A | B | C | D | E | F | G | H | I | J | L | M | N | O | P | R | S | T | U | V | W

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.

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

Adjustable-rate mortgage (ARM): A mortgage with an interest rate and payment that change periodically over the life of the loan based on changes in a specified index.

Adjustment Period: The time between interest rate adjustments for an ARM. There is usually an initial adjustment period, beginning from the start date of the loan and varying from 1 to 10 years. After the first adjustment period, adjustment periods are usually 12 months, which means that the interest rate can change every year.

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 (li ke 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.

Application Fee: The fee that a mortgage lender charges to apply for a mortgage to cover processing costs.

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.

Appreciation: An increase in the market value of a home due to changing market conditions and/or home improvements.

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 a Cap.

Asbestos: A toxic material that was once used in housing insulation and fireproofing. Because some forms of asbestos have been lin ke d to certain lung diseases, it is no longer used in new homes. However, some older homes may still have asbestos in these materials.

Assessor: a government official who is responsible for determining the value of a property for the purpose of taxation.

Assets: Everything of value an individual owns.

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 a 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.

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.

Capacity: Your ability to make your mortgage payments on time. This depends on your income and income stability (job history and security), your assets and savings, and the amount of your income each month that is left over after you've paid for your housing costs, debts and other obligations.

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 ta ke s on the loan obligation, pays all closing costs, and receives title from the seller.

Closing Agent: A person who coordinates closing-related activities, such as recording the closing documents and disbursing funds.

Closing costs: customary costs above and beyond the sale price of the property that must be paid to cover the transfer of ownership at closing; these costs generally vary by geographic location and are typically detailed to the borrower after submission of a loan application.

Collateral: Property which is used as security for a debt. In the case of a mortgage, the collateral would be the house and property.

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.

Commitment Letter: A letter from your lender stating the amount of the mortgage, the number of years to repay the mortgage (the term), the interest rate, the loan origination fee, the annual percentage rate and the monthly charges.

Concession: Something given up or agreed to in negotiating the sale of the house. For example, the sellers may agree to help pay for closing costs.

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.

Contingency: A plan for something that may occur but is not likely. For example, your offer may be contingent on the home passing a home inspection. It the home does not pass inspection, you're protected.

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.

Counter-offer: An offer made in response to a previous offer. For example, after the buyer presents their first offer, the seller may ma ke a counter-offer with a slightly higher sale price.

Credit enhancement: A method to reduce credit risk by requiring collateral, letters of credit, mortgage insurance, corporate guarantees, or other agreements to provide an entity with some assurance that it will be recompensed to some degree in the event of a financial loss.

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: a number representing the possibility a borrower may default; it is based upon credit history and is used to determine ability to qualify for a mortgage loan.

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 of Trust: A legal document in which the borrower transfers the title to a 3rd party (trustee) to hold as security for the lender. When the loan is paid in full the trustee transfers title back to the borrower. If the borrower defaults on the loan the trustee will sell the property and pay the lender the mortgage debt.

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.

Delinquency: failure of a borrower to make timely mortgage payments under a loan agreement.

Depreciation: A decline in the value of a house due to changing market conditions or lack of up keep on a home.

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 of the home purchase

Equity: an owner's financial interest in a property; calculated by subtracting the amount still owed on the mortgage loon(s) from the fair market value of the property.

Escrow account: a 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, homeowners 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 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 ma ke 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.

Forbearance: The lender's postponement of legal action when a borrower is delinquent. It is usually granted when a borrower ma ke s satisfactory arrangements to bring the overdue mortgage payments up to date.

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

Gift Letter: A letter that a family member writes verifying that s/he has given you a certain amount of money as a gift and that you don't have to repay it. You can use this money towards a portion of your down payment with some mortgages.

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 days after submission of a loan application.

Gross Monthly Income: The income you earn in a month before taxes and other deductions. It may also include rental income, self-employed income, income from alimony, child support, public assistance payments, and retirement benefits.

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 Equity: The value of a homeowner's unencumbered interest in their property(s). Equity is the difference between the home's fair market value and the unpaid balance of the mortgage and any outstanding debt over the home. Equity increases as the mortgage is paid or as the property enjoys appreciation.

Home Equity Loan: Sometimes referred to as a second mortgage or borrowing against your home. The loan allows you to tap into your home's built-up equity, which is the difference between the amount your home could be sold for, and the amount that you still owe. Homeowners often use a home-equity loan for home improvements, to pay for a new car, or to finance their child's college education. A home-equity loan is a good way to borrow money for two main reasons:

> The interest rate is usually one of the lowest loan rates a borrower can get
> The interest you pay on the loan is usually tax-deductible. But taking out a home-equity loan also means the lender can take possession of the home if the loan isn't repaid.

Home warranty: offers protection for mechanical systems and attached appliances against unexpected repairs not covered by homeowner's insurance; ,overage extends over a specific time period and does not cover the home's structure.

Homeowner's insurance: an insurance policy that combines protection against damage to a dwelling and Is contents with protection against claims of negligence)r inappropriate action that result 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.

Housing Expense Ratio: The percentage of your gross monthly income that goes toward paying for your housing expenses.

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.

HUD1 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.

Inquiry: A request for a copy of your credit report. An inquiry occurs every time you fill out a credit application and/or request more credit. Too many inquiries on a credit report can hurt your credit score.

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.

Liabilities: Your debts and other financial obligations.

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 Origination Fees: Fees paid to your mortgage lender for processing the mortgage application. This fee is usually in the form of points. One point equals 1% of the mortgage amount.

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. The term also is used to refer to the loan itself.

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 Lender: The lender providing funds for a mortgage. Lenders also manage the credit and financial information review, the property and the loan application process through closing.

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.

Mortgage Rate: The cost or the interest rate you pay to borrow the money to buy your house.

N

Net Monthly Income: Your take -home pay after taxes. It is the amount of money that you actually receive in your paycheck.

O

Offer: indication by a potential buyer of a willingness to purchase a home at a specific price; generally put forth in writing.

Open House: When the seller's real estate agent opens the seller's house to the public. You don't need a real estate agent to attend an open house.

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 with down payments of less than 20% of a purchase price.

Points: 1% of the amount of the mortgage loan. For example, if a loan is made for $50,000, one point equals $500.

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.

Predatory Lending: Abusive lending practices that include making mortgage loans to people who do not have the income to repay them or repeatedly refinancing loans, charging high points and fees each time and "packing" credit insurance onto a loan.

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.

Private Mortgage Insurance: See Mortgage Insurance

R

Radon: a radioactive gas found in some homes that, if occurring in strong enough concentrations, can cause health problems.

Rate Cap: The limit on the amount an interest rate on an ARM can increase or decrease during an adjustment period.

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).

Rehabilitation mortgage: a mortgage that covers the costs of rehabilitating (repairing or Improving) a property; some rehabilitation mortgages - li ke the FHA's 203(k) - allow a borrower to roll the costs of rehabilitation and home purchase into one mortgage loan.

Repayment plan: An agreement between a lender and a borrower who is delinquent on his or her mortgage payments, in which the borrower agrees to make additional payments to pay down past due amounts while still making regularly scheduled payments.

Replacement Cost: The cost to replace damaged personal property without a deduction for depreciation.

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.

Reverse mortgage: A financial tool which provides seniors with funds from the equity in their homes. Generally, no payments are made on a reverse mortgage until the borrower moves or the property is sold. The final repayment obligation is designed to not exceed the proceeds from the sale of the home.

S

Secondary mortgage market: The market in which residential mortgages or mortgage securities are bought and sold.

Serious delinquency: A single-family mortgage that is 90 days or more past due, or a multifamily mortgage that is two months or more past due.

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 1: 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 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.

Uniform Residential Loan Application: A standard mortgage application your lender will ask you to complete. The form requests your income, assets, liabilities, and a description of the property you plan to buy, among other things.

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.

W

Warranties: Written guarantees of the quality of a product and the promise to repair or replace defective parts free of charge.

Sources: US Department of Housing and Urban Development; Fannie Mae, Freddie Mac