



### **Acceleration Clause**

A provision in a mortgage that gives the lender the right to demand payment of the entire principal balance if a monthly payment is missed.

### **Acceptance**

An offeree's consent to enter into a contract and be bound by the terms of the offer.

### **Additional Principal Payment**

A payment by a borrower of more than the scheduled principal amount due in order to reduce the remaining balance on the loan.

### **Adjustable Rate Mortgage (ARM)**

A mortgage that permits the lender to adjust its interest rate periodically on the basis of changes in a specified index.

### **Adjusted Basis**

The original cost of a property plus the value of any capital expenditures for improvements to the property minus any depreciation taken.

### **Adjustment Date**

The date on which the interest rate changes for an adjustable-rate mortgage (ARM).

### **Adjustment Period**

The period that elapses between the adjustment dates for an adjustable-rate mortgage (ARM).

## **Administrator**

A person appointed by a probate court to administer the estate of a person who died intestate.

## **Affidavits**

A formal sworn statement of fact. As part of the closing process, you're likely to sign numerous affidavits. You may be required, for example, to sign an affidavit of occupancy. It states that you will use the property as a principal residence. Or, you and the seller may have to sign an affidavit stating all of the improvements to the property required in the sales contract were completed before closing.

Your lender can provide additional information regarding any of these documents you will sign.

## **Affordability Analysis**

A detailed analysis of your ability to afford the purchase of a home. An affordability analysis takes into consideration your income, liabilities, and available funds, along with the type of mortgage you plan to use, the area where you want to purchase a home, and the closing costs that you might expect to pay.

## **Amenity**

A feature of real property that enhances its attractiveness and increases the occupant's or user's satisfaction although the feature is not essential to the property's use. Natural amenities include a pleasant or desirable location near water, scenic views of the surrounding area, etc. Human-made amenities include swimming pools, tennis courts, community buildings, and other recreational facilities.

## **Amortization**

The gradual repayment of a mortgage loan by installments.

## **Amortization Term**

The amount of time required to amortize the mortgage loan. The amortization term is expressed as a number of months. For example, for a 30-year fixed-rate mortgage, the amortization term is 360 months.

## **Amortize**

To repay a mortgage with regular payments that cover both principal and interest.

## **Amortization Schedule**

A timetable for payment of a mortgage loan. An amortization schedule shows the amount of each payment applied to interest and principal and shows the remaining balance after each payment is made.

## **Annual Mortgagor Statement**

A report sent to the mortgagor each year. The report shows how much was paid in taxes and interest during the year, as well as the remaining mortgage loan balance at the end of the year.

## **Annual Percentage Rate (APR)**

The cost of a mortgage stated as a yearly rate; includes such items as interest, mortgage insurance, and loan origination fee (points).

## **Annuity**

An amount paid yearly or at other regular intervals, often on a guaranteed dollar basis.

## **Application**

A form used to apply for a mortgage loan and to record pertinent information concerning a prospective mortgagor and the proposed security.

\*See also "Loan Application" entry.

## **Appraisal**

A written analysis of the estimated value of a property prepared by a qualified appraiser. Contrast with home inspection.

## **Appraised Value**

An opinion of a property's fair market value, based on an appraiser's knowledge, experience, and analysis of the property.

## **Appraiser**

A person qualified by education, training, and experience to estimate the value of real property and personal property.

## **Appreciation**

An increase in the value of a property due to changes in market conditions or other causes. The opposite of depreciation.

## **Assessed Value**

The valuation placed on property by a public tax assessor for purposes of taxation.

## **Assessment**

The process of placing a value on property for the strict purpose of taxation. May also refer to a levy against property for a special purpose, such as a sewer assessment.

## **Assessment Rolls**

The public record of taxable property.

## **Assessor**

A public official who establishes the value of a property for taxation purposes.

## **Asset**

Anything of monetary value that is owned by a person. Assets include real property, personal property, and enforceable claims against others (including bank accounts, stocks, mutual funds, and so on).

## **Assignment**

The transfer of a mortgage from one person to another.

## **Assumable Mortgage**

A mortgage that can be taken over (“assumed”) by the buyer when a home is sold.

A provision in an assumable mortgage allows a buyer to assume responsibility for the mortgage from the seller. The loan does not need to be paid in full by the original borrower upon the sale or transfer of the property.

## **Assumption**

The transfer of the seller’s existing mortgage to the buyer.

\*See also “Assumable Mortgage” entry.

## **Assumption Clause**

A provision in an assumable mortgage that allows a buyer to assume responsibility for the mortgage from the seller. The loan does not need to be paid in full by the original borrower upon sale or transfer of the property.

## **Assumption Fee**

The fee paid to a lender (usually by the purchaser of real property) resulting from the assumption of an existing mortgage.

## **Attorney-In-Fact**

One who holds a power of attorney from another to execute documents on behalf of the grantor of the power.

## **Automated Underwriting**

After you complete your loan application with a lender, it is sent to “underwriting” for review. In short, underwriting is the process used to analyze how you have managed credit obligations in the past, whether you have the ability to repay the mortgage loan you are applying for (i.e., your income and assets), and whether the price you are willing to pay for the home is supported by the price of the property.

## **B**

### **Balance Sheet**

A financial statement that shows assets, liabilities, and net worth as of a specific date.

### **Balloon Mortgage**

A mortgage that has level monthly payments that will amortize it over a stated term but that provides for a lump sum payment to be due at the end of an earlier specified term.

### **Balloon Payment**

The final lump sum payment that is made at the maturity date of a balloon mortgage.

### **Bankrupt**

A person, firm, or corporation that, through a court proceeding, is relieved from the payment of all debts after the surrender of all assets to a court-appointed trustee.

## **Bankruptcy**

A proceeding in a federal court in which a debtor who owes more than his or her assets can relieve the debts by transferring his or her assets to a trustee.

## **Before-Tax Income**

Income before taxes are deducted.

## **Beneficiary**

The person designated to receive the income from a trust, estate, or a deed of trust.

## **Bequeath**

To transfer personal property through a will.

## **Betterment**

An improvement that increases property value as distinguished from repairs or replacements that simply maintain value.

## **Bill of Sale**

A written document that transfers title to personal property.

## **Binder**

A preliminary agreement, secured by the payment of an earnest money deposit, under which a buyer offers to purchase real estate.

## **Biweekly Mortgages**

Your lender will probably tell you that a biweekly mortgage is structured just like a traditional fixed-rate, level-payment, fully amortizing mortgage. However, you make your payments every 14 days instead of once a month. The monthly payment is split in half, resulting in the same total monthly mortgage, but the resulting 26 and sometimes 27 biweekly payments a year translate into 13 monthly payments, or one extra monthly payment per year.

Borrowers can qualify for a 30-year monthly payment amount, but get a loan that pays off in approximately 22 years at current interest rates. At higher rates, the actual term declines.

If you are looking to build up equity in your home faster without the higher mortgage payments that come with a shorter-term mortgage, you may want to consider the biweekly mortgage. Payments can be deducted from your bank account and scheduled to coincide

with your payroll deposits to simplify budgeting. Lenders may charge an initial set-up fee to automatically debit your checking account.

### **Blanket Insurance Policy**

A single policy that covers more than one piece of property (or more than one person).

### **Blanket Mortgage**

The mortgage that is secured by a cooperative project, as opposed to the share loans on individual units within the project.

### **Bona Fide**

In good faith, without fraud.

### **Bond**

An interest-bearing certificate of debt with a maturity date. An obligation of a government or business corporation. A real estate bond is a written obligation usually secured by a mortgage or a deed of trust.

### **Breach**

A violation of any legal obligation.

### **Bridge Loan**

A form of second trust that is collateralized by the borrower's present home (which is usually for sale) in a manner that allows the proceeds to be used for closing on a new house before the present home is sold. Also known as "swing loan."

### **Broker**

A person who, for a commission or a fee, brings parties together and assists in negotiating contracts between them.

### **Budget**

A detailed plan of income and expenses expected over a certain period of time. A budget can provide guidelines for managing future investments and expenses.

## **Budget Category**

A category of income or expense data that you can use in a budget. You can also define your own budget categories and add them to some or all of the budgets you create. "Rent" is an example of an expense category. "Salary" is a typical income category.

## **Building Code**

Local regulations that control design, construction, and materials used in construction. Building codes are based on safety and health standards.

## **Buydown Account**

An account in which funds are held so that they can be applied as part of the monthly mortgage payment as each payment comes due during the period that an interest rate buydown plan is in effect.

## **Buydown Mortgage**

A temporary buydown is a mortgage on which an initial lump sum payment is made by any party to reduce a borrower's monthly payments during the first few years of a mortgage. A permanent buydown reduces the interest rate over the entire life of a mortgage.

## **C**

### **Call Option**

A provision in the mortgage that gives the mortgagee the right to call the mortgage due and payable at the end of a specified period for whatever reason.

### **Cap**

A provision of an adjustable-rate mortgage (ARM) that limits how much the interest rate or mortgage payments may increase or decrease.

\*See also "lifetime payment cap", "lifetime rate cap", "periodic payment cap", and "periodic rate cap".

### **Capacity**

Lenders will want to know if you can repay the mortgage debt you incur -- this is known as your capacity. Lenders will base their evaluation on employment information, how long you've worked, and how much you are paid. Lenders will also review your expenses and

any other debt obligations you have. This means they'll want to know how many dependents you have and whether you pay any alimony or child support, for example.

## **Capital**

1. Money used to create income, either as an investment in a business or an income property.
2. The money or property comprising the wealth owned or used by a person or business enterprise.
3. The accumulated wealth of a person or business.
4. The net worth of a business represented by the amount by which its assets exceed liabilities.

## **Capital Expenditure**

The cost of an improvement made to extend the useful life of a property or to add to its value.

## **Capital Improvement**

Any structure or component erected as a permanent improvement to real property that adds to its value and useful life.

## **Cash-Out Refinance**

A refinance transaction in which the amount of money received from the new loan exceeds the total of the money needed to repay the existing first mortgage, closing costs, points, and the amount required to satisfy any outstanding subordinate mortgage liens. In other words, a refinance transaction in which the borrower receives additional cash that can be used for any purpose.

## **CD-Indexed (Certificate of Deposit) ARMs**

The Certificate of Deposit index represents the weekly average of secondary market interest rates on six-month negotiable CDs.

The initial interest rate and payments adjust every six months after an initial six-month period.

ARMs with this index typically come with a per-adjustment cap of 1 percent and a lifetime rate cap of 6 percent.

## **Certificate of Deposit**

A document written by a bank or other financial institution that is evidence of a deposit, with the issuer's promise to return the deposit plus earnings at a specified interest rate within a specified time period.

\*See also “Adjustable-Rate Mortgage” entry.

### **Certificate of Deposit Index**

An index that is used to determine interest rate changes for certain ARM plans. It represents the weekly average of secondary market interest rates on six-month negotiable certificates of deposit.

\*See also “Adjustable-Rate Mortgage” entry.

### **Certificate of Eligibility**

A document issued by the federal government certifying a veteran’s eligibility for a Department of Veterans Affairs (VA) mortgage.

### **Certificate of Reasonable Value (CRV)**

A document issued by the Department of Veterans Affairs (VA) that establishes the maximum value and loan amount for a VA mortgage.

### **Certificate of Title**

A statement provided by an abstract company, title company, or attorney stating that the title to real estate is legally held by the current owner.

### **Chain of Title**

The history of all of the documents that transfer title to a parcel of real property, starting with the earliest existing document and ending with the most recent.

### **Change Frequency**

The frequency (in months) of payment and/or interest rate changes in an adjustable-rate mortgage (ARM).

### **Change Orders**

After construction begins, you may discover that you need to make unplanned and necessary changes to the work. The contingency reserve covers unforeseen repairs or deficiencies found during renovation. Unnecessary additions or changes are treated differently.

These change orders are considered discretionary and must first be approved by your lender. You must deposit additional funds to pay for the work in the escrow account before work on the changes begins. These change orders - as well as any that result from unforeseen repairs - must be added as amendments to your construction contract.

## **Chattel**

Another name for personal property.

## **Clear Title**

A title that is free of liens or legal questions as to ownership of the property.

## **Closing**

A meeting at which a sale of a property is finalized by the buyer signing the mortgage documents and paying closing costs. Also called "settlement".

\*See also "Settlement" entry.

## **Closing Agent**

As a potential home buyer, you will need a closing (or "settlement") agent to coordinate the various closing activities. These can include but are not limited to preparing and recording the closing documents and disbursing funds.

The types of services provided by a closing agent depend on the person you hire, but typically the closing is conducted by title companies, escrow companies or attorneys. It is usually held at the lender's or real estate sales professional's office.

## **Closing Cost Item**

A fee or amount that a home buyer must pay at closing for a single service, tax, or product. Closing costs are made up of individual closing cost items such as origination fees and attorney's fees. Many closing cost items are included as numbered items on the HUD-1 statement.

## **Closing Costs**

Expenses (over and above the price of the property) incurred by buyers and sellers in transferring ownership of a property. Closing costs normally include an origination fee, an attorney's fee, taxes, an amount placed in escrow, and charges for obtaining title insurance and a survey. Closing costs percentage will vary according to the area of the country; lenders or REALTORS® often provide estimates of closing costs to prospective homebuyers.

## **Closing Date**

After your lender has approved your mortgage and you accept the commitment letter, the next step is to set a closing date. Many times, your real estate sales professional coordinates the setting of this date with you, the seller, the closing agent, and your lender.

Remember, you need to ensure that the closing occurs before your lender's commitment letter - and the rate lock-in, if there is one - expire. You can now finalize your moving plans.

### **Cloud on Title**

Any conditions revealed by a title search that adversely affect the title to real estate. Usually clouds on title cannot be removed except by a quitclaim deed, release, or court action.

### **Co-Maker**

A person who signs a promissory note along with the borrower. A co-maker's signature guarantees that the loan will be repaid, because the borrower and the co-maker are equally responsible for the repayment.

### **Coinsurance**

A sharing of insurance risk between the insurer and the insured. Coinsurance depends on the relationship between the amount of the policy and a specified percentage of the actual value of the property insured at the time of the loss.

### **Coinsurance Clause**

A provision in a hazard insurance policy that states the amount of coverage that must be maintained - as a percentage of the total value of the property - for the insured to collect the full amount of a loss.

### **Collateral**

An asset (such as a car or a home) that guarantees the repayment of a loan. The borrower risks losing the asset if the loan is not repaid according to the terms of the loan contract.

### **Collection**

The efforts used to bring a delinquent mortgage current and to file the necessary notices to proceed with foreclosure when necessary.

### **Commercial Banks**

Commercial banks, like thrifts, originate and service mortgage loans. In some cases, commercial banks may have mortgage banking subsidiaries that perform this function. Banks may choose to hold a loan in their own portfolio or sell the loan to an investor.

## **Commission**

The fee charged by a broker or agent for negotiating a real estate or loan transaction. A commission is generally a percentage of the price of the property or loan.

## **Commitment Letter**

A formal offer by a lender stating the terms under which it agrees to lend money to a homebuyer. Also known as a "loan commitment".

## **Common Area Assessments**

Levies against individual unit owners in a condominium or planned unit development (PUD) project for additional capital to defray homeowners' association costs and expenses and to repair, replace, maintain, improve, or operate the common areas of the project.

## **Common Areas**

Those portions of a building, land, and amenities owned (or managed) by a planned unit development (PUD) or condominium project's homeowners' association (or a cooperative project's cooperative corporation) that are used by all of the unit owners, who share in the common expenses of their operation and maintenance. Common areas include swimming pools, tennis courts, and other recreational facilities, as well as common corridors of buildings, parking areas, means of ingress and egress, etc.

## **Common Law**

An unwritten body of law based on general custom in England and used to an extent in the United States.

## **Community Land Trust Mortgage Option**

An alternative financing option that enables low- and moderate-income home buyers to purchase housing that has been improved by a nonprofit Community Land Trust and to lease the land on which the property stands.

## **Community Property**

In some western and southwestern states, a form of ownership under which property acquired during a marriage is presumed to be owned jointly unless acquired as separate property of either spouse.

## **Community Seconds**

An alternative financing option for low- and moderate-income households under which an investor purchases a first mortgage that has a subsidized second mortgage behind it. The

second mortgage may be issued by a state, county, or local housing agency, foundation, or nonprofit organization. Payment on the second mortgage is often deferred and carries a very low interest rate (or no interest rate at all). Part of the debt may be forgiven incrementally for each year the buyer remains in the home.

## **Comparables**

An abbreviation for “comparable properties”; used for comparative purposes in the appraisal process. Comparables are properties like the property under consideration; they have reasonably the same size, location, and amenities and have recently been sold. Comparables help the appraiser determine the approximate fair market value of the subject property.

## **Compound Interest**

Interest paid on the original principal balance and on the accrued and unpaid interest.

## **Condemnation**

The determination that a building is not fit for use or is dangerous and must be destroyed; the taking of private property for a public purpose through an exercise of the right of eminent domain.

## **Condition of the Home**

Potential homeowners should know of major problems in a home before they make an offer. As a potential buyer, you should carefully examine all elements of the home. Ask questions to the seller and the real estate sales professional about any concerns you may have. Both the seller and the real estate agent can be held liable if they do not disclose any defects they know about in the home.

## **Condominium**

A real estate project in which each unit owner has title to a unit in a building, an undivided interest in the common areas of the project, and sometimes the exclusive use of certain limited common areas.

## **Condominium Conversion**

Changing the ownership of an existing building (usually a rental project) to the condominium form of ownership.

## **Condominium Hotel**

A condominium project that has rental or registration desks, short-term occupancy, food and telephone services, and daily cleaning services and that is operated as a commercial hotel even though the units are individually owned.

## **Construction Contract**

The terms and conditions of any major renovation job should be part of a formal, legally binding contract between you and your contractor - this is called the construction contract. The lender you choose will likely want to review this contract before you sign it.

## **Construction Loan**

A short-term, interim loan for financing the cost of construction. The lender makes payments to the builder at periodic intervals as the work progresses.

## **Contingencies for Repairs**

In your purchase offer, you may consider stating that the seller must make sure the electrical systems, heating and cooling, plumbing, and mechanical systems are functioning properly at the closing. You may also state that your purchase is contingent upon the satisfactory completion of a professional home inspection, which will check these systems and other elements more completely. These are both ways to ensure that surprises don't arise when your moving day arrives.

If you do not include this clause in your contract, you are essentially accepting the house "as is."

## **Contingency**

A condition that must be met before a contract is legally binding. For example, home purchasers often include a contingency that specifies that the contract is not binding until the purchaser obtains a satisfactory home inspection report from a qualified home inspector.

## **Contingency for Clear Title**

Your purchase contract should include a contingency that the purchase is subject to your receiving clear title to the property. This process includes a title search and title insurance.

## **Contingency for Financing**

When you make a formal offer on a house, your contract should include a financing contingency. It specifies if you don't get the money you need to purchase the house at the terms you want, the offer is void and you will be refunded your deposit.

Don't be surprised if the seller includes a clause in the contract that states you must make a "good faith effort" to get the mortgage. This is the seller's way to ensure that you explore all options to get a mortgage loan.

### **Contingency for Personal Property**

Your purchase contract should specify appliances, fixtures, and other personal property that must remain in the home. You can avoid any surprises by listing in your contract everything that is to be left behind when the seller moves out.

### **Contingency Reserve**

Most mortgages for purchase-renovation require an additional 10 percent of the total cost of the project to be put aside into a reserve account. This contingency reserve is only used when unforeseen repairs or deficiencies are found during renovation.

### **Contract**

An oral or written agreement to do or not to do a certain thing.

### **Contractor**

A general contractor is a person who oversees a construction project and handles aspects such as scheduling workers and ordering supplies.

### **Conventional Mortgage**

A mortgage that is not insured or guaranteed by the federal government. Contrast with government mortgage.

### **Convertibility Clause**

A provision in some adjustable-rate mortgages (ARMs) that allows the borrower to change the ARM to a fixed-rate mortgage at specified timeframes after loan origination.

### **Convertible ARM**

An adjustable-rate mortgage (ARM) that can be converted to a fixed-rate mortgage under specified conditions.

### **Cooperative (co-op)**

A type of multiple ownership in which the residents of a multiunit housing complex own shares in the cooperative corporation that owns the property, giving each resident the right to occupy a specific apartment or unit.

## **Cooperative Corporation**

A business trust entity that holds title to a cooperative project and grants occupancy rights to particular apartments or units to shareholders through proprietary leases or similar arrangements. A business trust entity that holds title to a cooperative project and grants occupancy rights to particular apartments or units to shareholders through proprietary leases or similar arrangements.

## **Cooperative Mortgages**

Mortgages related to a cooperative project. This usually refers to the multifamily mortgage covering the entire project but occasionally describes the share loans on the individual units.

## **Cooperative Project**

A residential or mixed-use building wherein a corporation or trust holds title to the property and sells shares of stock representing the value of a single apartment unit to individuals who, in turn, receive a proprietary lease as evidence of title.

## **Corporate Relocation**

Arrangements under which an employer moves an employee to another area as part of the employer's normal course of business or under which it transfers a substantial part or all of its operations and employees to another area because it is relocating its headquarters or expanding its office capacity.

## **Cost of Funds Index (COFI)**

An index that is used to determine interest rate changes for certain adjustable-rate mortgage (ARM) plans. It represents the weighted-average cost of savings, borrowings, and advances of the 11th District members of the Federal Home Loan Bank of San Francisco.

\*See also "adjustable-rate mortgage (ARM)".

## **Costs of Settling Into Your Home**

When figuring out how much home you can afford, you need to account for the costs associated with getting into your home.

These can include the cost for repairs that need to be made before you can occupy your residence. There may also be the cost of purchasing appliances, such as a washer and dryer, refrigerator, or stove.

The bottom line is you do not want to spend all your money on purchasing the home and not have any left to pay these types of costs.

## **Covenant**

A clause in a mortgage that obligates or restricts the borrower and that, if violated, can result in foreclosure.

## **Credit**

An agreement in which a borrower receives something of value in exchange for a promise to repay the lender at a later date.

## **Credit Bureau**

The three main credit reporting agencies, or credit bureaus, are Equifax, Experian, and Trans Union. You can order a copy of your credit report (a nominal fee may apply) via telephone at:

\* Equifax: (800) 685-1111

\* Trans Union: (800) 916-8800

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\* Experian: (800) 682-7654

## **Credit History**

A record of an individual's open and fully repaid debts. A credit history helps a lender to determine whether a potential borrower has a history of repaying debts in a timely manner.

## **Credit Life Insurance**

A type of insurance often bought by mortgagors because it will pay off the mortgage debt if the mortgagor dies while the policy is in force.

## **Credit Profile**

There are several ways to ensure you have a good credit report and credit score. One of the most effective is to manage your existing credit in a positive way.

Ask your lender for suggestions about ways to control the amount of money you owe. Or, you can choose a credit counselor from the list provided on this site. Some lenders may view consumers as a greater risk if they have used most or all of their available credit. Consumers who are considered "overextended" may be viewed this way even if they have made all their debt payments on time.

Missing a payment on a bill should be avoided, as should late payments on any of your credit obligations. Experiencing a mortgage foreclosure, filing for bankruptcy, or having your

vehicle repossessed can also affect your credit score and credit report, limiting your ability to get new credit at a reasonable rate.

## **Credit Report**

A report of an individual's credit history prepared by a credit bureau and used by a lender in determining a loan applicant's creditworthiness.

## **Credit Report Fee**

The credit report fee covers the lender's cost for ordering your credit report from a credit bureau.

This report will verify some of the information you provided on your loan application as well as additional information from the credit agency's files and from public records.

When a credit report is received, your lender will check it against your application and look for any discrepancies. You may be asked to explain information in your credit report.

## **Credit Reporting Agency**

An organization that prepares reports that are used by lenders to determine a potential borrower's credit history. The agency obtains data for these reports from a credit repository as well as from other sources.

The three main credit reporting agencies, or credit bureaus, are Equifax, Experian, and Trans Union. You can order a copy of your credit report (a nominal fee may apply) via telephone at:

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## **Credit Repository**

An organization that gathers, records, updates, and stores financial and public records information about the payment records of individuals who are being considered for credit.

## **Credit Scoring**

Your credit score is based on all the information in your credit report. This information is converted into a number - a credit score - that the lender uses to determine whether you are likely to repay your loan in a timely manner. The scores used in mortgage lending are typically in the 300 to 900 range. A general guide is that the higher your score the better.

But you should keep in mind that your credit score is just one of several factors that will be used to evaluate your mortgage loan application.

## **Credit Unions**

A credit union is a financial institution that is owned and run by its members. It is a nonprofit, cooperative institution that offers members a place to save and borrow. A credit union often works by having its members pool their funds so additional loans can be made to other members.

## **Creditor**

A person to whom money is owed.

## **D**

### **Debt**

An amount owed to another. See installment loan and revolving liability.

### **Deed**

The legal document conveying title to a property.

The deed is the document that transfers ownership from the seller to you. Only the seller signs the deed at closing, and you'll receive a copy of it.

The closing agent will record the deed with you listed as the new property owner. Your name and the names of any other buyers appear on the deed, and it will be sent to you after it is recorded.

### **Deed of Trust**

The document used in some states instead of a mortgage; title is conveyed to a trustee.

In some states, a "deed of trust" is used instead of a mortgage. When homeowners sign a deed of trust, they receive title to the property but convey title to a neutral third party - called a trustee - until the loan balance is paid in full.

### **Deed-in-Lieu**

A deed given by a mortgagor to the mortgagee to satisfy a debt and avoid foreclosure. Also called a "voluntary conveyance."

## **Default**

Failure to make mortgage payments on a timely basis or to comply with other requirements of a mortgage.

## **Delinquency**

Failure to make mortgage payments when mortgage payments are due.

## **Department of Veterans Affairs**

An agency of the federal government that guarantees residential mortgages made to eligible veterans of the military services. The guarantee protects the lender against loss and thus encourages lenders to make mortgages to veterans.

The Veterans Administration is a federal government agency authorized to guarantee loans made to eligible veterans under certain conditions. To obtain more information, you can contact the U.S. Department of Veterans Affairs.

The qualification guidelines for VA loans are more flexible than those for either the Federal Housing Administration (FHA) or conventional loans.

If you are a qualified veteran, this can be an attractive mortgage program. To determine whether you are eligible, check with your nearest VA regional office.

## **Deposit**

A sum of money given to bind the sale of real estate, or a sum of money given to ensure payment or an advance of funds in the processing of a loan.

See earnest money deposit.

## **Depreciation**

A decline in the value of property; the opposite of appreciation.

## **Detached Single-Family Home**

The most traditional type of single-family home is one that is “detached.” This type of home stands separate from any other housing structure and serves as a place of residence for the occupants.

## **Direct Leveraging Loan Program**

The Direct Leveraging Loan Program makes it easier and more economical for rural residents to own a home through lower interest rates and no down payment.

Under this program, the lender offers up to 50 percent of the mortgage amount as a conventional 30-year, fixed-rate first mortgage and the Rural Housing Service (RHS) offers the balance as a second mortgage at an interest rate that is generally below market.

The RHS is part of the U.S. Department of Agriculture.

### **Discount points**

Discount points are often used to describe a type of fee that lenders charge. Discount points are additional funds you pay the lender at closing to get a lower interest rate on your mortgage.

A point equals 1 percent of the loan amount. So, if you and your lender agree to a mortgage of \$100,000, one point would equal \$1,000.

Typically, each point you pay for a 30-year loan lowers your interest rate by .125 of a percentage point. If the current interest rate on a 30-year mortgage is 7.75 percent, paying one point would lower the interest rate to 7.625.

Ask your lender if you have the option of paying 1, 2, or 3 discount points - or you can choose not to pay any discount points. It often makes more sense to pay discount points if you plan to stay in your home for a long time.

### **Dower**

The rights of a widow in the property of her husband at his death.

### **Down Payment**

The part of the purchase price of a property that the buyer pays in cash and does not finance with a mortgage.

Saving for a down payment is usually one of the most difficult parts of preparing to buy a home. If you believe you have the needed funds, you are in a better position to seek pre-qualification from a lender to get the mortgage that is right for you.

Most homeowners rely on a mortgage from a financial institution, and most mortgage products require buyers to include a portion of their own funds towards the purchase of the home. This is called the down payment. Lenders feel more secure when buyers include a down payment, indicating they are less likely to walk away from their investment if their finances take a downturn.

Historically, buyers usually made a down payment that totaled 20 percent of the home's purchase price. Under this scenario, a down payment for a \$100,000 home is \$20,000. But today, new mortgage products allow buyers to put down as little as 3 percent to 5 percent, provided private mortgage insurance is obtained. The down payment for a \$100,000 home with 5 percent down payment is just \$5,000.

Sources for down payments may come from buyers' savings accounts, checking accounts, stocks and bonds, life insurance policies, and gifts.

### **Due-on-sale Provision**

A provision in a mortgage that allows the lender to demand repayment in full if the borrower sells the property that serves as security for the mortgage.

### **Due-on-transfer Provision**

This terminology is usually used for second mortgages.

\*See also "due-on-sale provision".

## **E**

### **Earnest Money Deposit**

A deposit made by the potential home buyer to show that he or she is serious about buying the house.

The earnest money deposit is a "good-faith" payment you submit with your offer on a home to show the seller you are serious about proceeding.

The earnest money is deposited in an escrow account and will be applied to your closing costs.

Sometimes, your lender will want you to bring a receipt for the earnest money deposit along with your sales contract to the initial loan application meeting.

### **Easement**

A right of way giving persons other than the owner access to or over a property.

### **Effective Age**

An appraiser's estimate of the physical condition of a building. The actual age of a building may be shorter or longer than its effective age.

### **Effective Gross Income**

Normal annual income including overtime that is regular or guaranteed. The income may be from more than one source. Salary is generally the principal source, but other income may qualify if it is significant and stable.

## **Eminent Domain**

The right of a government to take private property for public use upon payment of its fair market value. Eminent domain is the basis for condemnation proceedings.

## **Encroachment**

An improvement that intrudes illegally on another's property.

## **Encumbrance**

Anything that affects or limits the fee simple title to a property, such as mortgages, leases, easements, or restrictions.

## **Endorser**

A person who signs ownership interest over to another party. Contrast with co-maker.

## **Equal Credit Opportunity Act (ECOA)**

A federal law that requires lenders and other creditors to make credit equally available without discrimination based on race, color, religion, national origin, age, sex, marital status, or receipt of income from public assistance programs.

## **Equity**

A homeowner's financial interest in a property. Equity is the difference between the fair market value of the property and the amount still owed on its mortgage.

A lender determines how much equity you have in your home by taking the appraised value of the home and subtracting any mortgage debt.

For example, if your house is valued at \$150,000 and your mortgage balance is \$80,000, you have \$70,000 equity in the house.

## **Errors in Credit Report**

Your credit report may contain inaccuracies. The best way to ensure there are no errors in your credit report is to request copies and review the information.

Since each of the main credit bureaus keeps its own records, you may want to request copies from all three: Trans Union, Equifax, and Experian.

If you have been turned down for credit because of the information in your credit report, you are entitled to receive a free copy of your report within 60 days of the denial. If you haven't been denied credit, you can still request a copy of your credit report, usually for a nominal fee.

If you find errors in your report, follow the directions in the credit report and contact the agencies to have the errors corrected. They will investigate the targeted items and remove incorrect information.

You don't have to delay applying for a mortgage while errors in your report are being corrected. Explain the discrepancies in the report to your lender and state that the credit agency is correcting them.

## **Escrow**

An item of value, money, or documents deposited with a third party to be delivered upon the fulfillment of a condition. For example, the deposit by a borrower with the lender of funds to pay taxes and insurance premiums when they become due, or the deposit of funds or documents with an attorney or escrow agent to be disbursed upon the closing of a sale of real estate.

## **Escrow Account**

The account in which a mortgage servicer holds the borrower's escrow payments prior to paying property expenses.

An escrow account is money that is deposited with a third party - outside the buyer and the seller - to be used to pay various fees. A borrower typically provides funds that will pay taxes, mortgage insurance, lease payments, hazard insurance premiums, and other payments when they are due.

An escrow payment by the holder of a mortgage is also known as "impounds" or "reserves" in some states.

When escrow funds are used to pay taxes, hazard insurance, and other fees, it is called an escrow disbursement. Periodically, an escrow analysis will be performed to determine if current monthly deposits provide sufficient funds to pay bills when they are due.

## **Escrow Analysis**

The periodic examination of escrow accounts to determine if current monthly deposits will provide sufficient funds to pay taxes, insurance, and other bills when due.

## **Escrow Collections**

Funds collected by the servicer and set aside in an escrow account to pay the borrower's property taxes, mortgage insurance, and hazard insurance.

## **Escrow Disbursements**

The use of escrow funds to pay real estate taxes, hazard insurance, mortgage insurance, and other property expenses as they become due.

## **Escrow Payment**

The portion of a mortgagor's monthly payment that is held by the servicer to pay for taxes, hazard insurance, mortgage insurance, lease payments, and other items as they become due. Known as "impounds" or "reserves" in some states.

## **Establishing a Credit Report**

It is possible to establish a credit history even if you do not have a traditional credit record that shows credit card payments or payments on a student or car loan.

You can build a nontraditional credit history, for example, by documenting your monthly payments to previous and current landlords; to utility companies for your gas, water and telephone services; and to insurance companies for medical, life, and automobile coverage.

Your lender can provide further details on how you can effectively establish a credit record.

## **Estate**

The ownership interest of an individual in real property. The sum total of all the real property and personal property owned by an individual at time of death.

## **Eviction**

The lawful expulsion of an occupant from real property.

## **Examination of Title**

The report on the title of a property from the public records or an abstract of the title.

## **Exclusive Listing**

A written contract that gives a licensed real estate agent the exclusive right to sell a property for a specified time, but reserving the owner's right to sell the property alone without the payment of a commission.

## **Executor**

A person named in a will to administer an estate. The court will appoint an administrator if no executor is named. "Executrix" is the feminine form.

## **E**

### **Fair Credit Reporting Act**

A consumer protection law that regulates the disclosure of consumer credit reports by consumer/credit reporting agencies and establishes procedures for correcting mistakes on one's credit record.

### **Fair Market Value**

The highest price that a buyer, willing but not compelled to buy, would pay, and the lowest a seller, willing but not compelled to sell, would accept.

### **Fannie Mae (FNMA)**

A New York Stock Exchange company and the largest non-bank financial services company in the world. It operates pursuant to a federal charter and is the nation's largest source of financing for home mortgages.

### **Federal Housing Administration (FHA)**

An agency of the U.S. Department of Housing and Urban Development (HUD). Its main activity is the insuring of residential mortgage loans made by private lenders. The FHA sets standards for construction and underwriting but does not lend money or plan or construct housing.

### **Fee Simple**

The greatest possible interest a person can have in real estate.

Fee simple ownership provides the owner with unrestricted powers to dispose of the owned property as the owner sees fit. Of all types of ownership a person can have in real estate, fee simple provides the greatest amount of personal control.

### **Fee Simple Estate**

An unconditional, unlimited estate of inheritance that represents the greatest estate and most extensive interest in land that can be enjoyed. It is of perpetual duration. When the real estate is in a condominium project, the unit owner is the exclusive owner only of the air space within his or her portion of the building (the unit) and is an owner in common with respect to the land and other common portions of the property.

### **FHA Coinsured Mortgage**

A mortgage (under FHA Section 244) for which the Federal Housing Administration (FHA) and the originating lender share the risk of loss in the event of the mortgagor's default.

## **FHA Loans**

With FHA insurance, you can purchase a home with a low down payment from 3 percent to 5 percent of the FHA appraised value or the purchase price, whichever is lower.

FHA mortgages have a maximum loan limit that varies depending on the average cost of housing in a given region. In general, the loan limit is less than what is available with a conventional mortgage through a lender.

## **FHA Mortgage**

A mortgage that is insured by the Federal Housing Administration (FHA). Also known as a government mortgage.

With FHA insurance, you can purchase a home with a low down payment from 3 percent to 5 percent of the FHA appraised value or the purchase price, whichever is lower.

FHA mortgages have a maximum loan limit that varies depending on the average cost of housing in a given region. In general, the loan limit is less than what is available with a mortgage through a lender.

## **Final Walk-Through Inspection**

Your sales contract should include a clause that allows you to examine the property you want to purchase within the 24 hours before closing.

This walk-through, during which you will be accompanied by the real estate sales professional, is your chance to ensure that the seller has vacated the house and left behind whatever property was agreed upon.

Make sure to check that all lights, appliances, and plumbing fixtures are in working order.

You will also want to make sure that all conditions of the sales contract have been met. If they aren't, or you observe major problems, you have the right to delay the closing until the problems are corrected.

One other option is to make sure money to correct the problems is placed in an escrow account at closing to cover the cost of repairs.

## **Financial Index**

An index is a number to which the interest rate on an adjustable rate mortgage (ARM) is tied. It is generally a published number expressed as a percentage, such as the average interest rate or yield on U.S. Treasury bills. A margin is added to the index to determine the interest rate that will be charged on ARMs. This interest rate is subject to any caps associated with the mortgage.

The interest rate changes on an ARM are tied to some type of financial index. Some of the most common type of indexed ARMs are:

- Treasury-Indexed ARMs
- CD-Indexed ARMs (Certificate of Deposit)
- Cost of Funds-Indexed ARMs (COFI)
- LIBOR-Based ARMs

When comparing ARMs, look at how the index to which it is tied has performed recently. Your lender can provide information on how to track the index and a history of the index they use.

### **Finders Fee**

A fee or commission paid to a mortgage broker for finding a mortgage loan for a prospective borrower.

### **Firm Commitment**

A lender's agreement to make a loan to a specific borrower on a specific property.

### **First Mortgage**

A mortgage that is the primary lien against a property.

A "first mortgage" is the primary lien against a property. The term is usually coined "first mortgage" only when a "second mortgage" is obtained on a property. A "second mortgage" is a lien that is subordinate to the first mortgage. Usually, the interest rates on second mortgages are slightly higher than the interest rates on a first mortgage. The amount of a second mortgage you can take out will depend on the equity you have built up in your home, the appraised value of your property, your credit history, and any other liens you may have against your property, such as a home equity line of credit.

Borrowers will typically get a second mortgage to tap into the equity they've built in their home - and use that for home improvements, debt consolidation, medical bills, or other purposes. You apply for a second mortgage with the same process you follow for a first mortgage. However, some of your closing costs may be less.

When you have a first and second mortgage, you theoretically have two loans, both requiring interest and principal payments.

### **Fixed Installment**

The monthly payment due on a mortgage loan. The fixed installment includes payment of both principal and interest.

### **Fixed-Period Adjustable-Rate Mortgages**

This type of adjustable-rate mortgage (ARM) maintains the same initial interest rate for the first three, five, seven, or 10 years of your loan, depending on the term you choose. Your

interest rate then adjusts annually, and can move up or down as market conditions change. Be sure to ask your lender about the interest rate caps for both the annual adjustments and for the life of the loan.

Advantages:

- Your initial interest rate will be lower than a fixed-rate mortgage, so you may be able to afford more home.
- You are protected against interest rate increases for the first three, five, seven, or 10 years of the loan, depending on which type of fixed-period ARM you choose.
- You may have the option to convert your ARM to a fixed-rate mortgage at the first, second, or third interest rate adjustment dates.
- You have time to improve your financial position (i.e. salary increases) or accumulate additional assets before the interest rate adjusts at the end of the fixed period.

Details:

- The lifetime interest rate cap for fixed-period ARMs is typically 5 to 6 percentage points above your initial rate. Your annual cap during the adjustable period is typically 1 to 2 percentage points above or below over the current rate.
- Can be used to buy one- to four-family residences including second homes and condos, co-ops and planned unit developments. Manufactured homes are also eligible. (Manufactured housing units must be built on a permanent chassis at a factory and then transported to a permanent site and attached to a foundation.)

## **Fixed-Rate Mortgage**

A mortgage in which the interest rate does not change during the entire term of the loan.

Fixed-rate mortgages, the most popular type of mortgage, offer the peace of mind that your interest rate will remain the same for as long as you have your loan. If you expect to live in your home for many years, having the same interest rate may be your key concern. If you decide that you like the stable, predictable payments of a fixed-rate loan, you have the option of choosing from a variety of repayment terms: 15, 20, and 30 years are the most common. Typically, the longer the term of the mortgage, the more interest you pay over the life of your loan. However, stretching out your repayment term means your monthly mortgage payments will be less than they would be with a comparable shorter-term mortgage. Lenders offer a wide array of fixed-rate mortgages:

- Balloon Mortgages
- Biweekly Mortgages

## **Fixture**

Personal property that becomes real property when attached in a permanent manner to real estate.

## **Flood Insurance**

Insurance that compensates for physical property damage resulting from flooding. It is required for properties located in federally designated flood areas.

## **Foreclosure**

The legal process by which a borrower in default under a mortgage is deprived of his or her interest in the mortgaged property. This usually involves a forced sale of the property at public auction with the proceeds of the sale being applied to the mortgage debt.

If you repeatedly do not make your mortgage payments on time, your lender could sell your home and evict you from it in a legal procedure called foreclosure. A foreclosure on your property can result in the loss of your home and your good credit rating. Foreclosure is most often a last resort effort that lenders will take if you repeatedly don't make your mortgage payments. Before going to foreclosure, lenders will work with you if you are facing financial hardships to come up with repayment plans that will let you get back on track and remain in your home.

## **Forfeiture**

The loss of money, property, rights, or privileges due to a breach of legal obligation.

## **FSBO (For Sale by Owner)**

For Sale By Owner, or FSBO, is the process of marketing, buying and selling of real estate without the representation of a real estate broker. FSBO can refer to both the individual selling the property "They are a FSBO," or the property itself "that house is a FSBO."

## **Fully Amortized ARM**

An adjustable-rate mortgage (ARM) with a monthly payment that is sufficient to amortize the remaining balance, at the interest accrual rate, over the amortization term.

## **G**

## **General Contractor**

A general contractor is someone whom you may work closely with during your home improvement project. The general contractor is the person who oversees the construction project and handles various aspects such as scheduling workers and ordering supplies.

If you are borrowing mortgage funds to renovate a home, your lender may need to review whether your contractor meets all federal, state, and local registration, licensing and certification standards.

### **Good Faith Estimate**

The good-faith estimate is a report from your lender that outlines the costs you will incur to get your mortgage. It is based on the lender's typical loan origination costs for the area where your home is located. The estimate usually changes between application and closing, so you'll want to review your settlement form before the closing meeting.

The settlement form will list the actual amount of money you'll need to bring to closing. You'll need to pay your closing costs in the form of a certified or cashier's check because personal checks usually are not accepted.

### **Government Mortgage**

A mortgage that is insured by the Federal Housing Administration (FHA) or guaranteed by the Department of Veterans Affairs (VA) or the Rural Housing Service (RHS). Contrast with conventional mortgage.

### **Government National Mortgage Association**

A government-owned corporation within the U.S. Department of Housing and Urban Development (HUD). Created by Congress on September 1, 1968, GNMA assumed responsibility for the special assistance loan program formerly administered by Fannie Mae. Popularly known as Ginnie Mae.

### **Grantee**

The person to whom an interest in real property is conveyed.

### **Grantor**

The person conveying an interest in real property.

### **Ground Rent**

The amount of money that is paid for the use of land when title to a property is held as a leasehold estate rather than as a fee simple estate.

### **Group Home**

A single-family residential structure designed or adapted for occupancy by unrelated developmentally disabled persons. The structure provides long-term housing and support services that are residential in nature.

## **Growing-Equity Mortgage (GEM)**

A fixed-rate mortgage that provides scheduled payment increases over an established period of time, with the increased amount of the monthly payment applied directly toward reducing the remaining balance of the mortgage.

## **Guarantee Mortgage**

A mortgage that is guaranteed by a third party.

## **Guaranteed Loan**

Also known as a government mortgage.

## **[H](#)**

## **Hazard Insurance**

Insurance coverage that in the event of physical damage to a property from fire, wind, vandalism, or other hazards.

## **Home Equity Conversion Mortgage (HECM)**

A special type of mortgage that enables older home owners to convert the equity they have in their homes into cash, using a variety of payment options to address their specific financial needs. Unlike traditional home equity loans, a borrower does not qualify on the basis of income but on the value of his or her home. In addition, the loan does not have to be repaid until the borrower no longer occupies the property. Sometimes called a reverse mortgage.

A Home Equity Conversion Mortgage (HECM) is a type of home loan that lets homeowners aged 62 or over with little or no remaining balance on their mortgage convert their equity into cash. The equity can be paid to the homeowner in a lump sum, in a stream of payments, draws from a line of credit, or a combination of monthly payments and line of credit.

Whatever payment plan you select, you do not have to repay any part of this reverse mortgage until you sell the home or vacate it for another reason. At that time, you pay the loan balance, plus any accrued interest. Any proceeds above that amount go to you or to your estate.

Developed by the Federal Housing Administration (FHA), the HECM mortgage provides a cash growth feature not found with some other reverse mortgages - check with your Fannie Mae approved lender to see how this works based on your personal needs and your payment plan.

### Advantages:

- The funds are yours to spend in any way you choose.
- There are no monthly payments with a HECM.
- Your loan funds do not affect Social Security or Medicare benefits. (If you receive Supplemental Social Security or Medicaid, these benefits may be affected.)
- You do not have to pay back the loan until you sell your home or no longer use it for your primary residence. Then, you or your estate will repay the cash you received from the HECM, plus interest and other finance charges to the lender. This means that the remaining equity in your home can be passed on to your heirs through the sale of the property.
- You will never owe more than the value of the home at the time of repayment, even if the loan balance exceeds the value of your property. This means no debt will ever be passed along to the estate or your heirs.

### Details:

- You and any co-borrowers must be at least 62 years old.
- You must own your home outright - or carry a small mortgage balance.
- Eligible properties include a single-family home, a two- to four-unit dwelling, a condominium or a manufactured home. All housing types must meet Federal Housing Administration (FHA) guidelines. (Ask your lender if your property qualifies.)
- Your home must be your principal residence, which means you must live in it more than half the year.
- You must attend pre-application mortgage counseling before you apply for the loan.
- You must keep applicable taxes current, as well as maintain insurance coverage on your home.
- The amount you can borrow with a HECM depends on the age of the youngest borrower(s), the interest rate, how much your house is worth, and the maximum claim amount. In general, you can get between one-third and one-half of your equity as a line of credit or as a lump sum payment.
- The balance of funds advanced against the equity in your home is due and payable when you relinquish your home as a primary residence, or if the borrower(s) pass away. You may have to pay off the debt if you fail to pay property taxes or insurance or if you do not maintain your property.

### **Home Equity Line of Credit**

A mortgage loan, which is usually in a subordinate position, that allows the borrower to obtain multiple advances of the loan proceeds at his or her own discretion, up to an amount that represents a specified percentage of the borrower's equity in a property.

### **Home Inspection**

A thorough inspection that evaluates the structural and mechanical condition of a property. A satisfactory home inspection is often included as a contingency by the purchaser. Contrast with appraisal.

The home inspection reviews the structural and mechanical condition of the property. This is not an evaluation of the market value of the home or a determination of whether the home complies with applicable building and safety codes. The inspection does not include a recommendation on whether you should or should not buy the house.

The inspector bases the findings on observable structural elements of the home. Potential home buyers are urged to be present during the inspection - this will allow you to ask questions and be in a better position to learn more about any problems that arise.

You should expect to see an evaluation of:

- roof and siding,
- windows and doors,
- foundation,
- insulation,
- ventilation,
- heating and cooling systems,
- plumbing and electrical systems,
- walls, floors, and ceilings,
- and any common areas if you are purchasing a condominium or cooperative.

You should view the home inspection report as a way to identify problems before you buy the home, to help negotiate adjustments in the purchase price if problems exist, and to help get the buyer to make any needed improvements before you buy the home.

Lastly - and for some buyers most importantly - the home inspection report is a way to make you feel confident that the home you are buying includes systems that are in good working condition.

## **Homeowners Association**

A nonprofit association that manages the common areas of a planned unit development (PUD) or condominium project. In a condominium project, it has no ownership interest in the common elements. In a PUD project, it holds title to the common elements.

## **Homeowners Insurance**

Homeowner's insurance -- also called "hazard insurance" - should be equal to at least the replacement cost of the property you want to purchase. Replacement cost coverage ensures that your home will be fully rebuilt in case of a total loss.

Most home buyers purchase a homeowner's insurance policy that includes personal liability insurance in case someone is injured on their property; personal property coverage for loss and damage to personal property due to theft or other events; and dwelling coverage to protect the house against fire, theft, weather damage, and other hazards.

If the home you want to buy is located near water, you may be able to get flood insurance as part of your homeowner's protection. In fact, it may be required in some areas, so check with your real estate professional or an approved lender for further information.

Seek out and compare rates from several insurance companies before making your final decision.

Lenders often want the first year's premium to be paid at or before closing. Your lender may add the insurance cost to your monthly mortgage payments and keep this portion of your payments in an escrow account. The lender then pays your insurance bill out of escrow when it receives premium notices from your insurance company.

### **Homeowners Warranty**

A type of insurance that covers repairs to specified parts of a house for a specific period of time. It is provided by the builder or property seller as a condition of the sale.

### **HomeStyle Construction-to-Permanent Mortgage**

This mortgage gives you the financial power to build your own home - you can borrow money to build a home from the ground up or to finish building a home that's currently under construction. This loan provides financing from the construction through the purchase phases of your new home.

Advantages:

- You enjoy peace of mind by locking in fixed interest rates on both the construction and permanent mortgage financing phases of your home purchase in one convenient loan.
- You can borrow a minimum of 95 percent of the construction cost or the as-completed value of the property (which means your down payment can be as low as 5 percent).
- You can use this mortgage to purchase land upon which you build your home.
- You save money because there is one set of closing costs, compared to those associated with separate loans for construction and occupancy.
- You pay interest only on the funds disbursed during construction.
- This mortgage can be used for construction that's already under way.

Details:

- A minimum down payment of 5 percent for a one-unit home and 10 percent for two-unit homes.
- Construction phases of six, nine, or 12 months, with extensions available up to six months, are allowed.
- This loan is available for one- and two-unit owner-occupied homes, one-unit second homes, and one-unit investor homes.
- You can choose a 15- or 30-year fixed-rate mortgage. You can also include the construction phase in these terms, or not, depending on your preference.
- You can also finance with fixed-period ARMs.

## **HomeStyle Mortgage Loan**

A mortgage that enables eligible borrowers to obtain financing to remodel, repair, and upgrade their existing homes or homes that they are purchasing.

## **Housing Expense Ratio**

The percentage of gross monthly income that goes toward paying housing expenses.

## **HUD Median Income**

Median family income for a particular county or metropolitan statistical area (MSA), as estimated by the Department of Housing and Urban Development (HUD).

## **HUD-1 Statement**

A document that provides an itemized listing of the funds that are payable at closing. Items that appear on the statement include real estate commissions, loan fees, points, and initial escrow amounts. Each item on the statement is represented by a separate number within a standardized numbering system. The totals at the bottom of the HUD-1 statement define the seller's net proceeds and the buyer's net payment at closing. The blank form for the statement is published by the Department of Housing and Urban Development (HUD). The HUD-1 statement is also known as the "closing statement" or "settlement sheet."

The HUD-1 Settlement Statement itemizes the amounts to be paid by the buyer and the seller at closing. The (blank) form is published by the U.S. Department of Housing and Urban Development (HUD).

Items on the statement include:

- real estate commissions,
- loan fees,
- points, and
- escrow amounts.

The form is filled out by your closing agent and must be signed by the buyer and the seller. The buyer should be allowed to review the HUD-1 Settlement Statement on the business day before the closing meeting to know the closing costs in advance.



## **In-File Credit Report**

An objective account, normally computer-generated, of credit and legal information obtained from a credit repository.

## **Income Property**

Real estate developed or improved to produce income.

## **Index**

A number used to compute the interest rate for an adjustable-rate mortgage (ARM). The index is generally a published number or percentage, such as the average interest rate or yield on Treasury bills. A margin is added to the index to determine the interest rate that will be charged on the ARM. This interest rate is subject to any caps that are associated with the mortgage.

## **Inflation**

An increase in the amount of money or credit available in relation to the amount of goods or services available, which causes an increase in the general price level of goods and services. Over time, inflation reduces the purchasing power of a dollar, making it worth less.

## **Initial Interest Rate**

The original interest rate of the mortgage at the time of closing. This rate changes for an adjustable-rate mortgage (ARM). Sometimes known as “start rate” or “teaser.”

## **Installment**

The regular periodic payment that a borrower agrees to make to a lender.

The regular periodic payment that a borrower agrees to make to a lender. The installment is more often referred to as your monthly mortgage payment.

Installments, or monthly payments, can be made either monthly or biweekly, depending on your mortgage type. Your approved lender may also offer additional payment plans tailored to fit your needs.

## **Installment Loan**

Borrowed money that is repaid in equal payments, known as installments. A furniture loan is often paid for as an installment loan.

## **Insurable Title**

A property title that a title insurance company agrees to insure against defects and disputes.

## **Insurance**

A contract that provides compensation for specific losses in exchange for a periodic payment. An individual contract is known as an insurance policy, and the periodic payment is known as an insurance premium.

## **Insurance Binder**

A document that states that insurance is temporarily in effect. Because the coverage will expire by a specified date, a permanent policy must be obtained before the expiration date.

## **Insured Mortgage**

A mortgage that is protected by the Federal Housing Administration (FHA) or by private mortgage insurance (MI). If the borrower defaults on the loan, the insurer must pay the lender the lesser of the loss incurred or the insured amount.

## **Interest**

The fee charged for borrowing money.

Simply put, this is the fee that is charged for borrowing money from lenders.

The interest rate is the rate of interest that is in effect when the monthly payment is due. An interest rate ceiling - for an adjustable-rate mortgage (ARM) - is the maximum interest rate, as specified in the mortgage note; the interest rate floor is the minimum interest rate, as specified in the mortgage note.

## **Interest Accrual Rate**

The percentage rate at which interest accrues on the mortgage. In most cases, it is also the rate used to calculate the monthly payments, although it is not used for an adjustable-rate mortgage (ARM) with payment change limitations.

## **Interest Rate**

The rate of interest in effect for the monthly payment due.

## **Interest Rate Buydown Plan**

An arrangement wherein the property seller (or any other party) deposits money to an account so that it can be released each month to reduce the mortgagor's monthly payments

during the early years of a mortgage. During the specified period, the mortgagor's effective interest rate is "bought down" below the actual interest rate.

### **Interest Rate Ceiling**

For an adjustable-rate mortgage (ARM), the maximum interest rate, as specified in the mortgage note.

### **Interest Rate Floor**

For an adjustable-rate mortgage (ARM), the minimum interest rate, as specified in the mortgage note.

### **Interest Rate for HECMs**

The interest rate on a Home Equity Conversion Mortgage (HECM) adjusts monthly or yearly. It is tied to the weekly average yield of U.S. Treasury securities adjusted to a constant maturity of one year. The interest charged on the HECM loan will be payable to your lender when the loan terminates.

### **InterestFirstSM Mortgage**

If you're looking to leverage your mortgage to expand purchasing power, this mortgage offers the benefit of a low, fixed-rate monthly payment.

Advantages:

- For the first 15 years, monthly payments are lower than a comparable 30-year fixed-rate loan.
- Gain control of your cash flow.
- Ideal if you plan to stay in your home no more than 15 years and want the lowest monthly payment for that period.
- Flexible cash flow for college costs, home improvements, IRA contributions, consumer debt reduction, or optional principal payments.

Details:

- For the first 15 years, you pay only the interest due every month.
- Any prepayments will reduce your principal balance and reduce future monthly payments.
- Prepayment of principal may be made without penalty.
- Payment adjusts at the start of year 16 to cover all interest and principal due on the loan for the remaining 15 years.
- Monthly payment is fixed during years 16 through 30.

### **Investment Property**

A property that is not occupied by the owner.

## **IRA (Individual Retirement Account)**

A retirement account that allows individuals to make tax-deferred contributions to a personal retirement fund. Individuals can place IRA funds in bank accounts or in other forms of investment such as stocks, bonds, or mutual funds.

## **J**

### **Joint Tenancy**

A form of co-ownership that gives each tenant equal interest and equal rights in the property, including the right of survivorship.

### **Judgment**

A decision made by a court of law. In judgments that require the repayment of a debt, the court may place a lien against the debtor's real property as collateral for the judgment's creditor.

### **Judgment Lien**

A lien on the property of a debtor resulting from the decree of a court.

### **Judicial Foreclosure**

A type of foreclosure proceeding used in some states that is handled as a civil lawsuit and conducted entirely under the auspices of a court.

### **Jumbo Loan**

A loan that exceeds mortgage amount limits. Also called a nonconforming loan.

## **L**

### **Late Charge**

The penalty a borrower must pay when a payment is made a stated number of days (usually 15) after the due date.

## **Lease**

A written agreement between the property owner and a tenant that stipulates the conditions under which the tenant may possess the real estate for a specified period of time and rent.

## **Lease-Purchase Option**

An alternative financing option that allows low- and moderate-income home buyers to lease a home from a nonprofit organization with an option to buy. Each month's rent payment consists of principal, interest, taxes and insurance (PITI) payments on the first mortgage plus an extra amount that is earmarked for deposit to a savings account in which money for a downpayment will accumulate.

Nonprofit organizations may use the lease-purchase option to purchase a home that they then rent to a consumer, or "leaseholder." The leaseholder has the option to buy the home after a designated period of time (usually three or five years). Part of each rent payment is put aside toward savings for the purpose of accumulating the down payment and closing costs.

## **Leasehold Estate**

A way of holding title to a property wherein the mortgagor does not actually own the property but rather has a recorded long-term lease on it.

## **Legal Description**

A property description, recognized by law, that is sufficient to locate and identify the property without oral testimony.

## **Liabilities**

A person's financial obligations. Liabilities include long-term and short-term debt, as well as any other amounts that are owed to others.

## **Liability Insurance**

Insurance coverage that offers protection against claims alleging that a property owner's negligence or inappropriate action resulted in bodily injury or property damage to another party.

## **LIBOR-based ARMs**

The London Interbank Offered Rate (LIBOR) is based on the interest rate that major international banks are willing to lend and borrow funds for a specified period of time in the London interbank market. The LIBOR is similar to the prime-lending rate posted by major U.S. banks.

You can select an adjustable rate mortgage (ARM) that adjusts to the LIBOR at specified periods, usually every six months. This type of ARM typically has a per-adjustment period cap of 1 percent and is offered with either a 5 percent or a 6 percent lifetime rate cap.

## **Lien**

A legal claim against a property that must be paid off when the property is sold.

## **Lifetime Payment 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.

## **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 loan.

## **Line of Credit**

An agreement by a commercial bank or other financial institution to extend credit up to a certain amount for a certain time to a specified borrower.

## **Liquid Asset**

A cash asset or an asset that is easily converted into cash.

## **Lis Pendens**

A publicly recorded notice of a pending lawsuit against a property owner that may affect the ownership of a property. Some states require lenders to file a lis pendens to begin the foreclosure process if a borrower is in default on loan payments.

## **Loan**

A sum of borrowed money (principal) that is generally repaid with interest.

## **Loan Application**

The loan application is a detailed form designed to provide information from you that your lender will need. Lenders use the application to evaluate whether or not they can give you a loan, and if so, the amount of money they can lend you. The “four Cs” of credit come into play when filling out an application -- they are capacity, credit history, capital and collateral.

The loan application form requests information such as:

- bank account balances and account numbers, as well as bank branch address;
- information about where you work or what sources of income you have;
- outstanding debts (including loans and credit cards with names and addresses of creditors).

Information needed for the loan application may vary from lender to lender, so prior to filling out the application it's important to discuss with your lender what items your lender will need.

## **Loan Commitment**

The commitment letter states the dollar amount of the loan being offered, the number of years you have to repay the loan, the loan origination fee, the points, the annual percentage rate, and the monthly charges.

The letter also states the time you have to accept the loan offer and to close the loan. Make sure you understand all aspects of the commitment letter because by signing it, you indicate your acceptance of its terms and conditions.

## **Loan Limit**

The limit on the size of a mortgage which Fannie Mae and Freddie Mac will purchase and/or guarantee. The conforming loan limit is set annually by Fannie Mae's and Freddie Mac's federal regulator, The Office of Federal Housing Enterprise Oversight (OFHEO). OFHEO uses the October to October percentage increase/decrease in the average house price in the monthly interest rate survey of the Federal Housing Finance Board (FHFB) to adjust the conforming loan limits for the subsequent year.

Mortgages which exceed the conforming loan limit are known as jumbo mortgages. The interest rate on jumbo mortgages can be higher than the interest rate on conforming mortgages. A borrower whose mortgage amount slightly exceeds the conforming loan limit should analyze the economics of reducing their loan size through a larger downpayment or possibly using secondary financing to qualify for a conforming mortgage versus a jumbo mortgage.

## **Loan Origination**

The process by which a mortgage lender brings into existence a mortgage secured by real property.

## **Loan Origination Fee**

The loan origination fee covers the administrative costs of processing the loan. It is often expressed in points. One point is 1 percent of the mortgage amount.

For example, a \$100,000 mortgage with a loan origination fee of 1 point would mean you pay \$1,000.

## **Loan Terms and Conditions**

With a reverse mortgage, a lender can call in your loan under certain conditions. But, if you occupy the property as your primary residence, are not absent from the property for 12 consecutive months.

You may instruct the lender to pay the taxes and insurance on your behalf from your reverse mortgage funds. The lender will set aside funds from your reverse mortgage to pay for future taxes and insurance, as long as funds are available.

Furthermore, as long as you comply with the terms noted above, you can't be forced to sell your home to pay off the reverse mortgage, even if the loan balance grows to exceed the value of your property.

## **Loan-to-Value (LTV) Percentage**

The relationship between the principal balance of the mortgage and the appraised value (or sales price if it is lower) of the property. For example, a \$100,000 home with an \$80,000 mortgage has a LTV percentage of 80 percent.

## **Lock-In**

A written agreement in which the lender guarantees a specified interest rate if a mortgage goes to closing within a set period of time. The lock-in also usually specifies the number of points to be paid at closing.

## **Lock-In Period**

The time period during which the lender has guaranteed an interest rate to a borrower.

## **M**

## **Manufactured Housing**

Homes and dwellings that are not built at the home site and are moved to the location are considered manufactured housing. Manufactured housing units must be built on a permanent chassis at a factory and then transported to a permanent site and attached to a foundation. All manufactured homes must be built to meet standards set forth by the U.S. Department of Housing and Urban Development (HUD). The standards focus on such aspects as design, strength, energy efficiency, and fire resistance.

Manufactured housing represents one of the fastest-growing housing markets in the United States. Nearly all of the mortgage products are available for owners of manufactured housing.

## **Margin**

For an adjustable-rate mortgage (ARM), the amount that is added to the index to establish the interest rate on each adjustment date, subject to any limitations on the interest rate change.

## **Market Value**

You can get a good feel for the market value of a home by asking whether the listing agent compiled a “comparative market analysis (CMA)”. This written report on the property examines comparable homes in the area that have recently been sold, are currently on the market, or are currently under contract.

The CMA will help you figure out whether the asking price is in line with other comparable houses in the neighborhood.

## **Master Association**

A homeowners’ association in a large condominium or planned unit development (PUD) project that is made up of representatives from associations covering specific areas within the project. In effect, it is a “second-level” association that handles matters affecting the entire development, while the “first-level” associations handle matters affecting their particular portions of the project.

## **Maturity**

The date on which the principal balance of a loan, bond, or other financial instrument becomes due and payable.

## **Maximum Claim Amount**

Your maximum claim amount is the lesser of two figures:

- Your home’s appraised value.
- HUD 203(b) limit.

The HUD 203(b) limit is the maximum loan amount that FHA will insure for residences in your geographical area. Check with your lender to get the latest figures for your area.

## **Maximum Financing**

A mortgage amount that is within 5 percent of the highest loan-to-value (LTV) percentage allowed for a specific product. Thus, maximum financing on a fixed-rate mortgage would be 90 percent or higher, because 95 percent is the maximum allowable LTV percentage for that product.

## **Merged Credit Report**

A credit report that contains information from three credit repositories. When the report is created, the information is compared for duplicate entries. Any duplicates are combined to provide a summary of a your credit.

## **Modification**

The act of changing any of the terms of the mortgage.

## **Money Market Account**

A savings account that provides bank depositors with many of the advantages of a money market fund. Certain regulatory restrictions apply to the withdrawal of funds from a money market account.

## **Money Market Fund**

A mutual fund that allows individuals to participate in managed investments in short-term debt securities, such as certificates of deposit and Treasury bills.

## **Monthly Fixed Installment**

That portion of the total monthly payment that is applied toward principal and interest. When a mortgage negatively amortizes, the monthly fixed installment does not include any amount for principal reduction.

## **Monthly Payment Mortgage**

A mortgage that requires payments to reduce the debt once a month.

Your monthly mortgage payment is composed of four components.

- Principal refers to the part of the monthly payment that reduces the remaining balance of the mortgage.
- Interest is the fee charged for borrowing money.
- Taxes and insurance refer to the amounts that are paid into an escrow account each month for property taxes and mortgage and hazard insurance.

All four of these elements are often referred to as PITI.

Your monthly mortgage payment due may be mailed to you in a book of coupons each year, or in a separate coupon every month.

Ask your lender if the automated underwriting system is used, which may reduce costs associated with your mortgage.

## **Mortgage**

A legal document that pledges a property to the lender as security for payment of a debt.

Simply put, the mortgage is the legal document that gives the lender a legal claim against your house should you default on your loan payments. The mortgage indicates that a specific amount of money will be loaned at a specific interest rate so that you can buy your home. Another way of thinking of the mortgage is that you have possession of the property but the lender has ownership until you have repaid your loan.

The items stated in the mortgage include the homeowner's responsibility to:

- pay principal
- pay interest
- pay taxes
- pay insurance on time
- pay to maintain hazard insurance on the property
- adequately maintain the property

The mortgage also includes the basic information found in the note.

Should you consistently fail to meet these requirements, your lender can seek full repayment of the balance of the loan, foreclose on the property, or sell the property and use the proceeds to pay off the loan balance and foreclosure costs.

A deed of trust is used instead of a mortgage in some states.

## **Mortgage Banker**

A company that originates mortgages exclusively for resale in the secondary mortgage market.

Mortgage companies originate and service mortgages. In other words, they make loans to consumers. Mortgage companies then typically sell these loans to other lenders and investors.

Some mortgage companies may be subsidiaries of depository institutions or their holding companies but do not receive money from individual depositors.

## **Mortgage Broker**

An individual or company that brings borrowers and lenders together for the purpose of loan origination. Mortgage brokers typically require a fee or a commission for their services.

The National Association of Mortgage Brokers defines a mortgage broker as "an independent real estate financing professional who specializes in the origination of residential and/or commercial mortgages."

There are an estimated 20,000 mortgage brokerage operations from coast to coast. They originate more than half of the residential loans in the U.S.

A mortgage broker has professional expertise that can assist mortgage seekers in finding the best loan for them. The mortgage broker is also experienced in offering many applicable financing options for a consumer's specific needs.

## **Mortgage Insurance**

A contract that insures the lender against loss caused by a mortgagor's default on a government mortgage or conventional mortgage. Mortgage insurance can be issued by a private company or by a government agency such as the Federal Housing Administration (FHA). Depending on the type of mortgage insurance, the insurance may cover a percentage of or virtually all of the mortgage loan.

## **Mortgage Insurance Premium (MIP)**

The amount paid by a mortgagor for mortgage insurance, either to a government agency such as the Federal Housing Administration (FHA) or to a private mortgage insurance (MI) company.

## **Mortgage Life Insurance**

A type of term life insurance often bought by mortgagors. The amount of coverage decreases as the principal balance declines. In the event that the borrower dies while the policy is in force, the debt is automatically satisfied by insurance proceeds.

## **Mortgage-Related Closing Costs**

Mortgage-related closing costs generally are costs associated with your loan application. They vary, but here are some of the most common ones:

- **Loan origination fee:** This fee covers the administrative costs of processing the loan. It may be expressed as a percentage of the loan (for example, 1 percent of the mortgage amount).
- **Loan discount points:** These points are additional funds you pay the lender at closing to get a lower interest rate on your mortgage. Typically, each point you pay for a 30-year loan lowers your interest rate by .125 of a percentage point. If the current interest rate on a no-point, 30-year mortgage is 7.75 percent, paying one point would lower the interest rate to 7.625. Each point is one percent of the mortgage (for example, if your mortgage is \$200,000, one point equals \$2,000).
- **Appraisal fee:** This fee pays for the appraisal, which the lender uses to determine whether the value of the property secures the loan should you default. The home buyer usually pays this fee. It may appear on the settlement form as "POC," or "paid outside closing."
- **Credit report fee:** This covers the cost of the credit report, which the lender uses to determine your creditworthiness.
- **Assumption fee:** This fee is charged if you take over the payments on the seller's existing loan. It may range from hundreds of dollars to one percent of the loan amount.

- **Prepaid interest:** You are charged interest when you borrow money from a lender, and you will pay interest on the mortgage amount from the date of settlement to the beginning of the period covered by the first monthly mortgage payment. At closing, you may be required to pay in advance the interest for the period.
- **Escrow accounts:** Also called reserves, these accounts are required if your lender will be paying your homeowner's insurance and property taxes. Your lender sets up the escrow account by adding the cost of the insurance and taxes to your monthly mortgage payments. It is kept in reserve until the bills are due. The bills are sent directly to your lender, who makes the payments for you.

## **Mortgagee**

The lender in a mortgage agreement.

## **Mortgagor**

The borrower in a mortgage agreement.

## **Multidwelling Units**

Properties that provide separate housing units for more than one family, although they secure only a single mortgage.

## **Multifamily Mortgage**

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

## **N**

### **Negative Amortization**

A gradual increase in mortgage debt that occurs when the monthly payment is not large enough to cover the entire principal and interest due. The amount of the shortfall is added to the remaining balance to create "negative" amortization.

### **Net Cash Flow**

The income that remains for an investment property after the monthly operating income is reduced by the monthly housing expense, which includes principal, interest, taxes, and insurance (PITI) for the mortgage, homeowners' association dues, leasehold payments, and subordinate financing payments.

## **No Cash-Out Refinance**

A refinance transaction in which the new mortgage amount is limited to the sum of the remaining balance of the existing first mortgage, closing costs (including prepaid items), points, the amount required to satisfy any mortgage liens that are more than one year old (if the borrower chooses to satisfy them), and other funds for the borrower's use (as long as the amount does not exceed 1 percent of the principal amount of the new mortgage).

## **Non-Liquid Asset**

An asset that cannot easily be converted into cash.

## **Note**

A legal document that obligates a borrower to repay a mortgage loan at a stated interest rate during a specified period of time.

One way to think of the mortgage note is that it is a legal "IOU." Often called the promissory note, it represents your promise to pay the lender according to the agreed upon terms of the loan, including when and where to send your payment.

The note lists any penalties that will be assessed if you don't make your monthly mortgage payments. It also warns you that the lender can "call" the loan - demand repayment of the entire loan before the end of the term - if you violate the terms of your mortgage.

## **Note Rate**

The interest rate stated on a mortgage note.

## **Notice of Default**

A formal written notice to a borrower that a default has occurred and that legal action may be taken.



## **Occupancy Date**

This provision is a good way to help ensure that your home will be ready for occupancy after the closing takes place. As part of your formal purchase offer, consider including a provision that holds the seller responsible for paying you rent should they not move out on or prior to the agreed-upon date. This allows you, for example, to use the money you receive to pay your own rent if you are leasing your current residence.

## Offer

When you make an offer on a house, it means you are making a formal bid to buy a home. You can work with your real estate sales professional to put together a written bid that abides by the laws in your state. Your offer should include such aspects as the address of the home, the sales price, the type of mortgage financing you will use to purchase the home, any personal property that might be included as part of the sale, and a target date for closing and occupancy. An earnest money deposit typically accompanies the offer. Your real estate sales professional can provide guidance on other elements of the offer.

Once you have made an offer, the seller has the opportunity to accept, decline, or make a counter-offer. If your offer is accepted, you have a ratified sales contract. This contract is the starting point for working with an approved lender to get the mortgage that's right for you.

## One-Year Adjustable-Rate Mortgage

This adjustable-rate mortgage (ARM) offers a low initial interest rate with an interest rate that adjusts annually after the first year. The rate cap per annual adjustment is usually 2 percent; the lifetime adjustment caps can be 5 percent or 6 percent. This type of mortgage may be right for you if you anticipate a rapid increase in income over the first few years of your mortgage. That's because it lets you maximize your purchasing power immediately. It may also be the right mortgage for you if you plan to live in your home for only a few years.

Advantages:

- Maximizes your buying power immediately, especially if you expect your income to rise quickly in the next few years.
- A low first-year interest rate and a 2 percent annual rate cap.
- Some one-year ARMs let you convert to a fixed-rate loan at certain adjustment intervals.

Ask your approved lender which of their one-year ARMs include this option. Generally, conversions to fixed-rate mortgages are allowed at the third, fourth, or fifth interest rate adjustment dates.

Details:

- You can get a one-year ARM with a term from 10 to 30 years. The most typical ones are 10, 15, or 30 years.
- The one-year ARM is most often indexed to the weekly average yield of U.S. Treasury securities adjusted to a constant maturity of one year.
- Can be used to buy one-family, principal residences, including condos, and planned unit developments.
- Manufactured homes are also eligible. (Manufactured housing units must be built on a permanent chassis at a factory and then transported to a permanent site and attached to a foundation.)

## Ongoing Costs

Home buyers should not forget that there are on-going costs associated with owning a home. They include, but are not limited to:

- Monthly mortgage payment
- Mortgage insurance
- Homeowner's insurance
- Property taxes
- Utilities, such as gas, oil, water and electricity

Another cost home buyers should consider is how much it will cost to maintain their home. These costs include everything from cleaning and minor repairs to yard work and painting.

Condominium owners and people living in planned unit developments should factor in any homeowners' association fees or similar costs.

## Original Principal Balance

The total amount of principal owed on a mortgage before any payments are made.

## Origination Fee

A fee paid to a lender for processing a loan application. The origination fee is stated in the form of points. One point is 1 percent of the mortgage amount.

The loan origination fee covers the administrative costs of processing the loan. It is often expressed in points. One point is 1 percent of the mortgage amount. For example, a \$100,000 mortgage with a loan origination fee of 1 point would mean you pay \$1,000.

## Other Buyer Costs

There are other costs associated with the closing that are typically paid by the buyer. They often include:

- Fees paid to the lender: Loan discount points, loan origination fee, credit report fee, appraisal fee, and assumption fee.
- Advance payments or prepaid fees: Interest, mortgage insurance premium, and hazard insurance premium.
- Escrow accounts or reserves: State and local law and lenders' policies vary but these reserves may have to be set up if the lender will be paying property taxes, mortgage insurance, and hazard insurance.
- Title charges: Closing (or settlement) fee, title insurance premium, title search, document preparation fees, and attorney fees. The fees the buyer pays for a real estate attorney are not part of settlement procedures.
- Recording and transfer fees: States often impose a tax on the transfer of property. The payment of a fee for recording the purchasing documents may be required.

- Additional charges: Surveyor's fees, termite and other pest infestation inspection fees, and the cost of other inspections required by the lender.
- Adjustments: Items paid by the seller in advance and items yet to be paid for which the seller is responsible. The most common expense is property taxes, but others may have to be addressed.

## **Other Contingencies**

A contingency in a contract states that if a certain requirement is not met, the deal can be canceled. Some of the most common contingencies related to home purchases include:

- Professional home inspection: This states that your sales contract is contingent on a satisfactory report by a professional home inspector. You have the right not to proceed with the purchase of the home, or to re-negotiate the terms of purchase, if any major problems are uncovered.
- Termite inspection: This states that the property is free of both visible termite infestation and termite damage.
- Asbestos: You may choose to hire a qualified professional to inspect the home, take samples for asbestos, and offer solutions to correct any problems.
- Formaldehyde: This colorless, gas chemical was used in foam insulation for homes until the early 1980s and is emitted by some construction materials. It is suspected of causing cancer, and it can also irritate the throat, nose, and eyes. A qualified inspector can let you know if the gas is present in the home you wish to purchase.
- Radon: Most home buyers require that the house be tested for radon, a naturally occurring, odorless gas that can cause health problems.
- Hazardous waste sites: The Environmental Protection Agency has identified contaminated hazardous waste sites across the country. You can contact your EPA regional office for more information.
- Lead-based paint: You should also have the house inspected for lead-based paint, which can lead to very serious health problems. If the house was built before 1950, you can be fairly certain lead-based paint was used. For houses built between 1950 and 1978, there is also a chance lead-based paint was used. Lead disclosure regulations can vary from state to state. Health officials in the state where the home you want to buy is located may be able to provide further guidance.

The seller or real estate professional must give you a pamphlet that explains lead hazards and tell you about any lead-based paint of which the seller is aware before a sales contract on a home built before 1978 can be finalized. The seller must also allow 10 days during which you can hire a professional to conduct an inspection for lead-based paint hazards.

## **Other Financial Companies**

Other financial companies include credit unions, mortgage brokers, insurance companies, investment bankers, and housing finance agencies.

Credit unions are cooperative, not-for-profit institutions organized to promote savings and to provide credit, including mortgage loans, to their members. Credit unions either service the mortgages they originate or sell them to other investors.

Mortgage brokers are independent real estate financing professionals who specialize in the origination of residential and/or commercial mortgages. Mortgage brokers originate loans on behalf of other lenders -- including banks, thrifts and mortgage banking companies, but do not service loans.

Insurance companies and investment bankers are large institutional investors in mortgages that do not receive deposits from consumers. They use premiums from their clients' insurance policies and investment packages to fund their mortgage lending activities.

Housing finance agencies are typically associated with state or local governments. They are generally geared toward assisting first-time and low- to moderate-income borrowers. They use tax exempt bonds to fund mortgage lending and as a result are often able to provide interest rates that are below current market rates.

### **Owner Financing**

A property purchase transaction in which the property seller provides all or part of the financing.

## **P**

### **Partial Payment**

A payment that is not sufficient to cover the scheduled monthly payment on a mortgage loan.

### **Payment Change Date**

The date when a new monthly payment amount takes effect on an adjustable-rate mortgage (ARM) or a graduated-payment mortgage (GPM). Generally, the payment change date occurs in the month immediately after the interest rate adjustment date.

### **Periodic Payment Cap**

For an adjustable-rate mortgage (ARM), a limit on the amount that payments can increase or decrease during any one adjustment period.

### **Periodic Rate Cap**

For an adjustable-rate mortgage (ARM), a limit on the amount that the interest rate can increase or decrease during any one adjustment period, regardless of how high or low the index might be.

## **Permits**

With most major home improvement projects, work permits may be required. Permits provide legal permission to undertake a project and are usually given by local governments agencies.

Some of the most common permits are for general projects or permits that require you to meet specific local building codes.

You may want to check with your local government to determine if there are building restrictions in historic areas or in environmentally-sensitive areas.

## **Personal Property**

Any property that is not real property.

## **PITI**

Principle, interests, taxes and insurance (PITI) are the four components of a monthly mortgage payment.

The four components of a monthly mortgage payment.

- Principal refers to the part of the monthly payment that reduces the remaining balance of the mortgage.
- Interest is the fee charged for borrowing money.
- Taxes and insurance refer to the amounts that are paid into an escrow account each month for property taxes and hazard insurance.

## **PITI Reserves**

A cash amount that a borrower must have on hand after making a down payment and paying all closing costs for the purchase of a home. The principal, interest, taxes, and insurance (PITI) reserves must equal the amount that the borrower would have to pay for PITI for a predefined number of months.

## **Planned Unit Development (PUD)**

A project or subdivision that includes common property that is owned and maintained by a homeowners' association for the benefit and use of the individual PUD unit owners.

## **Point**

A one-time charge by the lender for originating a loan. A point is 1 percent of the amount of the mortgage.

## **Power of Attorney**

A legal document that authorizes another person to act on one's behalf. A power of attorney can grant complete authority or can be limited to certain acts and/or certain periods of time.

## **Pre-Approval**

When you work with your lender to get pre-approved, you are getting an indication of how much money you will be eligible to borrow when you apply for a mortgage. This process occurs before you complete an application for a loan.

Pre-approval includes a screening of a borrower's credit history, and all information you give to your lender will be verified when you apply for your mortgage.

## **Pre-Qualification**

The process of determining how much money a prospective home buyer will be eligible to borrow before he or she applies for a loan.

## **Prearranged Refinancing Agreement**

A formal or informal arrangement between a lender and a borrower wherein the lender agrees to offer special terms (such as a reduction in the costs) for a future refinancing of a mortgage being originated as an inducement for the borrower to enter into the original mortgage transaction.

## **Preforeclosure Sale**

A procedure in which the investor allows a mortgagor to avoid foreclosure by selling the property for less than the amount that is owed to the investor.

## **Prepayment**

Any amount paid to reduce the principal balance of a loan before the due date. Payment in full on a mortgage that may result from a sale of the property, the owner's decision to pay off the loan in full, or a foreclosure. In each case, prepayment means payment occurs before the loan has been fully amortized.

## **Prepayment Penalty**

A fee that may be charged to a borrower who pays off a loan before it is due.

If you pay off your mortgage before it is due, you may be charged a fee -- this is referred to as a prepayment penalty.

Any amount that is paid to reduce the principal balance of a loan before the due date - such as the sale of the property, the owner's decision to pay the loan in full, the owner's decision

to pay additional money every month to lower the principle or interest - is considered prepayment.

You may want to consider discussing the specifics of this fee as you negotiate the terms of your loan with your lender.

### **Prime Rate**

The interest rate that banks charge to their preferred customers. Changes in the prime rate influence changes in other rates, including mortgage interest rates.

### **Principal**

The amount borrowed or remaining unpaid. The part of the monthly payment that reduces the remaining balance of a mortgage.

One of the terms you're likely to hear when you talk about a mortgage with your lender is principal. The principal is the amount originally borrowed or the amount that remains to be paid once you have started making payments. It is also the part of the monthly mortgage payment that reduces the remaining balance of a mortgage.

The principal balance is the outstanding amount of principal on a mortgage; it does not include interest or any other charges.

### **Principal Balance**

The outstanding balance of principal on a mortgage. The principal balance does not include interest or any other charges.

### **Private Mortgage Insurance (PMI)**

Also known as Mortgage Insurance, PMI is provided by a private mortgage insurance company to protect lenders against loss if a borrower defaults. Most lenders generally require PMI for a loan with a loan-to-value (LTV) percentage in excess of 80 percent.

### **Promissory Note**

A written promise to repay a specified amount over a specified period of time.

### **Public Auction**

A meeting in an announced public location to sell property to repay a mortgage that is in default.

## **Purchase and Sale Agreement**

A written contract signed by the buyer and seller stating the terms and conditions under which a property will be sold.

The Purchase and Sale Agreement is a written contract that is signed by the buyer and seller. It states the terms and conditions under which a property will be sold. It includes:

- description of property
- price offered
- down payment
- earnest money deposit
- financing
- personal items to be included
- closing date
- occupancy date
- length of time the offer is valid
- special contingencies
- inspection

## **Purchase Money Transaction**

The acquisition of property through the payment of money or its equivalent.

## **Q**

### **Qualifying Guidelines**

There are two main elements lenders consider when determining whether you and any co-borrowers qualify for a specific mortgage.

The first is your monthly mortgage costs, including mortgage payments, property taxes and insurance. If you're considering buying a condominium or cooperative, any associated fees are also considered. Your mortgage costs should not exceed 28 percent of your gross monthly (pre-tax) income.

The second qualifying guideline relates to your total monthly housing costs and other debts you and any co-borrowers have. These costs should not exceed 36 percent of your gross monthly income.

Lenders follow these guidelines because they believe these percentages allow homeowners to pay off their mortgages fairly comfortably without the worry of loan defaults and foreclosures.

However, these guidelines can be exceeded in certain cases, such as borrowers with a good credit history or with a larger down payment.

## **Qualifying Ratios**

Calculations that are used in determining whether a borrower can qualify for a mortgage. They consist of two separate calculations: a housing expense as a percent of income ratio and total debt obligations as a percent of income ratio.

## **Quitclaim Deed**

A deed that transfers without warranty whatever interest or title a grantor may have at the time the conveyance is made.

## **R**

### **Radon**

A radioactive gas found in some homes that in sufficient concentrations can cause health problems.

### **Rate Caps**

Lenders offer caps with their adjustable rate mortgages (ARMs) so you can have more control over your monthly mortgage payment. Usually, there are two types of rate caps:

- A per-adjustment cap, which specifies the most your interest rate can rise from one adjustment period to the next
- A lifetime adjustment cap, which specifies how much your interest rate can rise over the life of your loan

Ask your lender about both caps when evaluating any ARM product.

### **Rate Lock**

A commitment issued by a lender to a borrower or other mortgage originator guaranteeing a specified interest rate for a specified period of time.

### **Rate-Improvement Mortgage**

A fixed-rate mortgage that includes a provision that gives the borrower a one-time option to reduce the interest rate (without refinancing) during the early years of the mortgage term.

## **Ratified Sales Contract**

A ratified sales contract means both the buyer and the seller have signed off on the final offer. It also acts as a starting point for the loan application interview.

The ratified sales contract specifies the amount of your down payment, the price you will pay for the house, the type of mortgage financing you will seek, your proposed closing and occupancy dates, and other contingencies.

You will give all this information to your loan officer when you meet to discuss your financing options.

## **Real Estate Agent**

A person licensed to negotiate and transact the sale of real estate on behalf of the property owner.

## **Real Estate Attorney**

Many homeowners hire a real estate attorney to represent them during the loan application process. If you do so, your attorney will review the sales contract and represent you at closing.

There are many questions you can ask a personal attorney before deciding whether to have the attorney represent you at closing. They can include:

- What is the attorney's fee for representing you at closing?
- What is the attorney's experience with real estate transactions?
- Are there fees for reading documents relating to the closing?
- Are there fees for giving advice?

Remember that your personal attorney's fee is not part of your closing costs. You must pay for this expense separately.

## **Real Estate Settlement Procedures Act (RESPA)**

A consumer protection law that requires lenders to give borrowers advance notice of closing costs.

## **Real Property**

Land and appurtenances, including anything of a permanent nature such as structures, trees, minerals, and the interest, benefits, and inherent rights thereof.

## **REALTOR®**

A real estate agent, broker or an associate who holds active membership in a local real estate board that is affiliated with the National Association of REALTORS®.

## **Recorder**

The public official who keeps records of transactions that affect real property in the area. Sometimes known as a “Registrar of Deeds” or “County Clerk.”

## **Recording**

The noting in the registrar’s office of the details of a properly executed legal document, such as a deed, a mortgage note, a satisfaction of mortgage, or an extension of mortgage, thereby making it a part of the public record.

## **Refinance Transaction**

The process of paying off one loan with the proceeds from a new loan using the same property as security.

## **Rehabilitation Escrow Account**

A contingency reserve will be set up that contains funds borrowed to finance your home improvements. These will be placed into an escrow account upon the closing of your mortgage. Payments to the contractor will be periodically made from this fund as construction occurs.

You will be paid interest on the funds that are in the escrow account that have not been paid to the contractor.

## **Rehabilitation Mortgage**

A mortgage created to cover the costs of repairing, improving, and sometimes acquiring an existing property.

## **Remaining Balance**

The amount of principal that has not yet been repaid.

## **Remaining Term**

The original amortization term minus the number of payments that have been applied.

## **Rent Loss Insurance**

Insurance that protects a landlord against loss of rent or rental value due to fire or other casualty that renders the leased premises unavailable for use and as a result of which the tenant is excused from paying rent.

## **Rent with Option to Buy**

There are two different Rent With Option to Buy options:

**Lease-Purchase Mortgage Loan:** An alternative financing option that allows low- and moderate-income home buyers to lease a home from a nonprofit organization with an option to buy. Each month's rent payment consists of principal, interest, taxes and insurance (PITI) payments on the first mortgage plus an extra amount that is earmarked for deposit to a savings account in which money for a downpayment will accumulate.

**Lease-Purchase Option:** Nonprofit organizations may use the lease-purchase option to purchase a home that they then rent to a consumer, or "leaseholder." The leaseholder has the option to buy the home after a designated period of time (usually three or five years). Part of each rent payment is put aside toward savings for the purpose of accumulating the down payment and closing costs.

## **REO (Real Estate Owned)**

This is Real Estate that is owned by the lender. This status indicates the property is owned by a lender or bank as a result of a foreclosure.

## **Repayment Plan**

An arrangement made to repay delinquent installments or advances. Lenders' formal repayment plans are called "relief provisions."

## **Replacement Reserve Fund**

A fund set aside for replacement of common property in a condominium, PUD, or cooperative project - particularly that which has a short life expectancy, such as carpeting, furniture, etc.

## **Rescission**

The cancellation or annulment of a transaction or contract by the operation of a law or by mutual consent. Borrowers usually have the option to cancel a refinance transaction within three business days after it has closed.

## **Reverse Mortgage Counseling**

In order to get a Home Keeper® reverse mortgage or a Home Equity Conversion Mortgage (HECM), you must receive counseling that explains how the financing option works.

During your counseling, you will receive an estimate of your loan advances and an explanation of your responsibilities as a borrower. Other sources of unbiased information education may also be provided. A non-profit agency or a local lender typically conducts the counseling.

## **Revolving Liability**

A credit arrangement, such as a credit card, that allows a customer to borrow against a preapproved line of credit when purchasing goods and services. The borrower is billed for the amount that is actually borrowed plus any interest due.

## **RHS Loans**

The Rural Housing Service (RHS), a branch of the U.S. Department of Agriculture, offers low-interest-rate homeownership loans with no down payment requirements to low- and moderate-income persons who live in rural areas or small towns. Check with your local RHS office or a local lender for eligibility requirements. For the location of RHS State Offices and details on RHS loans, see the RHS home page.

## **Right of First Refusal**

A provision in an agreement that requires the owner of a property to give another party the first opportunity to purchase or lease the property before he or she offers it for sale or lease to others.

## **Right of Ingress or Egress**

The right to enter or leave designated premises.

## **Right of Survivorship**

In joint tenancy, the right of survivors to acquire the interest of a deceased joint tenant.

## **Rural Housing Service (RHS)**

An agency within the Department of Agriculture, which operates principally under the Consolidated Farm and Rural Development Act of 1921 and Title V of the Housing Act of 1949. This agency provides financing to farmers and other qualified borrowers buying property in rural areas who are unable to obtain loans elsewhere. Funds are borrowed from the U.S. Treasury.

## **S**

### **Sale-Leaseback**

A technique in which a seller deeds property to a buyer for a consideration, and the buyer simultaneously leases the property back to the seller.

### **Savings and Loans**

Among the customers of Savings and Loans (S&Ls) are individual savers and residential and commercial property mortgage borrowers. Their traditional role for savings and loans is to accept deposits and make mortgage loans, but it has expanded recently to a focus on one- to four-family residential mortgages, multifamily mortgages and commercial mortgages.

These institutions are growing bigger, and the lines between S&Ls and commercial banks are not as defined as in the past.

Deposit insurance is provided through the Savings Association Insurance Fund, a subsidiary of the Federal Deposit Insurance Corporation.

### **Second Mortgage**

A mortgage that has a lien position subordinate to the first mortgage.

### **Secondary Mortgage Market**

The buying and selling of existing mortgages.

### **Secured Loan**

A loan that is backed by collateral.

### **Security**

The property that will be pledged as collateral for a loan.

### **Seller Take-Back**

An agreement in which the owner of a property provides financing, often in combination with an assumable mortgage.

## **Seller Versus Buyer Closing Costs**

Buyers and sellers often negotiate who will pay certain closing costs, and the results vary depending on the negotiated deal. In fact, it's not uncommon for a sales agreement to state that either the buyer or seller pays all closing costs. The agreement that you and the seller reach must be specified in the sales contract.

Your negotiations could depend on a variety of factors, including the quality of the home, how long the home has been on the market, whether there are any other interested buyers, and how motivated the seller is to sell the home.

## **Servicer**

An organization that collects principal and interest payments from borrowers and manages borrowers' escrow accounts. The servicer often services mortgages that have been purchased by an investor in the secondary mortgage market.

## **Servicing**

The collection of mortgage payments from borrowers and related responsibilities of a loan servicer.

## **Settlement**

The final step before you get the keys to your home is a formal meeting called the closing. It is at this meeting in which ownership of the home is transferred from the seller to the buyer.

Also called a settlement in some parts of the country, the meeting is typically attended by the buyer(s), the seller(s), their attorneys if they have them, both real estate sales professionals, a representative of the lender, and the closing agent. The purpose is to make sure the property is physically and legally ready to be transferred to you.

Several closing costs will be paid at this meeting. These expenses are over and above the price of the property and are incurred when ownership of a property is transferred. Closing costs generally include a loan origination fee, an attorney's fee, taxes, an amount placed in escrow, and charges for obtaining title insurance, and a survey. Closing costs vary according to the area of the country.

## **Settlement Sheet**

The HUD-1 Settlement Statement itemizes the amounts to be paid by the buyer and the seller at closing. The (blank) form is published by the U.S. Department of Housing and Urban Development (HUD).

Items on the statement include:

- real estate commissions

- loan fees
- points
- escrow amounts

The form is filled out by your closing agent and must be signed by the buyer and the seller. The buyer should be allowed to review the HUD-1 Settlement Statement on the business day before the closing meeting to know the closing costs in advance.

The HUD-1 Settlement Statement is also known as the “closing statement” or “settlement sheet.”

## **Short Sale**

A property sale negotiated with a mortgage company in which a lender takes less than the total amount due.

## **Single-Family Properties**

One- to four-unit properties including detached homes, townhomes, condominiums, and cooperatives.

## **Six-Month Adjustable-Rate Mortgage**

This adjustable-rate mortgage (ARM) offers a low initial interest rate for the first six months with an interest rate that adjusts every six months thereafter. The rate caps per adjustment can be 1 percent or 2 percent; the lifetime adjustment caps can be 4 percent, 5 percent, or 6 percent. This type of mortgage may be right for you if you anticipate a rapid increase in income over the first few years of your mortgage. That’s because it lets you maximize your purchasing power immediately. It may also be the right mortgage for you if you plan to live in your home for only a few years.

The interest rate is tied to a published financial index. When comparing ARMs that have different indexes, look at how the index has performed recently. Your approved lender can provide information on how to track a specific index and how to review a 15-year history of the index.

Advantages:

- Maximizes your buying power immediately, especially if you expect your income to rise quickly in the next few years.
- Lets you select an index that meets your financial needs.
- Easier to qualify for due to a low interest rate and a 1 or 2 percent annual rate cap.
- Some six-month ARMs let you convert to a fixed-rate loan at certain adjustment intervals. Ask your Fannie Mae approved lender which of their six-month ARMs include this option. Your lender can also provide further specifics about this mortgage option.

Details:

- You can get a six-month ARM with a term of 10 to 30 years. Typically, they are 10, 15, or 30 years.
- Can be used to buy one- to four-family, owner-occupied principal residences including second homes, investment properties, and condos, co-ops and planned unit developments.
- Manufactured homes are also eligible. (Manufactured housing units must be built on a permanent chassis at a factory and then transported to a permanent site and attached to a foundation.)

### **Special Deposit Account**

An account that is established for rehabilitation mortgages to hold the funds needed for the rehabilitation work so they can be disbursed from time to time as particular portions of the work are completed.

### **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.

### **Step-Rate Mortgage**

A mortgage that allows for the interest rate to increase according to a specified schedule (i.e. seven years), resulting in increased payments as well. At the end of the specified period, the rate and payments will remain constant for the remainder of the loan.

### **Subdivision**

A housing development that is created by dividing a tract of land into individual lots for sale or lease.

### **Subordinate Financing**

Any mortgage or other lien that has a priority that is lower than that of the first mortgage.

### **Subprime**

Designating a loan (typically at a greater than usual rate of interest) offered to a borrower who is not qualified for other loans (e.g. because of poor credit history).

### **Subsidized Second Mortgage**

An alternative financing option known as the Community Seconds® mortgage for low- and moderate-income households. An investor purchases a first mortgage that has a subsidized second mortgage behind it. The second mortgage may be issued by a state, county, or local housing agency, foundation, or nonprofit corporation. Payment on the second mortgage is

often deferred and carries a very low interest rate (or no interest rate). Part of the debt may be forgiven incrementally for each year the buyer remains in the home.

## **Survey**

A drawing or map showing the precise legal boundaries of a property, the location of improvements, easements, rights of way, encroachments, and other physical features.

Your lender may require you to have a survey of the property performed. This process confirms that the property's boundaries are correctly described in the purchase and sale agreement.

Also called a plot plan, the survey may show a neighbor's fence is located on the seller's property or more serious violations may be discovered. These violations must be addressed before the lender will proceed.

The buyer usually pays to have the survey done, but some cost savings may be found by requesting an "update" from the company that previously surveyed the property.

## **Sweat Equity**

Contribution to the construction or rehabilitation of a property in the form of labor or services rather than cash.

## **I**

### **Taxes and Insurance**

You'll hear many terms as you work with your mortgage lender, and one of the most frequently mentioned is "PITI." This abbreviation stands for principal, interest, taxes and insurance.

The tax and insurance components of a mortgage payment are generally held by the lender in an escrow account. The lender pays any property tax and homeowner's insurance bills as they are due, ensuring they are paid on time.

A home buyer's monthly mortgage payment generally covers expenses through the escrow account. If you don't have your homeowner's insurance and property taxes paid out of a lender escrow account, your local government and your property insurance company will send payment notices directly to you. It is your responsibility to make sure you pay these bills on time.

If you're planning to purchase a condominium or cooperative, talk to your lender about how they view condo and co-op fees. Most likely, they are considered housing costs and not a part of PITI. However, this can vary from lender to lender.

## **Tenancy by the Entirety**

A type of joint tenancy of property that provides right of survivorship and is available only to a husband and wife. Contrast with tenancy in common.

## **Tenancy in Common**

A type of joint tenancy in a property without right of survivorship. Contrast with tenancy by the entirety and with joint tenancy.

## **Tenant-Stockholder**

The obligee for a cooperative share loan, who is both a stockholder in a cooperative corporation and a tenant of the unit under a proprietary lease or occupancy agreement.

## **Termite Inspection**

Homes in many parts of the country must be inspected for termites before they can be sold. You should receive a certificate from a termite inspection firm stating that the property is free of both visible termite infestation and termite damage.

The cost of the termite inspection is usually paid by the seller, and the seller's real estate sales professional orders the inspection. You need to make sure that the original certificate is delivered to your lender at least three days before closing.

This allows the lender to review the certificate and address any potential problems.

## **Third-Party Origination**

A process by which a lender uses another party to completely or partially originate, process, underwrite, close, fund, or package the mortgages it plans to deliver to the secondary mortgage market.

## **Thriffs**

Thriffs are depository institutions that primarily serve consumers and include both savings banks and savings and loan (S&L) institutions. These institutions originate and service mortgage loans. A thrift may choose to hold a loan in its own portfolio or sell the loan to an investor.

## **Title**

A legal document evidencing a person's right to or ownership of a property.

## **Title Company**

A company that specializes in examining and insuring titles to real estate.

## **Title Insurance**

Insurance that protects the lender (lender's policy) or the buyer (owner's policy) against loss arising from disputes over ownership of a property.

Your lender will require that you buy title insurance to ensure that you are receiving a "marketable title". There are two types of title insurance policies:

- Lender's policy (mandatory): This protects the lender should a flaw in the title be detected after the property has been purchased.
- Owner's policy (optional, but recommended): This protects you should a flaw in the title be detected after the property has been purchased.

Generally, the buyer pays the cost of both policies. Check with your insurer, because you may receive a price break if you seek a combined lender/owner policy or if you purchase a "reissue" policy from the company that previously insured the title.

## **Title Search**

A check of the title records to ensure that the seller is the legal owner of the property and that there are no liens or other claims outstanding.

In order to make sure the borrower will receive clear title to the property, lenders require a title search. It attempts to uncover any "encumbrances" on the title and makes sure the seller is the actual owner of the property.

Encumbrances include any liens - legal claims against a property filed by creditors as a means to collect unpaid bills. Liens can also be filed by the Internal Revenue Service for nonpayment of taxes. Any such claims must be paid by the seller - this often occurs either before or at the closing.

## **Total Expense Ratio**

Total obligations as a percentage of gross monthly income. The total expense ratio includes monthly housing expenses plus other monthly debts.

## **Townhouse**

A townhouse is similar to a condominium in that it's a type of joint real estate where each housing unit is individually owned. However, it has two or more stories, rather than the typical one floor found in a condominium.

Townhouses are available in many shapes and sizes, and most may have yards or common spaces that can be used by the owners.

### **Trade Equity**

Equity that results from a property purchaser giving his or her existing property (or an asset other than real estate) as trade as all or part of the down payment for the property that is being purchased.

### **Transfer of Ownership**

Any means by which the ownership of a property changes hands. Lenders consider all of the following situations to be a transfer of ownership: the purchase of a property “subject to” the mortgage, the assumption of the mortgage debt by the property purchaser, and any exchange of possession of the property under a land sales contract or any other land trust device. In cases in which an inter vivos revocable trust is the borrower, lenders also consider any transfer of a beneficial interest in the trust to be a transfer of ownership.

### **Transfer Tax**

State or local tax payable when title passes from one owner to another.

### **Treasury Index**

An index that is used to determine interest rate changes for certain adjustable-rate mortgage (ARM) plans. It is based on the results of auctions that the U.S. Treasury holds for its Treasury bills and securities or is derived from the U.S. Treasury’s daily yield curve, which is based on the closing market bid yields on actively traded Treasury securities in the over-the-counter market.

### **Trustee**

A fiduciary who holds or controls property for the benefit of another.

### **Truth-In-Lending**

A federal law that requires lenders to fully disclose, in writing, the terms and conditions of a mortgage, including the annual percentage rate (APR) and other charges.

Your lender should provide you with the Truth-in-Lending (TIL) Statement within three business days of your loan application. This document outlines the costs of your loan, and it is given to you so you can compare the costs with those of other lenders. Among the costs listed:

- The annual percentage rate (APR), which is the cost of your mortgage compiled as a yearly rate. It may be higher than the interest rate stated in your mortgage because it includes points and other costs of credit.
- The finance charge.
- The amount financed.
- The payment amount.
- The total payments required.

The lender is required to give you the final version of your TIL Statement at or prior to the closing meeting because it is possible that the APR calculated at your loan application will change at closing.

## **Two-Step Mortgage**

The Two-Step Mortgage is a special type of adjustable-rate mortgage (ARM) that adjusts only once. Depending on whether you select a five-year or seven-year Two-Step Mortgage, your interest rate will adjust once at the end of either five or seven years. Then, your interest rate stays the same for the remaining 25 or 23 years of your 30-year loan.

Advantages:

- You can qualify with a low starting interest rate. Your initial interest rate is only slightly higher than a balloon loan and is often lower than a 30-year fixed rate loan.
- You get stable, predictable payments for five or seven years and, after adjustment, for the remaining 25 or 23 years of the loan.
- You are protected from rising interest rates during the early years of homeownership.
- You do not have to re-qualify or pay refinance costs at the time the interest rate adjusts.
- You have time to increase your earnings or accumulate additional assets before the interest rate adjusts at the end of five or seven years.

Details:

- Your interest rate cap can be no more than 6 percent above your initial interest rate.
- You can use this mortgage to buy one- to four-family residences including second homes and condos, co-ops and planned unit developments.
- Manufactured homes are also eligible. (Manufactured housing units must be built on a permanent chassis at a factory and then transported to a permanent site and attached to a foundation.)

## **Two-to Four-Family Property**

A property that consists of a structure that provides living space (dwelling units) for two to four families, although ownership of the structure is evidenced by a single deed.

## U

### **Underwriting**

The process of evaluating a loan application to determine the risk involved for the lender. Underwriting involves an analysis of the borrower's creditworthiness and the quality of the property itself.

### **Unsecured Loan**

A loan that is not backed by collateral.

## V

### **VA Mortgage**

A mortgage that is guaranteed by the Department of Veterans Affairs (VA).

### **Vested**

Having the right to use a portion of a fund such as an individual retirement fund. For example, individuals who are 100 percent vested can withdraw all of the funds that are set aside for them in a retirement fund. However, taxes may be due on any funds that are actually withdrawn.

### **Veterans Administration (VA)**

The Veterans Administration is a federal government agency authorized to guarantee loans made to eligible veterans under certain conditions. To obtain more information, you can contact the U.S. Department of Veterans Affairs.

VA loans are more flexible than those for either the Federal Housing Administration (FHA) or conventional loans.

If you are a qualified veteran, this can be an attractive mortgage program. To determine whether you are eligible, check with your nearest VA regional office.

## W

### **Ways of Obtaining a Loan**

You have several ways to get a mortgage. Your loan interview can take place, in whole or in part, over the telephone, over the Internet, or in person.

Approved lenders have a variety of options when it comes to helping you get the mortgage that's right for you. Many lenders have Web sites that let you fill out an application online, which can save you time. Other lenders may work with you over the telephone.

Review our approved lenders list in the Find a Lender section to locate the lender that provides the services you prefer.

### **What-If Analysis**

An affordability analysis that is based on a what-if scenario. A what-if analysis is useful if you do not have complete data or if you want to explore the effect of various changes to your income, liabilities, or available funds or to the qualifying ratios or down payment expenses that are used in the analysis.

### **What-If Scenario**

A change in the amounts that is used as the basis of an affordability analysis. A what-if scenario can include changes to monthly income, debts, or down payment funds or to the qualifying ratios or down payment expenses that are used in the analysis. You can use a what-if scenario to explore different ways to improve your ability to afford a house.

### **Wraparound Mortgage**

A mortgage that includes the remaining balance on an existing first mortgage plus an additional amount requested by the mortgagor. Full payments on both mortgages are made to the wraparound mortgagee, who then forwards the payments on the first mortgage to the first mortgagee.