

Mortgage Glossary

A B C D E F G H I J K M N O P Q R S T U V W Y Z

A

access or draw period

For a home equity line of credit, this is the length of time during which the mortgagor can borrow money - usually ten years. During this time period, funds can be borrowed up to the available credit limit, usually by drawing on the line using special checks. Minimum borrowing requirements (e.g., \$250 per draw) may apply.
abstract of title
A historical summary provided by a title insurance company of public records affecting the title to a property.

acceleration clause

Allows a lender to declare the entire outstanding balance of a loan immediately due and payable should a borrower violate specific loan provisions or default on the loan.

adjustable rate mortgage (ARM)

A variable rate mortgage with an interest rate that adjusts periodically according to the financial index it is based upon plus a margin. To limit the borrower's risk, the ARM may have a payment or rate cap. See also: cap.

amortization

The reduction of a debt by regular, usually monthly, installments of principal and interest. An amortization schedule is a table showing the payment, the amounts applied to interest and principal and the unpaid balance.

annual cap

See: cap.

annual percentage rate (APR)

The cost of credit expressed as a yearly rate, taking into account interest, points, and other finance charges. Disclosure of the APR is required by the federal Truth-in-Lending Act and allows borrowers to compare the costs of different mortgage loans.

annual fees

A yearly membership or maintenance fee for having the home equity line of credit available. It is charged whether or not the line is used.

appraisal

An estimate of a property's value as of a given date, determined by a qualified professional appraiser. The value may be based on replacement cost, the sales of comparable properties or the property's ability to produce income. Appraisal alternatives may be available for some products and property types. These include automated valuation models, drive-by appraisals and tax assessed value.

appreciation

A property's increase in value due to inflation or economic factors.

APR

See: annual percentage rate.

ARM

See: adjustable rate mortgage.

arrears

Mortgage interest is paid at the end of the period during which it accrues, i.e. the interest portion of the payment due on the first of the month is for funds outstanding during the previous month. Delinquent payments are also known as being "in arrears".

assessment

Charges levied against a property for tax purposes or to pay for municipality or association improvements such as curbs, sewers, or grounds maintenance.

assignment

A means of transferring a contract right or other asset to another person or entity.

assumption

An agreement between a buyer and a seller which may require lender approval, where the buyer takes over the payments for a mortgage and accepts the liability. Assuming a loan can be advantageous for a buyer because there are no closing costs and the loan's interest rate may be lower than current market rates. Depending on the terms of the mortgage or deed of trust, the lender may raise the interest rate or require the buyer to qualify for the mortgage.

automated valuation model

A computer model used to estimate the current market value of a home using property records and various analytic methodologies such as comparable sales prices, home characteristics and historical home price appreciation.

available cash

This is typically your cash on hand or assets that can be turned into cash quickly, like 401k plans, stocks, proceeds from the sale of a home or other equity, etc.

B Top balance transfer

The movement of outstanding balances from other lenders to a home equity line of credit.

balloon mortgage

A mortgage that has level monthly payments which are insufficient to amortize the loan so that a balloon, or lump sum payment is due at the end of the term. Frequently, balloon mortgages contain an opportunity to refinance when the balloon payment is due.

bankruptcy

A proceeding in a federal court in which a debtor (who owes more than his/her assets or cash flow) is relieved from the payment of debts. This can affect the borrower's personal liability or the mortgage debt but not the lien of a mortgage.

basis points

Used to describe mortgage yield, one basis point equals one 100th of 1% or 0.01%. A mortgage yield increase from 9.50% to 9.75% is an increase of 25 basis points.

biweekly mortgage

A loan requiring payments of principal and interest at two-week intervals. Each biweekly payment is half the amount of a monthly payment. The borrower makes the equivalent of 13 monthly payments each year. As a result, this type of loan amortizes much faster than monthly payment loans.

bridge loan

A loan, usually a second mortgage, that is collateralized by the borrower's present home (that is usually for sale).

broker

A mortgage broker takes applications from consumers and delivers them to a lender which will underwrite and make the loan. A real estate broker lists properties that are for sale and helps bring buyers and sellers together and assists in negotiating contracts between them.

buy-down

Where the buyer pays additional discount points in return for a below market interest rate; or the buyer or seller deposits sufficient funds with the lender to reduce the rate during the first one to three years of the loan; or pays closing costs such as the origination fee. During times of high interest rates, buy-downs may induce buyers to purchase property they may not otherwise have purchased.

buyer's market

Economic conditions in which the supply of available housing exceeds demand. This may occur during periods where interest rates are high and can drive down housing prices.

C Top cap

A limit on how much an adjustable rate mortgage's monthly payment or interest rate can increase. A cap is meant to protect the borrower from large increases and may be a payment cap, an interest cap, a life-of-loan cap or periodic cap. A payment cap is a limit on the monthly payment. An interest cap is a limit on the amount the interest rate can increase. A life-of-loan cap restricts the amount the interest rate can increase over the entire term of the loan. A periodic cap limits the amount the interest rate can change at the time of each periodic adjustment.

CEM

Consolidation, Extension, and Modification of existing note(s) into one document: the CEM Agreement. In New York, first mortgages and home equity lines and loans may be documented in this manner to reduce the recording tax. Allowed only on properties located in New York State.

certificate of occupancy (CO)

Written authorization given by a municipality that allows a structure to be inhabited. Many municipalities only require a C of O for new construction or improvements; however, some require a C of O anytime title to the property changes.

certificate of reasonable value (CRV)

A Veteran's Administration appraisal that establishes the maximum VA mortgage loan amount for a specified property.

certificate of title

Document rendering an opinion on the status of a property's title based on public records.

clear title

Title to real property that is free of liens, claims or encumbrances except for items such as property taxes that are not yet due and payable or routine utility easements.

closed-end mortgage

A mortgage principal amount that is fixed and cannot be increased during the life of the loan.

closing

The process of finalizing the purchase of property or making of a mortgage loan. At the closing of a purchase money loan, the deed is delivered, the mortgage and note are signed, financial adjustments are made, and loan proceeds are disbursed. For refinances and home equity lines and loans, funds are disbursed after the 3 business day rescission period has expired. For home equity lines of credit, checks are generally sent to the borrower 7 to 10 business days after closing.

closing costs

Costs payable by either seller or buyer at the time of settlement when the purchase of a property is finalized, or by borrower when a loan is refinanced. They include expenses such as points, taxes, title insurance, mortgage insurance and attorneys' fees. You will receive more specific information about types and amounts of closing costs applicable to your transaction and the state where your property is located when you apply for a loan.

cloud

A claim to the title of a property that, if valid, would prevent a purchaser from obtaining a clear title.

co-borrower/co-applicant

One who is individually and jointly obligated to repay a mortgage loan and may or may not share ownership of the property with one or more borrowers.

collateral

Something of value pledged as security for a loan. In mortgage lending, the property itself serves as collateral for a mortgage loan.

commitment fee

A fee charged when an agreement is reached between a lender and a borrower for a loan on specific terms and conditions. Rate and points may be locked-in or may be "floating".

common elements/areas

Those portions of a building, land, and amenities of a PUD, condo or co-op that are used by all the unit owners, who share in the common expenses of their operation and maintenance. Common areas usually include swimming pools, tennis courts, or other recreational facilities, as well as common corridors of buildings, parking lots, etc.

condominium

A form of ownership where the dwelling units are individually owned and homeowners share ownership of common areas such as the grounds, the parking facilities and the tennis courts.

conforming loan

A loan that conforms to Federal National Mortgage Association (FNMA) or Federal Home Loan Mortgage Corporation (FHLMC) guidelines.

See also: non-conforming loan.

construction loan

A short-term loan financing improvements to real estate, such as the building of a new home. The lender advances funds to the borrower as needed while construction progresses. Upon completion of the construction, the borrower must obtain permanent financing or pay the construction loan in full.

consumer handbook on adjustable rate mortgages

A disclosure required by the federal government to be given to any borrower applying for an adjustable rate mortgage (ARM).

conventional loan

A mortgage loan that is not insured, guaranteed or funded by the Veterans Administration (VA), the Federal Housing Administration (FHA) or Rural Economic Community Development (RECD) (formerly Farmers Home Administration).

convertible mortgage

An adjustable rate mortgage (ARM) that allows a borrower to switch to a fixed-rate mortgage during a specified period.

convertibility option

The ability to convert all or part of a home equity line of credit to a fixed rate loan. A minimum conversion amount often applies, as may other conversion requirements.

co-operative

A co-op is a form of ownership in which a corporation or business entity holds title to a property and grants the occupancy rights to particular apartments or units to shareholders by means of proprietary leases or similar arrangements. A loan granted for a co-op is collateralized by an assignment of the proprietary lease and a pledge of the shares of stock allocated to the unit.

covenants

Rules and restrictions governing the use of property.

credit bureau

A company that is engaged in the preparation of reports that are used by credit grantors to determine the credit of an individual. The agency obtains data for these reports from national repositories and other sources (e.g., Experian,

TransUnion, Equifax, and public record data).

credit limit

The maximum amount that can be borrowed under a home equity line of credit.

credit repository

An organization that compiles credit history data directly from lenders and creditors to build in-file credit reports for individuals; the main repositories are Experian, TransUnion, & Equifax.

credit rating

A rating given to a person by a credit bureau, or credit repository, based upon payment history for existing and past debt. (e.g. R1-no 30 day delinquencies on revolving debt, usually for the past two years.)

credit report

A report to a prospective lender on the credit standing of a prospective borrower, used to aid in the determination of creditworthiness.

D Top

debt consolidation

The consolidation and payment of multiple debts with one home equity loan or line. debt-to-income ratio (D/I)

The ratio of the borrower's total monthly obligations, including housing expenses and recurring debts, to monthly income.

It is used to determine the borrower's capacity to repay the mortgage and all other debts. deed of trust

A document, used in many states in place of a mortgage, whereby title to the property is held by a trustee pending repayment of the loan. default

A breach or nonperformance of the terms of a note or the covenants of a mortgage.

Department of Housing and Urban Development (HUD)

The U.S. government agency that administers FHA, GNMA and other housing programs. depreciation

A decline in value of an asset. Real estate can depreciate as a result of age, obsolescence or lack of upkeep.

Depreciation is also a term for writing down the value of an asset over the course of time for accounting purposes.

discount

The amount by which the sales price of a note (or financial instrument) is below or less than its face value. The purpose of a discount is to adjust the yield upward either in lieu of interest or in addition to interest. Discount points are payable to the lender by the borrower or seller to increase the lender's effective yield. One point is equal to 1% of the loan. down payment

The difference between the purchase price and mortgage amount. The down payment becomes your property equity.

Typically it should be cash savings, but it can also be a gift that is not to be repaid or a borrowed amount secured by assets.

drive-by appraisals

An estimate of the current market value of a home as determined by a broker, real estate professional or appraiser by using comparable values of similar homes in the area and an exterior examination or "drive-by" of the property. due-on-sale

A clause in a mortgage or deed of trust allowing a lender to require immediate payment of the balance of the loan if the property is sold. duplex

Dwelling divided into two units. E Top earnest money

Cash given to a seller by a buyer as good faith assurance that the buyer intends to go through with the purchase of a property. easement

The right one party has in regard to the property of another, such as the right of a public utility company to lay lines.

economic obsolescence

The loss of value due to changes in the neighborhood in which a property is located or surrounding areas. (e.g., high power lines, busy streets, proximity to an airport or any other structure perceived to be less than desirable); also called economic depreciation. environmental hazard

Natural or man-made forces that may be hazardous to the health or safety of the homeowner. Examples include:

hazardous wastes, toxic substances, radon gas and materials containing asbestos. These types of hazards can

adversely affect the value and marketability of the property. Equal Credit Opportunity Act

A federal law prohibiting lenders and other creditors from discriminating based on race, color, sex, religion, national origin, age, marital status, receipt of public assistance or because an applicant has exercised his or her rights under the Consumer Credit Protection Act. equity

The difference between the value of a property and any outstanding mortgage balance(s) or liens against it. Also referred to as owner's interest. escrow analysis

Once a year, the servicer reviews escrow funds on hand, monthly tax and insurance payments, and tax and insurance bills to determine if the amount collected each month should be increased or decreased, or whether excess funds should be refunded to the mortgagor. escrow closing

In certain regions, an escrow agent holds in escrow funds as well as documents to be signed by both buyer and seller.

Once all conditions of the closing have been satisfied, the documents and the funds are distributed by the escrow agent to the interested parties. escrow funds

Money held by the lender for payment of the taxes and insurance on your home. F Top fair market value

The price established in a free market between a buyer and seller in an arms length transaction where neither one is compelled to buy or sell. In an appraisal, this is the final value derived after examining the Sales Comparison, Cost, and if applicable, Income approaches; sometimes referred to as "Market Value." FAIR Plan

The Fair Access to Insurance Requirement Plan is a program established within a state to provide access to insurance

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for property owners in areas that are generally not insurable by most insurers; examples include specific beach and windstorm areas. Fannie Mae
 Nickname for Federal National Mortgage Association (FNMA). Farmer's Home Administration (FmHA)
 The government agency that guarantees mortgages secured by residential properties located in rural areas, concentrating on borrowers with income less than HUD's local median income for the area in which they reside. FmHA is now known as Rural Economic and Community Development. Federal Emergency Management Agency (FEMA)
 Federal agency which oversees the administration of flood insurance programs and the designation of certain areas as flood prone. Federal Home Loan Mortgage Corporation (FHLMC or Freddie Mac)
 A quasi governmental, federally sponsored organization that acts as a secondary market investor to buy and sell mortgage loans. FHLMC sets many of the guidelines for conventional mortgage loans, as does FNMA. Federal Housing Administration (FHA)
 An agency within the Department of Housing and Urban Development that sets standards for underwriting and insures residential mortgage loans made by private lenders. One of FHA's objectives is to make available affordable mortgages to those with low or moderate income. FHA loans may be high loan-to-value, and they are limited by loan amount. FHA mortgage insurance requires a fee of up to 3.8 percent of the loan amount to be paid either at closing or added to each monthly payment, as well as an annual fee of 0.5 percent of the loan amount added to each monthly payment. Federal National Mortgage Association (FNMA or Fannie Mae)
 A private corporation that acts as a secondary market investor to buy and sell mortgage loans. FNMA sets many of the guidelines for conventional mortgage loans, as does FHLMC. The major purpose of this organization is to make mortgage money more affordable and more available. fee simple
 The maximum form of ownership, with the right to occupy a property and sell it to a buyer at any time. Upon the death of the owner, the property goes to the owner's designated heirs. Also known as fee simple absolute. FHA
 See: Federal Housing Administration. FHLMC
 See: Federal Home Loan Mortgage Corporation. fidelity bond
 An insurance bond that is obtained to protect against financial loss from dishonest acts of persons entrusted with authority to manage funds. fifteen-year mortgage
 A loan with a term of 15 years. Although the monthly payment on a 15-year mortgage is higher than that of a 30-year mortgage, the amount of interest paid over the life of the loan is substantially less. fixed rate
 An interest rate that is constant for the life of the loan. FmHA
 See: Farmer's Home Administration. FNMA
 See: Federal National Mortgage Association. forbearance
 Agreement not to initiate legal proceedings against a delinquent mortgagor provided the mortgagor complies with alternate repayment arrangements. foreclosure
 The legal process by which a borrower in default under a mortgage or deed of trust, loses his/her interest in the mortgaged property; this process usually involves a forced sale of the property at public auction with the proceeds of the sale being applied to the mortgage debt. Freddie Mac
 Nickname for Federal Home Loan Mortgage Corporation (FHLMC).

G Top gift funds

Funds donated to the borrower from certain eligible sources to assist the borrower in meeting closing costs. Generally, eligible sources are: a relative, church, municipality, or nonprofit organization. Ginnie Mae
 Nickname for Government National Mortgage Association (GNMA). Government National Mortgage Association (GNMA or Ginnie Mae)
 A government organization that participates in the secondary market, buying, selling and guaranteeing FHA and VA loans. grace period
 A period of time (usually measured in days) after an obligation is due during which a borrower can perform without incurring a penalty and without being considered in default. graduated payment mortgage (GPM)
 A mortgage that has initial monthly payments set at an amount lower than that required for full amortization of the debt. The payments are then increased by a specified percentage each year during the graduated payment period. At the end of the period, payments are in an amount that will fully amortize the mortgage.

H Top

hazard insurance

A form of insurance that protects the insured property against physical damage such as fire, tornadoes, earthquakes, etc. Mortgage lenders often require a borrower to maintain an amount of hazard insurance on the property that is equal to the amount of the mortgage loan. home equity line of credit (HELOC)
 A real estate loan, usually in a subordinate position, that allows a borrower to borrow against equity in real estate owned (usually a primary residence or second/vacation home) with specific limitations. This is an open-end loan that permits the borrower to repay and re-borrow the funds available. home equity loan
 A mortgage on the borrower's principal residence (or second/vacation home) usually for the purpose of making home improvements or non-housing expenditures such as debt consolidation or tuition. This is a closed-end loan repayable in accordance with a fixed schedule. Homeowner's Association (HOA)
 A nonprofit association, whose directors and officers are elected by the unit owners of a condominium or PUD project; primary responsibilities are to manage the common areas, expenses and services of the project. homeowners insurance
 A form of insurance that protects the insured property against loss from theft, liability and most common disasters. Also

referred to as hazard insurance. Housing and Urban Development (HUD)

The U.S. government agency that administers FHA, GNMA and other housing programs. housing debt-to-income ratio
The sum of all monthly housing mortgage expenses such as principal, interest, taxes and insurance (PITI), homeowner's association dues, private mortgage insurance and any special assessments as a percentage of gross qualifying income.

housing expenses-to-income ratio

See: debt-to-income ratio. HUD

See: Housing and Urban Development. I Top income-to-debt ratio

See: debt-to-income ratio. index

A published rate compiled from current economic or financial indicators such as U.S. Treasury bills or the prime rate published in the major daily newspapers. Mortgage lenders use the index to establish interest rates on adjustable rate mortgages and home equity lines of credit with periodic interest rate adjustments. Individual Retirement Account (IRA)

An account that can be established by individuals who meet IRS qualifications to build retirement funds, deferring the tax liability until funds are withdrawn. Under permitted circumstances, they may deduct their annual contributions from their taxable income. installment debt

Debt that is repaid in installments at regular intervals, usually monthly. interest cap

See: cap interest rate

The interest rate, stated as a percentage, charged by a lender on the principal amount of borrowed money. introductory rate

A temporarily discounted rate for home equity lines of credit or adjustable rate mortgage loans - a rate that is usually low and lasts only for an introductory period. J Top judicial foreclosure

Type of foreclosure in which the lender must initiate formal court proceedings to enforce the lien against the mortgaged property. jumbo loan

A loan that is for a larger dollar amount than the limits set by the Federal National Mortgage Association (FNMA) or Federal Home Loan Mortgage Corporation (FHLMC) guidelines.

K Top Keogh

A retirement plan for self-employed individuals. Similar to an IRA, contributions may be deductible and the tax liability is deferred until the funds are withdrawn; sometimes known as HR 10 plans. L Top lien

A claim against a property for the payment of a debt. A mortgage is a lien; other types of liens a property might have include a tax lien for overdue taxes, or a court judgment lien, or a mechanics lien for unpaid debt to a contractor. life-of-loan cap

See: cap. liquidity

Cash or cash equivalents that a borrower has accumulated or the ability to readily convert other assets or investments into cash; a.k.a. cash reserves. loan discount

See: points. loan guaranty certificate

Evidence that a portion of a loan is guaranteed by the Veterans Administration. loan origination fee

See: origination fee. loan-to-value ratio (LTV)

The relationship, expressed as a percentage, between the amount of the proposed loan and a property's appraised value or purchase price. For example, a \$75,000 loan on a property appraised at \$100,000 is a 75% loan-to-value. lock-in

The guarantee of a specific interest rate and/or points for a specific period of time. Some lenders will charge a fee for locking in an interest rate. loss drafts

A form of check from an insurance carrier, usually made payable to both the mortgagee and the mortgagor, in settlement of a property damage claim that was covered by insurance. M Top

margin

The amount a lender adds to (or subtracts from) the index for the purpose of adjusting the interest rate on a variable rate product (ARM or HELOC). For example, a margin of 1.50 added to a 7 percent index establishes an interest rate of 8.50 percent. The margin remains the same throughout the loan. The exception is home equity lines of credit with an introductory variable rate which has two margins - one for the introductory period and another that becomes effective after the introductory period expires. market value

The price a property can realistically sell for, based upon comparable selling prices of other properties in the same area. maturity

The date on which full payment of the mortgage loan is due. minimum payment

The minimum monthly amount required to be paid on a home equity line of credit. The minimum payment may be interest only or may include both principal and interest. mortgage

A legal instrument in which a lien on real property is granted as security for the repayment of a loan. In some states, a deed of trust is used rather than a mortgage. mortgage banker

A lender that originates, closes, services and sells mortgage loans to the secondary market. mortgage broker

An intermediary between a borrower and a lender. A broker's expertise is to help borrowers find financing that they might not otherwise find themselves. mortgage insurance (MI)

Insurance that protects a mortgage lender against loss in the event of default by the borrower. This insurance allows lenders to make loans with lower down payments (LTVs above 80%, in most cases). The cost is usually borne by the borrower. mortgage insurance certificate (MIC)

Evidence that FHA has agreed to insure a loan. mortgage insurance premium (MIP)

The amount paid to FHA or to a private company for mortgage insurance. mortgage note

A written promise to repay funds advanced by the mortgage lender on the agreed upon terms. mortgagee

The lender. mortgagor

The borrower. N Top negative amortization

A situation in which a borrower is paying less interest than what is actually being charged for a mortgage loan. The unpaid interest is added to the loan's principal. The borrower may end up owing more than the original amount of the mortgage. net rental income

The remaining income generated by an investment property after deducting all mortgage related expenses, including HOA fees (if applicable) and operating expenses from the gross rental income. net worth

The amount by which an individual's assets (or assets of a business) exceed total liabilities. no income verification option This option limits the need to produce K-1s or other income documentation which is typically required for credit approval, but which is sometimes problematic for self-employed applicants and applicants with a complicated financial picture. The applicant may need to meet certain additional requirements to qualify, such as having a certain level of verified liquid assets.

non-assumption clause

In a mortgage contract, a statement that a new buyer may not take over a mortgage payment obligation without the approval of the lender. non-conforming loan

A loan that does not conform to Federal National Mortgage Association (FNMA) or Federal Home Loan Mortgage Corporation (FHLMC) guidelines either because the loan amount is too high or FNMA/FHLMC underwriting or other criteria are not met. Jumbo loans are non-conforming.

See also: conforming loan. non-permanent resident alien

A non-U.S. citizen who resides in the United States on a temporary basis on a government issued work visa. non-resident alien

A non-U.S. citizen who resides outside of the United States. note

A signed document that acknowledges a debt and shows the borrower is obligated to pay it. O Top open end mortgage

A mortgage that permits the outstanding loan amount to be increased. origination

The process of creating both commercial and residential mortgages. origination fee

The amount charged by a lender or broker to originate a mortgage loan. Origination fees are usually expressed in points.

P Top pay back period or repayment period

On HELOCs, the period of time after expiration of the access period over which all outstanding balances must be repaid, usually 10 to 20 years.

payment cap

See: cap. payment to income (P/I) ratio

The ratio of the borrower's total housing payment (principal, interest, taxes, insurance, HOA fees, special assessments, and subordinate financing) that is used to measure the borrower's capacity to manage the housing expense; also known as "housing debt-to-income ratio." permanent buydown

A permanent reduction to the interest rate for the life of the loan. The funds for the buydown may come from the borrower, lender, seller or a third party. PITI

Abbreviation for principal, interest, taxes and insurance. Planned Unit Development (PUD)

A real estate project in which each unit owner has title to a residential lot and building and a non-exclusive easement on the common areas of the project. points

Charges levied by the lender (or broker) based on the loan amount. Each point is one percent of the loan amount; for example, two points of a \$100,000 mortgage is \$2,000. Discount points are used to buy down the interest rate. Points can also include a loan origination fee, which is usually one point. power of attorney

A legal document authorizing one person to enter into agreements and sign documents on behalf of another. Lenders may permit a mortgage loan to be closed using a power of attorney under certain circumstances if arrangements are made in advance. pre-qualification

Tentative establishment of a borrower's qualification for a mortgage loan of a specific amount or ability to make monthly payments at a certain level, based solely on debt-to-income ratios. Pre-qualification is an estimate only and is subject to debt and income verification, credit history, property appraisal and other factors. prepaid items

Items that generally must be paid for at the time of closing and are generally recurring charges. Prepaid items may include the following:

first year premiums for hazard, flood and mortgage insurance, as applicable to the transaction, prorated interest, any special assessments which must be prepaid (i.e., water/sewer connection, etc.) and escrow account for any of the above.

prepayment

The borrower's ability to make full or partial payments on a loan's principal before they are due. Paying a mortgage in full or in part before it is due may incur a penalty if so specified in the mortgage's prepayment clause.

prime rate The interest rate designated by a lender as its prime rate and which serves as a basis for the interest rate charged to certain customers. principal

The amount of the mortgage loan, not counting interest. private mortgage insurance

Insurance coverage that many lenders, investors, and government agencies require the borrower to obtain to protect the lender against loss in the event of a mortgage default for higher LTV mortgages. property appraisal

See: appraisal. prorate

To proportionally divide amounts owed by the buyer and the seller at closing.

Q Top qualification

As determined by a lender, the ability of the borrower to repay a mortgage loan based on the borrower's credit history, employment history, assets, debts, income and other factors. qualifying ratios

The percentage of payment to income (P/I) and debt-to-income (D/I) that is used to measure the borrower's capacity to repay the mortgage debt. R Top rate cap

See: cap. real estate owned (REO)

Property acquired by a lender as the result of foreclosure. recognition agreement

An agreement by the co-op corporation that recognizes specific rights of lenders who finance the acquisition of interests in a co-op project. refinance

Retirement of an existing debt from the proceeds of a new loan, using the same collateral as security. rental income

Income generated by renting property to a tenant. reserves

Sometimes referred to as "cash reserves" or "post-closing reserves"; this is the amount of liquid assets the borrower has remaining after completion of the mortgage loan transaction and payment of any other debt(s) that had to be satisfied in order for the borrower to qualify for the loan. See: liquidity. resident alien

A non-U.S. citizen who is granted most of the rights of a U.S. citizen, including permanent residency in the United States.

Resident Alien status is usually evidenced by a "Green Card." RESPA

Abbreviation for the federal Real Estate Settlement Procedures Act, which requires lenders to disclose information on the nature and costs of the real estate settlement process, limits certain fees and charges, and regulates the amount home buyers are required to place in escrow. revolving debt

A debt that does not have a fixed payment, although repayment is usually a percentage of the outstanding balance and made at regular intervals; most common are credit cards issued by banks or department stores. S Top sales contract

The agreement between buyer and seller for the sale of a property. second mortgage

A loan that is junior to a primary or first mortgage and often has a higher interest rate and a shorter term.

second/vacation home

A second home/vacation home that is occupied by the borrower for some portion of the year for his/her exclusive use and enjoyment but which is suitable for year round occupancy. It cannot be subject to a mandatory rental pool and the borrower does not intend to use the property for income producing purposes. secondary market

A market in which investors like GNMA, FHLMC, FNMA and private organizations buy large numbers of mortgages from the primary lenders and either hold them in a portfolio or package them for sale to others. By selling loans in the secondary market, lenders obtain the funds needed to make new loans. self-employed borrower

A borrower whose income is derived from a business in which he/she has an ownership interest of 25% or more.

servicing

The responsibility of collecting monthly mortgage payments and properly crediting them to the principal, interest, taxes and insurance, as well as keeping the borrower informed of any changes in the status of the loan. settlement

See: closing.

settlement costs

See: closing costs. subdivision

An area of land that is platted and sub-divided into individual lots. simple interest loan

A loan on which interest is computed and charged on the actual balance each day instead of on a monthly accrual where interest is charged from one scheduled payment due date to the next, without regard to the date on which the borrower actually pays. The interest paid on simple interest loans will be higher if the borrower's payments are made later than scheduled and lower if the borrower's payments are made earlier than scheduled. survey

A physical measurement of property done by a registered professional showing the boundaries, dimensions and location of any buildings as well as easements, rights of way, roads, etc. T Top tax assessed value

The value of a taxable property as determined by the county or municipal property assessor. This information is maintained in a database and updated periodically by the county or municipality. tax lien

A claim against property for unpaid taxes. A municipality's claim against a property for real estate taxes is a first and paramount lien, whether or not the taxes are due. A lien can also attach to property for non-payment of federal or state income taxes. temporary buydowns

A loan on which the interest rate has been "bought down" for a temporary period of time at the beginning of the loan by escrowing funds at the time of closing, which will be applied to the total monthly mortgage payment as each becomes due. title

A formal document establishing ownership of property. title insurance

A policy issued by a title insurance company insuring that the borrower has clear title to the property and that the lender has a valid mortgage, subject only to liens, claims and exceptions disclosed in the title insurance policy. townhouse

A row house or other attached housing. Often "townhouse" is the designation used for a non-apartment style condominium with more than one floor. trust deed

See: deed of trust. Truth-in-Lending

The Truth-in-Lending Act requires lenders to disclose the cost of credit and other loan terms to consumers, and also provides a 3 day right of rescission on refinancing of owner-occupied primary residences.

U Top underwriter

A professional who approves or denies a loan to a potential home buyer based on the home buyer's credit history, employment history, assets, debts, property appraisal and other factors such as loan guidelines. Uniform Settlement

Statement

A standard document prescribed by the Real Estate Settlement Procedures Act disclosing all costs paid in connection with the settlement of a real estate transaction. Also called a HUD-1 or a HUD-1A. [V Top](#) [VA loan](#)

See: Veterans Administration. [vacation home](#)

See: [second/vacation home](#). [variable rate](#)

An interest rate that adjusts periodically according to the financial index it is based upon plus a margin. A variable rate must be based on a publicly available index such as the Prime Rate published in major daily newspapers or US Treasury Bills. The interest rate may increase or decrease based on changes in the index. [variable rate mortgage \(VRM\)](#)

See: [adjustable rate mortgage](#). [Veterans Administration \(VA\)](#)

The federal agency responsible for the VA loan guarantee program as well as other services for eligible veterans. In general, qualified veterans can apply for home loans with no down payment and a mortgage insurance premium of 1 percent of the loan amount.

W Top [walk-through](#)

An inspection of a property by the prospective buyer prior to closing on a mortgage. [warranty deed](#)

A document protecting a home buyer against any and all claims to the property. [wraparound mortgage](#)

A junior mortgage taken back by the seller for the amount of the property's purchase price less the buyer's down payment. The existing loan is retained and combined with a new, larger loan and the interest rate is set somewhere between the old rate and the current market rate. A typical wraparound is an interest only loan with a 5-year balloon or less. [Y Top](#) [yield](#)

The ratio of investment income to the total amount invested over a given period of time; also known as "return on investment" or ROI.

Z Top

[zoning](#)

The ability of local governments to specify the use of property in order to control development within designated areas of land. For example, some areas of a neighborhood may be designated only for residential use and others for commercial use such as stores, gas stations, etc.

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