal Housing Administration (FHA).

FHA Mortgage Insurance

Current Federal Housing Administration (FHA) upfront mortgage insurance premiums are 1.75 percent of the loan size. If an FHA-backed mortgage is used for a purchase mortgage and your loan size is \$300,000, then your upfront Mortgage Insurance Premium (MIP) will be \$5,250. The renewal premium varies by FHA product, generally $.85 \times \text{mortgage amount} \div 12$ = the monthly premium added to the monthly payment

Finance Charge

A finance charge is a fee charged for the use of credit or the extension of existing credit. It may be a flat fee or a percentage of borrowings, with percentage-based finance charges being the most common. A finance charge is often an aggregated cost, including the cost of carrying the debt itself along with any related transaction fees, account maintenance fees or late fees charged by the lender.

Firm Commitment

A promise from a lender to make a mortgage loan.

First Mortgage

A mortgage that is senior to all other mortgages or liens on the same property.

First-Time Home Buyer

An individual who has had no ownership in a principal residence during the 3-year period ending on the date of purchase of the property. This includes a spouse. If either meets the test, they are considered first-time homebuyers.

A single parent who has only owned with a former spouse while married.

Fixed Installment

The monthly payment due on a mortgage loan which includes both principal and interest.

Fixed Period Adjustable Rate Mortgage

An adjustable rate mortgage with an initial fixed interest rate period. After the fixed interest rate expires, the interest rate starts to adjust based on an index plus a margin. The amount by which the interest rate can adjust after the fixed period is usually subject to an interest rate cap.

Fixed-Rate Mortgage (FRM)

A mortgage with an interest rate that remains the same over the life of the mortgage regardless of market conditions.

Flood Certification Fee

Fee issued to the client which covers the cost of the assessment and is included in closing costs and fees.

Flood Insurance

Insurance that indemnifies against a loss caused by a flood. This type of insurance is often sold privately but subsidized by the federal government. Maximum coverage is \$250,000.

Floor

On an ARM loan, the margin is the floor and the lowest the interest rate can go over the life of the loan.

Forbearance

The act of refraining from enforcing a right, obligation, or debt. Permitting one to retain a loan of money after it has become due and payable is forbearing it. Forbearance, within the meaning of usury laws, is the giving of further time for the return of payment of money after the date upon which it became due.

Forced Placed Insurance

Lien holders will put forced place insurance onto a mortgaged property in cases where the borrower allows the coverage they were required to purchase to lapse. Lapses may be due to non-payment of premium, filing false claims, or other reasons. Forced place insurance will protect the property, the homeowner, and the lien holder. Future mortgage payments will reflect the added cost of the insurance

Foreclosure

A legal proceeding to terminate a mortgagor's interest in property, instituted by the lender (the mortgagee) either to gain title or to force a sale to satisfy the unpaid debt secured by the property.

Forfeiture

A destruction or deprivation of some estate or right because of the failure to perform some contractual obligation or condition. When a condition is not likely to occur until the obligee has relied on the expected exchange by, for example, performing or preparing to perform, a non-occurrence of the condition results in the obligee's loss of its reliance interest when the obligee loses the right to that exchange. This loss of reliance interest is often described as forfeiture.

Fraud Enforcement and Recovery Act of 2009 (FERA)

The law enhanced criminal enforcement of federal fraud laws, especially regarding financial institutions, mortgage fraud, and securities fraud or commodities fraud. Enacted May 2009.

Fully Amortized Mortgage

A mortgage in which the mortgagor pays the interest as well as a portion of the principal in the periodic payment. At maturity, the periodic payments will have completely repaid the loan. Also known as a self-liquidating mortgage. For example, 360 P&I payments on a 30-year loan will pay the loan in full.

G

General Contractor

Someone who contracts for the completion of an estate project, including purchasing all materials, hiring and paying subcontractors, and coordinating all the work.

General Warranty Deed

A seller promises that there are no defects in the title that arose or were created while the seller owned the property or while anyone prior to the seller owned the property.

Gift Letter

A letter to the lender from the donor stating a gift of money has been made to the buyer to purchase a specific property. The gift must come from an immediate blood relative and no evidence of repayment required.

Good Faith Estimate

Gives you an estimate of the costs of the mortgage loan. A form that lists basic information about the terms of a mortgage for which the applicant has applied. If the applicant applied for a mortgage before October 3, 2015, or if the applicant is applying for a reverse mortgage or HELOC, they will receive a Good Faith Estimate (GFE).

Government Mortgage

Mortgage insured by a government entity, such as Federal Housing Administration (FHA), Veteran's Administration (VA) or Rural Housing Service (RHS – USDA loans).

Government National Mortgage Association (Ginnie Mae/GNMA)

A federally owned corporation in the U.S. Department of Housing and Urban Development responsible for guaranteeing mortgage-backed securities composed of FHA insured or VA guaranteed mortgage loans. The Association purchases, on the secondary market, residential mortgages originated by local lenders; it then issues federally insured securities backed by these mortgages.

Graduated Payment Mortgage (GPM)

A mortgage whose initial payments are lower than its later payments. The payments are intended to gradually increase, as the borrower's income increases over time. This type of mortgage may result in negative amortization.

Grace Period

An extra period of time allowed for taking some required action (such as making payment) without incurring the usual penalty for being late. Article 9 of the Uniform Commercial Code (UCC) provides for a 20-day grace period after the collateral is received. During that time a purchase-money security interest must be perfected to have priority over any conflicting security interests.

Gramm-Leach-Bliley Act (GLB) 1999 – Regulation P

A federal statute that repealed both parts of the Glass-Steagall Act prohibiting combinations among banking, securities, and insurance companies, as well as related conflict-of-interest provisions for such companies' officers, directors, and employees. The Act also regulates the collection, disclosure, use, and protection of consumers' nonpublic personal information.

Gross Monthly Income

The total amount of a person's income before taxes.

Ground Rent

Rent paid by a tenant under a long-term lease for the use of undeveloped land, usually for the construction of a commercial building.

Growing-Equity Mortgage (GEM)

A mortgage that is fully amortized over a significantly shorter term than the traditional 30-year mortgage, with increasing payments each year.

Guarantee

Assumption of the liability of another's debts in the event of default.

Guarantee Mortgage

A mortgage that is guaranteed by a third party.

Guaranty

A promise to answer for the payment of some debt, or the performance of some duty, in case of the failure of another who is liable in the first instance.

H

Hazard Insurance

Insurance that protects property owners against damage caused by fires, severe storms, earthquakes, or other natural events. It will also protect the borrower against liability for someone that is injured on the property. If the specific event is covered within the policy, the property owner will receive compensation to cover the cost of any damage incurred.

Higher-Priced mortgage/High Priced Mortgage

In general, a higher-priced mortgage loan is one with an annual percentage rate, or APR, higher than a benchmark rate called the Average Prime Offer Rate. The Average Prime Offer Rate (APOR) is an annual percentage rate that is based on average interest rates, fees, and other terms on mortgages offered to highly qualified borrowers. A mortgage will be considered a higher-priced mortgage loan if the APR is a certain percentage higher than the APOR depending on what type of loan the borrower has. See the Federal Comprehensive Textbook for the thresholds.

High Cost Mortgage

In general, a high-cost mortgage is a type of loan where the loan exceeds one or more of the three thresholds. See Federal Comprehensive Textbook for the thresholds.

Home Equity Loan

A line of bank credit given to a homeowner, using the homeowner's equity in the home as collateral.

Home Inspection

A non-invasive visual examination of a residential dwelling, performed for a fee, which is designed to identify observed material defects within specific components of said dwelling.

Home Mortgage Disclosure Act of 1975 (HMDA/Regulation C)

This regulation provides the public loan data that can be used to assist in determining whether financial institutions are serving the housing needs of their communities, public officials in distributing public-sector investments to attract private investment to areas where it is needed, and in identifying possible discriminatory lending patterns. The regulation applies to certain financial institutions, including banks, savings associations, credit unions, and other mortgage lending institutions. Mortgage Brokers are exempt.

Homeowner's Insurance

Insurance that covers both damage to the insured's residence and liability claims made against the insured, especially those arising from the insured's negligence.

Homeowner's Warranty (HOW)

A warranty and insurance program that, among other coverage, insures a new home for ten years against major structural defects. The program was developed by the Home Owners Warranty Corporation, a subsidiary of the National Association of Home Builders. Builders often provide this type of coverage and many states provide similar warranty protection by statute.

Home Ownership and Equity Protection Act (HOEPA) 1994

HOEPA was enacted in 1994 as an amendment to the Truth-In-Lending Act (TILA) to address abusive practices in refinances and closed end home equity loans with high interest rates or high fees.

Housing and Urban Development (HUD)

The cabinet-level department of the federal government responsible for overseeing programs that are concerned with housing needs and fair-housing opportunities, and with improving and developing the country's communities. Established in 1965, headed by the Secretary of Housing and Urban Development.

Housing Code

A law or regulation setting standards for the construction, maintenance, occupancy, use, or appearance of buildings and dwelling units.

Housing and Economic Recovery Act of 2008

The Housing and Economic Recovery Act (HERA) was created to address the subprime mortgage crisis of 2008. The Housing and Economic Recovery Act allowed the Federal Housing Administration (FHA) to guarantee up to \$300 billion in new 30-year fixed rate mortgages for subprime borrowers. In order to participate, lenders were required to write down the balances on principal loans up to 90 percent of their current appraised value.

Housing Expenses-to-Income Ratio

A ratio comparing housing expenses to before-tax income that is used by lenders to qualify borrowers for a mortgage. The housing expense measure includes mortgage principal, interest payments, property taxes, hazard insurance, mortgage insurance, and association fees. The limit for housing is generally 28 percent of the expense-to-income ratio on manually underwritten conventional conforming loans.

HUD-1 Settlement Statement

Standard form at closing which is used to itemize services and fees charged to the borrower by the lender or broker when applying for a loan for the purpose of purchasing or refinancing real estate. This form is used only for Reverse Mortgages and HELOC's since TRID was implemented

Hybrid Loan

It performs like a fixed and adjustable rate loan. It has a fixed rate for an initial period before turning into an Adjustable Rate Mortgage (ARM). These initial periods are offered in 3, 5, 7, or 10-year terms.

I

Impound

The portion of a monthly mortgage payment that is earmarked to pay property taxes and property- insurance premiums.

Income Property

Property that produces income, such as 1- 4 family rental property.

Index

A number, usually expressed in the form of a percentage or ratio, commonly used in ARM loans, High Cost and High-Priced loans.

Indexed Rate

Also, referred to as the Fully Indexed Rate. An interest rate charged on loans to borrowers that is calculated by taking the sum of a benchmark index and a specified margin. The indexed rate is used to calculate the interest rate on an ARM.

Individual Retirement Account (IRA)

A savings or brokerage account to which a person may contribute up to a specified amount of earned income each year. The contributions, along with any interest earned in the account, are not taxed until the money is withdrawn after a participant reaches the age of 59 1/2 (or before then, if a 10 percent penalty is paid).

Inflation

A general increase in prices coinciding with a fall in the real value of money.

Initial Interest Rate

The interest rate that applies on the first day of the loan's term.

Inquiry

A request for a copy of your credit report by a lender or other business, often when you fill out a credit application and/or request more credit.

Insolvency

Insolvency is a term for when an individual or organization can no longer meet its financial obligations with its lender(s) as debts become due.

Insurance Binder

An insurance binder is a temporary insurance contract that offers the binder holder fully effective insurance coverage while they wait for the formal issuance, or in some cases rejection, of an insurance policy.

Installment

A periodic partial payment of a debt.

Installment Debt

A loan that is repaid by the borrower in regular installments. Installment debt is generally repaid in equal monthly payments that include interest and a portion of principal.

Interest

Interest is the charge for the privilege of borrowing money.

Interest Accrual Rate

The rate of interest that is added to the principal of a financial instrument between cash payments of that interest.

Interest Rate Buy Down Plan

Arrangement that allows the seller to deposit money to an account, from which the money is released each month to reduce the mortgagor's monthly payments during the early years of the mortgage.

Interest Rate Ceiling (Cap)

The maximum interest rate that a financial institution can charge a borrower for an Adjustable Rate Mortgage (ARM) or loan according to the contractual terms of the mortgage loan.

Interest Rate Change Date

Date upon which the rate of interest is subject to change.

Interest Rate Floor

The minimum interest rate allowed according to the contractual terms of the mortgage loan.

Interim Financing

A short-term loan secured to cover certain major expenditures, such as construction costs, until permanent financing is obtained.

Investment Property

Any asset purchased to produce a profit, whether from income or resale.

Investor

A buyer of a security or other property who seeks to profit from it without exhausting the principal.

J**Joint Liability**

Liability shared by two or more parties.

Joint Tenancy

A tenancy with two or more co-owners who are not spouses on the date of acquisition and have identical interests in a property with the same right of possession. A joint tenancy differs from a tenancy in common because each joint tenant has a right of survivorship to the other's share (in some states, this right must be clearly expressed in the conveyance – otherwise, the tenancy will be presumed to be a tenancy in common).

Judgment Lien

A lien imposed on a judgment debtor's nonexempt property. This lien gives the judgment lender the right to attach the judgment debtor's property.

Jumbo Mortgage

A mortgage loan in a principal amount that exceeds the dollar limits for Fannie Mae, Freddie Mac or government loans.

Junior Mortgage/Junior Lien(s)/Subordinate Loan(s)

A mortgage that is subordinate to another mortgage on the same property. A junior mortgage is also known as a second lien, junior lien or subordinate loan. Common 2nd liens are HELOC's or 2nd Mortgages

K

Keogh Plan

A tax-deferred retirement program developed for the self-employed. This plan is also known as an H.R. 10 plan, after the House of Representatives bill that established the plan.

L

Late Charge

An additional fee assessed on a debt when a payment is not received by the 15th of the month in which the payment is due.

Lender (Mortgagee)

A person or entity from which money is borrowed.

Lender Credit

A lender credit is money from a mortgage lender to help cover the mortgage-related closing costs associated with the purchase of a borrower's house. The lender may offer a borrower several thousand dollars in credit to cover most (or all) of those costs. That credit is then applied to the borrower's mortgage

Lease-Purchase Option

A rent-to-own purchase plan under which the buyer takes possession of the property with the first payment and takes ownership with the final payment. Such a lease is usually treated as an installment sale. Under a capital lease, the lessee is responsible for paying taxes and other expenses on the property.

Liabilities

Financial obligations in a specified amount. Any debt including an IRS lien,

Liability Insurance

Liability insurance provides the insured party with protection against claims resulting from injuries and damage to people and/or property. Liability insurance policies cover both legal costs and any payouts for which the insured party would be responsible if found legally liable. Intentional damage and contractual liabilities are generally not covered in these types of policies.

Lien

A legal right or interest that a lender has in another's property. This lasts until a debt or duty that it secures is satisfied. Typically, the lender does not take possession of the property on which the lien has been obtained.

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 mortgage.

Liquid Asset

An asset that is readily convertible into cash, such as a marketable security, a note, or an account receivable.

Loan

An act of lending.

Loan Application Fee

A fee the buyer pays to a lender when applying for a mortgage.

Loan Discount Points

Prepaid interest on the mortgage loan. The more points paid, the lower the interest rate. Typically, borrowers can pay for 0-4 points. 1% of the loan amount is a Discount Point. Discount points can only be used for the reduction of interest rate.

Loan Origination

The process by which a borrower applies for a new loan, and a lender processes that application. Origination generally includes all the steps from taking a loan application up to disbursement of funds.

Loan Origination Fee

A fee charged by a lender to cover the administrative costs of making a loan.

Loan Pool

A group of Mortgage Loans that is serviced for an Investor by the Seller or that collateralizes one or more classes of securities which is considered to be aggregated for the purposes of servicing.

Loan Servicing/Administration

The process by which a company collects interest, principal, and escrow payments from a borrower.

Loan-to-Value Ratio (LTV)

The ratio between the amount of a mortgage loan and the value of the property pledged as security for the mortgage, usually expressed as a percentage. For example, an \$80,000 loan on property worth \$100,000 results in a loan-to-value ratio of 80 percent - which is usually the highest ratio that lenders will agree to without requiring the debtor to buy mortgage insurance on a conventional conforming loan

Lock

A guarantee that the lender will deliver a specific combination of interest rate and points if the mortgage closes by a specified date.

Lock-In-Rate

A mortgage application interest rate that is established and guaranteed for a specified period.

London Interbank Offered Rate (LIBOR)

A daily compilation by the British Association of the rates that major international banks charge each other for large-volume, short-term loans of Eurodollars, with monthly maturity rates calculated out to one year. These daily rates are used as the underlying interest rates for derivative contracts in currencies other than the euro.

Long Term Debt

Is any amount of outstanding debt a company holds that has a maturity of 12 months or longer.

Low-Down-Payment Feature

A feature of some mortgages that can be fixed rate or ARM loans, that helps you buy a home with a low-down payment, may require mortgage insurance over 80% LTV.

M

Manufactured Housing

A type of prefabricated housing that is largely assembled in factories and then transported to sites of use. They are 320 square feet or more when assembled and built on a permanent chassis designed to be used as a dwelling with or without a permanent foundation. Manufactured homes are connected to the required utilities, and have within them plumbing, heating, air-conditioning, and electrical systems.

Margin

The yield an investor wants to earn over the life of the loan. It is also the lowest the rate can go on an ARM loan.

Market Condition Addendum (Form 1004MC)

The Market Conditions Addendum (Form 1004MC) is designed to enhance the transparency of the market trends and conditions conclusions made by the appraiser.

Marketable Title

A title that a reasonable buyer would accept because it appears to lack any defect and covers the entire property that the seller has purported to sell.

Material Misstatement

A material misstatement is information in the financial statements that is sufficiently incorrect that it may impact the economic decisions of someone relying on those statements.

Maturity Date

The date when a debt falls due, such as a debt on a promissory note or bond.

Mechanic's Lien

A statutory lien that secures payment for labor or materials supplied in improving, repairing, or maintaining real or personal property.

Merged Credit Report

A credit report that contains information from at least three credit bureaus. Any duplicate entries are combined to provide a concise summary of outstanding liabilities and credit history.

Mixed Use Property

Commercial and Residential uses at the same time.

Modification

A process where the terms of a payment are modified outside the original terms of the contract agreed to by the lender and borrower.

Money Market Account

An interest-bearing account at a bank or other financial institution. Such an account usually pays interest competitive with money-market funds but allows a limited number of transactions per month.

Monthly Fixed Installment

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

Monthly Housing Expense

The sum of a homeowner's monthly mortgage principal and interest payments, plus, hazard insurance premiums, property taxes, and homeowner's association fees.

Mortgagee Clause

A mortgagee clause is a property insurance provision granting special protection for a mortgagee (e.g., financial institution that has an interest in the property) named in the policy that, in effect, sets up a separate contract between the insurer and the mortgagee.

Mortgage

A conveyance of title to property that is given as a voluntary lien for the payment of a debt or the performance of a duty and that will become void upon payment or performance according to the stipulated terms. This conveyance is a lien against the property. Also refers to the instrument specifying the terms of such a transaction. The loan on which such a transaction is based. In essence any real-property security transaction, including a deed of trust.

Mortgage Banker

An individual or organization that originates real estate loans for a fee, resells them to other parties, and may service the monthly payments.

Mortgage Broker

An individual or organization that markets mortgage loans and brings lenders and borrowers together. A mortgage broker does not underwrite, fund or service mortgage loans.

Mortgage Disclosure Improvement Act (MDIA) 2008

Enacted to ensure that consumers receive good faith estimates of Truth-In-Lending-Act (TILA) disclosures at the beginning of the application process and to provide sufficient time for consumers to review the disclosures before consummation can take place.

Mortgage Insurance (MI)

Insurance that protects the lender in the case the borrower goes into default.

Mortgage Insurance Premium (MIP)

An insurance policy used in FHA loans, ensuring the lender if the borrower goes into default and is not allowed to be cancelled during the life of the loan. The FHA assesses either an “upfront” MIP at the time of closing, or an annual MIP that is calculated every year and paid in 12 installments.

Mortgage Investor

A mortgage investor is the party that purchases mortgages from lenders. In most cases, these investors are actually government entities or government-sponsored enterprises that purchase home loans so the lender is able to continue selling new home loans.

Mortgage Lender

A mortgage lender is a bank or financial company that lends money to borrowers to purchase a home.

Mortgage Life Insurance

A form of insurance specifically designed to protect a repayment mortgage. If the policyholder were to die while the mortgage life insurance was in force, the policy would pay out a capital sum that will be just sufficient to repay the outstanding mortgage.

Mortgage Loan

A loan secured by a mortgage or deed of trust on real property.

Mortgage Note

A note evidencing a loan for which real property has been offered as security.

Mortgage Rate

The rate of interest charged by a mortgage lender.

Multifamily Mortgage

A residential mortgage on a dwelling that is designed to house more than four families, such as an apartment complex.

Multiple Listing Service (MLS)

A listing stating the agent will allow other agents to try to sell the property. Under this agreement, the original agent gives the selling agent a percentage of the commission or some other stipulated amount.

Mutual Funds

An investment company that invests its shareholders' money in a diversified selection of securities.

N

Negative Amortization

When a mortgage allows the borrower to make minimum payments that are less than the entire amount of interest owed, the unpaid interest is deferred by adding it to the loan balance. Also known as a deferred interest.

Net Effective Income

The amount of after-tax income produced by a specific asset or group of assets, calculated by subtracting federal income tax from gross income.

Net Monthly Income

Take home pay after taxes and payroll deductions.

Net Worth

A measure of one's wealth, usually calculated as the excess of total assets over total liabilities.

Non-Assumption Clause

A statement in a mortgage contract forbidding the assumption of the mortgage by another borrower without the prior approval of the lender.

Non-Conforming Loan

Any loan that does not Fannie Mae or Freddie Mac lending requirements. Reasons include the loan amount is higher than the conforming loan limit, lack of sufficient credit, the unorthodox nature of the use of funds, or the collateral backing it.

Non-Discharge Debt

A debt, such as one for delinquent taxes, that is not released through bankruptcy.

Non-Liquid Asset

A type of asset that is not easily turned into cash. Real estate is considered a non-liquid asset.

Nontraditional Mortgage

A nontraditional mortgage is any mortgage other than a 30-year fixed mortgage.

Note

A written promise by one party to pay money to another party.

Notice of Default (NOD)

A notification given to a borrower stating that they have not made their payments by the predetermined deadline or is otherwise in default on the mortgage contract.

O

Occupancy Fraud

Occupancy fraud is a type of mortgage fraud, whereby the borrower lies about whether or not the home will be owner-occupied. Occupancy fraud happens when the borrower says that a home will be owner-occupied when, in reality, it will not be.

Offer

A price given at which one is ready to buy or sell to another party.

Office of Comptroller Currency

A U.S. federal agency that serves to charter, regulate, and supervise the national banks and federal branches and agencies of foreign banks. Headed by the Comptroller of the Currency.

Office of Thrift Supervision (OTS)

An office in the U.S. Department of the Treasury responsible for regulating and examining thrift institutions to ensure that they are financially sound.

One Year Adjustment Rate Mortgage

A loan with a fixed rate for the first year that has a rate that changes yearly for the remaining life of the loan. Borrower is qualified at the highest the rate can over the life of the loan.

Open House

An occasion when real estate offered for sale can be viewed by prospective buyers without an appointment.

Option Contract

An agreement between a buyer and seller that gives the purchaser of the option the right to buy or sell a particular asset at a later date at an agreed upon price.

Original Principal Balance

The amount the borrower owes the lender on the funding date of the loan.

Origination Fee

A fee charged by a lender for preparing and processing a loan.

Origination Service

Origination Services means the activities of a mortgage loan originator performed in regard to a residential mortgage loan

Owner Financing

A loan provided by the seller of a property or business to the purchaser.

Owner-Occupied Property

A form of housing tenure where a person owns the home in which he or she lives.

P

Partial Payment

A payment for less than the full amount claimed by the lender.

Par Rate

The par rate is the interest rate where a lender will offer a loan with neither a lender credit (yield spread premium) nor require discount points paid by the borrower.

Payment Cap

A clause found in an Adjustable Rate Mortgage (ARM) contract that limits the possible increase in the loan's interest rate to a certain amount each year. The cap is usually defined in terms of rate, but the dollar amount of the principal and interest payment can be capped as well.

Payment Change Date

The date when a new monthly payment amount takes effect.

Payment Shock

Payment shock is the risk that a loan's scheduled future periodic payments may increase substantially and may cause the borrower to default on the loan. Payment shock is a risk with many popular mortgage products, including payment option adjustable-rate mortgages (ARM) and interest-only loans

Per Diem Interest

The pro-rated amount of interest due for remaining days in a month. Calculated and paid at loan closings. $\text{Principal} \times \text{Interest rate} / 360$ for a conventional and 365 for government = per day/diem interest.

Periodic Payment Cap

A restriction on how much payments can increase or decrease over a single adjustment period.

Permanent Loan

A long-term mortgage loan. In real estate projects, it is obtained after completion of construction, usually to repay the short-term construction loan.

Personal Property

Any movable or intangible thing that is subject to ownership and not classified as real property. Appraiser cannot give any value of personal property, nor can you lend on personal property

Planned Unit Development (PUD)

A land area zoned for a single-community subdivision with flexible restrictions on residential, commercial, and public uses.

Power of Attorney

An instrument granting someone authority to act as agent or attorney-in-fact for the grantor. An ordinary power of attorney is revocable and automatically terminates upon the death or incapacity of the principal.

Preliminary Title Report

A report prepared prior to issuing a policy of title insurance that shows the ownership of a specific parcel of land, together with the liens and encumbrances thereon which will not be covered under a subsequent title insurance policy.

Premium Pricing

Premium Pricing allows a buyer to choose an above-market interest rate in exchange of receiving a percentage of their loan amount back as a lender credit to be applied towards their closing costs; essentially financing their closing costs through the interest rate.

Pre-Approval

An evaluation of a potential borrower by a lender that determines whether the borrower qualifies for a loan from the lender, or the maximum amount that the lender would be willing to lend. Credit, income and assets are verified. Not a loan commitment.

Prepaid Expenses/Prepays

A type of asset that arises on a balance sheet because a business made payment for goods and services to be received. The three most common prepaids are property taxes, homeowner's insurance, and mortgage interest

Prepayment

The satisfaction of a debt or installment payment before its official due date. A prepayment can be for the entire balance or for any upcoming payment that is paid in advance of the date for which the borrower is contractually obligated to pay it.

Prepayment Penalty

A clause in a mortgage contract that says if the mortgage is prepaid within a certain time, a penalty will be assessed. The penalty is usually based on percentage of the remaining mortgage balance or a certain number of months' worth of interest. None of the agency products allow prepayment penalties.

Pre-Qualification

An initial evaluation of the credit worthiness of a potential borrower that is used to determine the estimated amount that the person can afford to borrow. Credit is looked at and income and asset information is not verified, information is based on borrower's information, not a commitment.

Predatory Lending

Unscrupulous actions carried out by a lender to entice, induce, and/or assist a borrower in taking a mortgage that carries high fees, a high interest rate, strips the borrower of equity, or places the borrower in a lower credit rated loan to the benefit of the lender.

Primary Mortgage Market

The national market in which mortgages are originated.

Prime Rate

The interest rate that a commercial bank holds out as its lowest rate for short-term loans to its most creditworthy borrowers (usually large corporations). This rate, which can vary slightly from bank to bank, often dictates other interest rates for various personal and commercial loans.

Principal

The amount of a debt, investment, or other fund, not including interest, earnings, or profits.

Principal, Interest, Taxes, and Insurance (PITI)

The components of a monthly mortgage payment.

Profit and Loss Statement

A financial statement that summarizes the revenues, costs, and expenses that a business incurred during a given period.

Promissory Note

A promissory note, or "promise to pay", is a note that details money borrowed from a lender and the repayment structure. The document holds the borrower accountable for paying back the money (plus interest, if any). An agreement to borrow money with the condition that if it is not paid back to the lender then the security, which is usually an asset or property, is turned over to the lender.

Property Tax

A tax levied on the owner of the property. The tax is based on the property's value. Local governments often impose property taxes to finance school districts, municipal projects, etc.

Purchase/Sales Agreement

A sales contract in which ownership of property is transferred from a seller to a buyer for a fixed sum at a fixed date.

Purchase Money Mortgage (PMM)

A mortgage that a buyer gives the seller when the property is conveyed to secure the unpaid balance of the purchase price.

Q

Qualified Mortgage

A Qualified Mortgage is a category of loans that have certain, more stable features that help make it more likely that a borrower will be able to afford their loan. See the Federal Comprehensive Textbook for more information on the Qualified Mortgage Rule.

Qualifying Guidelines

Criteria used to determine eligibility for a loan.

Qualifying Rate

The interest rate used in calculating the initial mortgage payment in qualifying a borrower.

Qualifying Ratios

Ratio of debt to income and housing expense to income that is used by mortgage lenders to determine a borrower's creditworthiness for certain loan amounts.

Quality Control

A process used to make sure that companies participating in the issuance of mortgages comply with all state and national laws related to those mortgages.

Quitclaim Deed

A deed that serves to transfer the title but offers no promises about the quality of that title.

R

Radon

A naturally occurring radioactive gas found in some buildings. In sufficient concentrations, Radon may cause health problems.

Rate Lock/ Rate Lock Agreement

A lock-in or rate lock on a mortgage loan means that your interest rate won't change between the offer and closing, as long as you close within the specified time frame and there are no changes to your application. Rate locks are typically available for 30, 45, or 60 days, and sometimes longer. Rate locks are secured by a rate lock agreement.

Ratified Sales Contract

A sales contract in which an offer has been made and accepted, and the contract has been signed and initialed by all parties involved.

Realtor

A real estate agent who is a member of the National Association of Realtors.

Real Estate Agent/Broker

One who is engaged on behalf of another (usually on a commission) to negotiate contracts relating to property in which he or she has no custodial or proprietary interest.

Real Estate Settlement Procedures Act (RESPA/Regulation X)

A federal statute that requires lenders to provide home buyers with information about known or estimated settlement costs.

Real Property

Land and anything growing on, attached to, or erected on it. Real property can be either corporeal (soil and buildings) or incorporeal (easements).

Reclamation

The act or an instance of improving the value of economically useless land by physically changing the land, such as irrigating a desert.

Reconveyance

The restoration or return of something to a former owner or holder.

Recorder

The government official who keeps the public records affecting real property, such as deeds, liens, and judgments.

Recording

The Recording System was put in place to require the prior purchaser to record their purchase so that a subsequent purchaser can search for prior purchases to determine whether they should buy the land.

Refinance

When a business or person revises a payment schedule for repaying debt. The debt payment would be reduced because the interest rate is reduced, or the term is extended.

Rehabilitation Mortgage

A mortgage that covers the costs of rehabilitating a property. Some rehabilitation mortgages allow a borrower to roll the costs of rehabilitation and home purchase into one mortgage loan.

Remaining Term

The original term of the loan after the number of payments made has been subtracted.

Rent with Option to Buy

A contractual provision by which an owner of realty enters an agreement with another allowing the latter to rent the property upon signing the lease with the option to buy the property at the end of the lease term, usually for a reduced rate.

Repayment Plan

An arrangement by which a borrower agrees to make additional payments to pay down past due amounts while still making regularly scheduled payments.

Replacement Cost

The cost of a substitute asset that is equivalent to an asset currently held. A property is destroyed, what would the replacement cost be based on today's costs of materials. The new asset has the same utility but may or may not be identical to the one replaced.

Rescission

A party's unilateral unmaking of a contract for a legally sufficient reason, such as the other party's material breach, or a judgment rescinding the contract. Rescission allows the borrowers and owners of a property have a three (3) day period after closing to rescind (cancel) the transaction on primary owner-occupied property only.

Restriction

A limitation placed on the use or enjoyment of property.

Reverse Annuity Mortgage (RAM)

A mortgage in which the lender disburses money over a long period to provide regular income to the borrower, and in which the loan is repaid in a lump sum when the borrower dies or when the property is sold. Also known as a Reverse Mortgage or HECM loan

Revolving Debt

Open-ended accounts, usually with variable interest rates, pre-determined credit limits and payments that are calculated as a percentage of the unpaid balance.

Credit cards, home equity lines of credit (HELOC) and personal lines of credit are all examples of revolving debt.

Right of First Refusal

A potential buyer's contractual right to meet the terms of a third party's higher offer. For example, if Beth has a right of first refusal on the purchase of Sam's house of \$290,000, and if Terry offers to buy the house for \$300,000, then Beth can match this offer and prevent Terry from buying it.

Right of Redemption

The right of redemption, in the law of real property, is the right of a debtor whose real property has been foreclosed upon and sold to reclaim that property if they are able to come up with the money to repay the amount of the debt.

Rural Housing Service (RHS)

An agency in the U.S. Department of Agriculture responsible for making or guaranteeing loans for rural housing.

S

Sale-Leaseback

The sale of property on the understanding, or with the express option, that the seller may lease the property from the buyer, usually immediately after the sale.

Satisfaction of Mortgage

The complete payment of a mortgage. Also, can refer to a discharge signed by the mortgagee or mortgage holder indicating that the property subject to the mortgage is released or that the mortgage debt has been paid and the mortgage conditions have been fully satisfied.

Schedule C

Schedule C (Form 1040) is used to report income or loss from a business you operated or a profession you practiced as a sole proprietor on a borrower's tax return.

Second Mortgage

A mortgage that is junior to a first mortgage on the same property, but that is senior to any later mortgage.

Secondary Mortgage Market/ Secondary Market

The national market in which existing mortgages are bought and sold, usually on a package basis.

Section 203(k) Loans

Section 203(k) insurance enables homebuyers and homeowners to finance both the purchase of a house and the cost of its rehabilitation through a single mortgage or to finance the rehabilitation of their existing home.

Secure and Fair Enforcement Act (SAFE Act) 2008

Designed to enhance consumer protection and reduce fraud through the setting of minimum standards for the licensing and registration of state-licensed mortgage loan originators. Mortgage loan originators who work for an insured depository or its owned or controlled subsidiary that is regulated by a federal banking agency, or for an institution regulated by the Farm Credit Administration, are registered. All non-financial mortgage loan originators are registered and licensed by the states.

Secured Loan

A loan that is secured by property. Also known as a collateral loan.

Security

Collateral given or pledged to guarantee the fulfillment of an obligation, especially that a lender will be repaid (usually with interest) any money or credit extended to a debtor.

Seller Carry Back

When a seller acts as the bank or lender and carries a second mortgage on the subject property, which the buyer pays down each month.

Seller Take-Back

When a seller wants to close a sale of real estate but the buyer is not yet able to fully fund the purchase, the parties can close the sale with the seller taking from the buyer a purchase money note and mortgage in lieu of an all-cash payment.

Service Members Civil Relief Act

Offers protections for service members, and sometimes their family members. Examples include: reduced interest rates, postponement of foreclosures, deferred income taxes, eviction prevention, protection against default judgments, postponed civil court matters, protection for small-business owners, termination of lease agreements, prevention of repossession of property, life insurance coverage protection, and suspension of professional liability insurance. This Act protects active-duty service members, including National Guard and reserve members, who have been activated by the federal government. Many of these protections extend to the family of service members.

Servicing

The administration of a mortgage loan, including the collection of payments, release liens, payment of the investor that bought the loan and property insurance and taxes. Servicing is usually performed by the lender or the lender's agent, for a fee.

Service Relief Premium (SRP)

The payment received by a mortgage lender, such as a bank or retail mortgage lender (mortgage banker), on the sale of a closed mortgage loan in a secondary mortgage market transaction.

Servicing Transfer

A servicer can transfer the servicing rights for a loan to another servicer. This is called a servicing transfer. See information in the Federal Comprehensive Textbook on Transfer of Servicing.

Silent Second

Describes a fraudulent scheme where house sellers accept second mortgages as part of a sale transaction, without the full knowledge of the first mortgage lender. The "silence" refers to the absence of full disclosure to the first mortgage lender.

Simple Interest/Daily Simple Interest

The interest paid on the principal only and not on accumulated interest.

Single-Family Properties

An individual, freestanding, unattached dwelling unit, typically built on a lot larger than the structure itself, also includes attached properties that are for single families

Soft Second Loan

A loan in which its entirety, or a portion of it, can be forgiven or deferred for a period by the lender when certain conditions are met.

Sole Proprietorship

The sole proprietorship is the simplest business form under which one can operate a business. The sole proprietorship is not a legal entity. It simply refers to a person who owns the business and is personally responsible for its debts.

Special Warranty Deed

Seller promises that there were no defects in title that arose or were created while seller owned the property. This does not make promises about defects arising while someone prior to the seller owned the property.

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.

State Financing Agency

State-chartered authorities established to help meet the affordable housing needs of the residents of their states. Although they vary widely in characteristics such as their relationship to state government, most HFAs are independent entities that operate under the direction of a board of directors appointed by each state's governor. They administer a wide range of affordable housing and community development programs.

Statute of Frauds

The requirement that certain kinds of contracts be memorialized in writing and signed by the party to be charged, with sufficient content to evidence the contract.

Step Rate Mortgage

A loan which allows for gradual interest rate increase during the first few years of the loan.

Subordination/Subordination Agreement

A subordination agreement is a legal document that establishes one debt as ranking behind another in priority for collecting repayment from a debtor.

Subordinate Financing

Debt that ranks behind the first secured lender and means that the secured lenders will be paid back before subordinate debt holders.

Subsidized Second Mortgage

An alternative financing option for low- and moderate-income households.

Survey

The measuring of a tract of land and its boundaries and contents. Also refers to the map indicating the results of such measurements.

Sweat Equity

Financial equity created on a property by the owner's labor in improving the property.

T

Tablefunding

Table funding means a settlement at which a loan is funded by a contemporaneous advance of loan funds and an assignment of the loan to the person advancing the funds.

Tax Lien

A lien on a property, and all rights to that property, imposed by the federal government for unpaid federal taxes. Also refers to a lien on real estate in favor of a state or local government that may be foreclosed for nonpayment of taxes. Most states have adopted the Uniform Federal Tax Lien Registration Act.

Tax Sale

A sale of property due to nonpayment of taxes.

Teaser Rate

Generally, refers to an introductory rate charged on a credit product. Adjustable rate mortgages (ARMs) are also known for charging a low initial rate that helps entice borrowers. Teaser rates may also serve to increase the marketability of ARMs over traditional mortgages.

Term(s)/Loan Terms/Financial Terms/General Terms

A contractual stipulation. May also refer to a set period of time.

Termite Inspection

The examination of a structure by a qualified person to determine the possible existence of an infestation of termites.

Third-Party Origination (TPO)/Third Party Service Provider

Origination from a third party where the person is involved in the process of making mortgages and gathering borrower information for a mortgage application, which is then transferred or sold to the actual mortgage lender. This is generally a Mortgage Broker

Title/Legal Title

The union of all elements (ownership, possession, and custody) constituting the legal right to control and dispose of property. The legal link between a person who owns property and the property itself.

Title Company

A company that examines real estate titles for any encumbrances, claims, or other flaws, and issues title insurance.

Title Insurance

An agreement to indemnify against loss arising from a defect in the title to real property, usually issued to the buyer of the property by the title company that conducted the search.

Title Search

An examination of the public records to determine whether any defects or encumbrances exist in a given property's chain of title. A title search is typically conducted by a title company or a real estate lawyer at a prospective buyer's or mortgagee's request.

Tolerances

Per TRID there are three fee tolerances. Tolerance levels fall into one of three categories: no tolerance, zero percent tolerance and 10 percent cumulative tolerance. See Federal Comprehensive Textbook for more information.

Trade Equity

Equity that results from a buyer giving an existing property as trade for all or part of the down payment on the subject property.

Transfer Tax

Imposed on the transfer of property, especially by will, inheritance, or gift.

Transmittal Summary (Form 1008)

The Underwriting Transmittal (1008) is used to summarize key information utilized in the comprehensive risk assessment of a mortgage and the final underwriting decision. The 1008 is divided into 16 sections.

Treasury Index

An index based on the auctions of U.S. Treasury bills or on the U.S. Treasury's daily yield curve, which is used in determining mortgage rates for mortgages with an unfixed component.

Total Expense Ratio

Total payments including the mortgage payment divided by the total verified Income.

Trustee

Someone who stands in as fiduciary or confidential relation to another, especially one who, having legal title to property, holds it in trust for the benefit of another and owes a fiduciary duty to that beneficiary.

Truth-in-Lending Act (TILA/Regulation Z)

A 1968 federal statute enacted as the first subchapter of the Consumer Credit Protection Act to safeguard consumers in the use of credit by (1) requiring full disclosure of the terms of loan agreements, including finance charges, (2) restricting the garnishment of wages, and (3) regulating the use of credit cards.

U

Underwriting

The act of reviewing all income, asset and credit documents, to determine if the information meets the investor requirements

Unsecured Loan

A loan that is issued and supported only by the borrower's creditworthiness, rather than by a type of collateral. It is obtained without the use of property as collateral for the loan. Borrowers generally must have high credit ratings to be approved for an unsecured loan.

Uniform Residential Loan Application (URLA, Form 1003)

The URLA (also known as the Freddie Mac Form 65 / Fannie Mae Form 1003) is a standardized document used by borrowers to apply for a mortgage. The URLA is jointly published by the GSEs and has been in use for more than 20 years in all U.S. States and Territories.

Uniform Residential Appraisal Report (URAR, Form 1004)

A URAR form, also known as Fannie Mae Form 1004, contains information needed to complete a full appraisal of a property using three primary approaches to determine value: cost approach, sales comparison approach and income approach.

Usury

The charging of an illegal rate of interest as a condition to lending money.

V

Veterans Administration (VA) Mortgage

A veteran's mortgage that is guaranteed by the Veterans Administration.

Verification of Deposit (VOD)

A statement of a borrower's account history and status, given by financial institutions or investment companies.

Verification of Employment (VOE)

A process used by banks and mortgage lenders to review the employment history of a borrower, to determine the borrower's job stability and cross-reference income history with that stated on the Uniform Residential Loan Application.

Verification of Mortgage (VOM)

Documentation of a borrower's mortgage payment history that is often required when applying for a loan. In mortgage lending, the VOM is also used to verify the existing balance and monthly payments, and to check for any late payments on the account.

Verification of Rent (VOR)

A form used in mortgage lending to verify monthly rents paid and late payments, if any.

W

Walk-Through

A clause in a sales contract that allows the buyer to examine the property being purchased at a specified time immediately before the closing.

Warehouse Fee

A charge to a borrower when a mortgage banker or other small lender must borrow money on a short-term basis to loan money on mortgage loans. If the interest rate on the short-term loan is too large to make money on the spread, the mortgage banker will charge a warehouse fee to cover its costs until it can assemble enough loans in its virtual warehouse and sell them to someone else making enough money to pay off its short-term loans.

Warranty Deed

A covenant by which the grantor in a deed promises to secure to the grantee the estate conveyed in the deed, and pledges to compensate the grantee if the grantee is evicted by someone having better title. The covenant is binding on the grantor's heirs. Historically, a warrantor was expected to turn over land, but cash compensation could be substituted.

Wraparound Mortgage

A second mortgage issued when a lender assumes the payments on the borrower's low-interest first mortgage (usually issued through a different lender) and lends additional funds. Such a mortgage covers both the outstanding balance of the first mortgage and the additional funds loaned.

Y

Yield Spread Premium

A yield spread premium also called a "YSP" is a form of compensation that a mortgage broker, acting as the intermediary, receives from the original lender for selling an interest rate to a borrower that is above the lender's par rate for which the borrower qualifies.

Z

Zoning Ordinance

A city ordinance that regulates the use to which land within various parts of the city may be put. It allocates uses to the various districts of a municipality, by allocating residences to certain parts and businesses to other parts. A comprehensive zoning ordinance usu. regulates the height of buildings and the proportion of the lot area that must be kept free from buildings