Glossary

A

Adjustable Rate Mortgage - An adjustable rate mortgage, commonly referred to as an ARM, is a loan type that allows the lender to adjust the interest rate during the term of the loan. Generally, these changes are determined by a margin and an index so that the interest rate changes, up or down, are based on market conditions at the time of the change. Most often these interest rate changes are limited by a rate change cap and a lifetime cap. If you apply for an adjustable rate mortgage, the lender is required to provide you with an ARM Program Disclosure which spells out the terms of the loan.

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).

Administrative Fee - A fee charged by a lender to cover the administrative costs of processing your loan request. For our comparison purposes, this fee is typically a lender fee.

Annual Fee - An annual fee for a line of credit is sometimes required. If an annual fee is shown you will be billed for that amount, annually, until the loan is paid in full.

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) - To make it easier for consumers to compare mortgage loan interest rates, the federal government developed a standard format called an "Annual Percentage Rate" or APR to provide an effective interest rate for comparison shopping purposes. Some of the costs that you pay at closing are factored into the APR for ease of comparison. Your actual monthly payments are based on the periodic interest rate, not the APR.

Annuity - A specified income paid yearly or at other regular intervals, often on a guaranteed dollar basis.

Appraisal - An analysis performed by a qualified individual to determine the estimated value of a home.

Appraisal Fee - In order to verify that the value of your home supports the loan amount you request, an appraisal will be ordered by the lender. The appraisal is generally performed by a professional who is familiar with home values in the area and may or may not require an interior inspection of the home. The fee for the appraisal is commonly passed on to the borrower by the lender. For our comparison purposes, the appraisal fee is a third party fee.

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

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).

B

Balloon Mortgage - a mortgage in which a large portion of the borrowed principal is repaid in a single payment at the end of the loan period.

Bill of Sale - A written instrument that transfers title to personal property.

Broker - A state-licensed agent who, for a commission or a fee, represents property owners in real estate transactions.

C

Close of Escrow - A meeting of the parties involved in a real estate transaction to finalize the process. In the case of a purchase, the close of escrow usually involves the seller, the buyer, the real estate broker and the lender. In the case of a refinance, the close of escrow involves the borrower and the lender. Sometimes referred to as the settlement or closing.

Closing - A meeting of the parties involved in a real estate transaction to finalize the process. In the case of a purchase, a closing usually involves the seller, the buyer, the real estate broker and the lender. In the case of a refinance, the closing involves the borrower and the lender. Sometimes referred to as the settlement or the close of escrow.

Closing Cost Item - A single fee that a home buyer must pay at closing. Closing costs are made up of individual closing cost items such as origination fees, escrow fees, underwriting fees and processing fees. Most closing cost items are included as numbered items on the HUD-1 Settlement Statement.

Closing Costs - The total of all the items that must be paid at closing related to your new mortgage.

Collateral - Property pledged as security for a debt. The borrower risks losing the collateral if the debt is not repaid according to the terms of the loan contract.

Collection - The process of bringing a delinquent debt current and the filing of the necessary notices to proceed with repossession or foreclosure when necessary.

Commission - The fee charged by a broker or agent for negotiating a real estate or loan transaction. A commission is generally a small percentage of the price of the property or amount borrowed. Sometimes called points.

Conventional Mortgage - A mortgage that is not insured or guaranteed by a government agency.

D

Deed - The written instrument that conveys a property from the seller to the buyer. The deed is recorded at the local courthouse so that the transfer of ownership is part of the public record.

Depreciation - A decline in the value of real or personal property. The opposite of appreciation.

Down Payment - The portion of the purchase price of a property that the borrower will be paying in cash rather than included in the mortgage amount.

E

Equity - An owner's financial position in a property. Equity is the difference between the property's value and the amount that is owed on mortgages.

Escrow - Funds paid by one party to another to hold until a specific date when the funds are released to a designated individual. Generally, an escrow account refers to the funds a mortgagor pays to the lender along with their monthly principal and interest payments for the payment of real estate taxes and hazard insurance. This is also referred to as impounds. The money is held by the lender to make payments when they are due. An escrow can also refer to funds that are held by a third party to ensure the completion of repairs or improvements that must be completed on the property but that cannot be done prior to closing.

Escrow Account - The account that funds are held in by the lender for the payment of real estate taxes and/or homeowner's insurance. Can also refer to the account that funds are held in for the completion of repairs or improvements to a property that cannot be completed prior to closing.

F

FHA Co-insured Mortgage - A mortgage for which the Federal Housing Administration (FHA) and the originating lender share the risk of loss in the event of the borrower's default.

FHA Mortgage - A mortgage insured by the Federal Housing Administration (FHA). FHA loans are also known as government mortgages.

First Mortgage - A mortgage that is the first loan recorded in the public record and generally the primary loan against a property.

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

Fixed Rate Mortgage - A mortgage in which the monthly principal and interest payments remain the same throughout the life of the loan. The most common mortgage terms are 30 and 15 years. With a 30-year fixed rate mortgage your monthly payments are lower than they would be on a 15 year fixed rate, but the 15 year loan allows you to repay your loan twice as fast and save more than half the total interest costs.

Foreclosure - The legal process in which a borrower's ownership of a property is dissolved due to default. Typically, the property is sold at a public auction and the proceeds are used to pay the loan in full.

G

Growing Equity Mortgage (GEM) - A fixed-rate mortgage that involves scheduled payment increases over a specified period of time. The increase amount of the monthly payment is applied directly to the remaining principal balance.

H

Home Equity Line of Credit (HELOC) - A loan secured by real property, usually in a subordinate position, that allows the borrower to receive the loan proceeds in the form of multiple advances up to a limit that represents a maximum percentage of the borrower's equity in a property.

Home Equity Loan - A loan secured by a subordinate mortgage on one's principal residence, generally to be used for some non-housing expenditure. A traditional home equity loan provides lump-sum proceeds at the time the loan is closed.

Homeowner's Insurance - Insurance that protects a homeowner against the cost of damages to property caused by fire, windstorms, and other common hazards. Also referred to as hazard insurance.

Homeowner's Warranty - A type of insurance policy that covers repairs to certain parts of a home for an agreed upon period of time. It is typically provided by the contractor or seller as a condition of the sale

I

Installment - A regularly scheduled periodic payment that a borrower agrees to make to a lender.

Installment Loan - Borrowed money that is repaid in equal periodic payments. Cars and furniture are often paid for with installment loans.

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

Interest Accrual Rate - The rate at which interest accrues on a mortgage. Usually, it is also the rate used to calculate the monthly payments.

Interest Rate - The cost of borrowing a lender's money. Interest takes into account the risk and cost to the lender for a loan. The interest rate on a fixed rate mortgage depends on the going market rate and how many discount points you pay up-front. An adjustable rate mortgage's interest is a variable rate made up of the index and the lender's margin.

J

Judgment - A decree 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 a judgment.

Jumbo Mortgage - A jumbo mortgage is a home loan with an amount that exceeds conforming loan limits imposed by Fannie Mae and Freddie Mac, the two government-sponsored enterprises that buy mortgages from lenders. The limit is $417,000 in most parts of the United States, but is $625,500 in the highest-cost areas and in-between in others.

L

Lender - The bank, mortgage broker, or financial institution providing the loan funds to a borrower.

Lender Fees - Fees that are kept by the lender to cover some of their expenses and to meet their profitability goals. Typically fees such as origination fees, discount points, processing/administration fees, underwriting fees and document preparation fees are lender fees. This is the area of fees that you should compare very closely from lender to lender before making a decision.

Lessee - A person or company that signs a lease to get temporary use of property.

Lessor - A person or company that provides temporary use of property usually in return for periodic payment.

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

Liability Insurance - An insurance policy that offers protection against claims that a property owner's negligence resulted in bodily injury or property damage to another party.

Lien - A loan secured by real estate. An encumbrance against a property for money due. The lien can be voluntary such as a mortgage or involuntary such as a judgement.

Lock - Written agreement in which a lender guarantees a specific interest rate if a loan closes within a set period of time. The lock-in may also specify the number of discount points to be paid at closing.

Lock Period - The number of days that the lender will guarantee the interest rate offered for a loan. In order to hold the guaranteed interest rate for a loan, the loan closing must occur during the lock period.

M

Mortgage Insurance - Insurance provided by a private company to protect the mortgage lender against losses that might be incurred if a loan defaults. The borrower usually pays the cost of the insurance and is most often required if the loan amount is more than 80% of the home's value. Sometimes referred to as private mortgage insurance.

Mortgage Registration Fee - A fee or tax charged by some state and local governments when a mortgage is obtained. For our comparison purposes, the mortgage registration fee is considered to be a tax and other unavoidable fee.

Mortgage Tax - A tax charged by some state or local governments that is paid to the state when a mortgage is obtained. For our comparison purposes, the mortgage tax is considered to be a tax and other unavoidable fee.

Mortgagee - The person or company who provides the loan funds to the borrower.

Mortgagor - The person who receives funds from a lender in exchange for a security interest in the property. Commonly known as the borrower.

O

Offer - A buyer's expression of willingness to purchase a property at the seller's specified price.

Offer to Purchase - An agreement between a buyer and seller to purchase real estate. An offer to purchase, also known as a binder or a sales contract, secures the right to purchase real estate upon agreed terms for a limited period of time. If the buyer changes his mind or is unable to purchase, the earnest money that was paid is forfeited unless the binder expressly provides that it is to be refunded.

Origination Fee - A fee charged by a lender as a way to cover processing expenses or to increase their profitability for originating a mortgage loan. Most commonly, the origination fee is expressed as a percent of the loan amount. For our comparison purposes, the origination fee is considered to be a lender fee.

P

Partial Payment - A loan payment that is not great enough to cover the scheduled monthly payment on a mortgage.

Pre-foreclosure Sale - A process in which the lender allows a borrower to avoid foreclosure by selling the property for less than the amount that may be owed to the lender.

Pre-qualification - Procedure to determine how much money a potential homebuyer will be eligible to borrow prior to actually applying for a loan.

Prepayment - Any amount that is paid to reduce the principal balance, not interest, of a loan before the due date.

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

R

Rate Improvement Mortgage - A fixed-rate mortgage (FRM) that includes a clause allowing the borrower the option to reduce the interest rate one time (without refinancing) during the first few years of the loan term.

Rate Lock - An agreement by a lender to guarantee the interest rate offered for a mortgage provided that the loan closes within the specified period of time.

Real Estate Agent - A person licensed to negotiate the purchase and sale of real estate on behalf of buyers and sellers.

Realtor® - A real estate broker or associate who is an active member of a local real estate board that is affiliated with the National Association of Realtors.

Refinance - The process of paying off any existing mortgages on a home with a new mortgage loan.

Revolving Credit - A credit agreement (typically a credit card) that allows a customer to borrow against a pre-approved credit line when purchasing goods and services. The borrower is only billed for the amount that is actually borrowed plus any interest due.

S

Settlement - A meeting of parties involved in a real estate transaction to finalize the process. In the case of a purchase, the settlement usually involves the seller, the buyer, the real estate broker and the lender. In the case of a refinance, the settlement involves the borrower and the lender. Sometimes referred to as the closing or the close of escrow.

Settlement or Closing Fee - A fee charged by a title company, closing agent or attorney to act as a representative and agent for the lender to perform the closing of a real estate transaction.

T

Total Closing Costs - This is the total of all the items that must be paid at closing related to your new mortgage. Since the exact charges for some of these items cannot be obtained until the time of closing, the figure may only be an estimate.

U

Underwriting - Detailed process of evaluating a borrower's loan application to determine the risk involved for the lender. Underwriting usually involves an in-depth analysis of the borrower's credit history, as well as an examination of the value and quality of the subject property.

Underwriting Fee - A fee charged by some lenders to cover the cost of the lender's analysis of the risk associated with a loan. For our comparison purposes, an underwriting fee is considered to be a lender fee.

V

VA Loan - A mortgage for veterans and service persons. The loan is guaranteed by the Department of Veterans Affairs (VA) and requires low or no down payment.