

## **GLOSSARY OF TERMS**

### **Abstract of Title**

A written history of ownership to a specific area of land. An abstract of title covers the period from the original source of title to the present time and summarizes all subsequent documents that have been recorded against that area.

### **ACH (Automatic Clearing House)**

Electronic Drafting system that debits an authorized bank account and electronically transfers funds scheduled for remittance.

### **Acquisition Costs**

Costs of acquiring property other than purchase price, for example, attorney fees, title insurance, lender fees.

### **Addendum**

An agreement or list that is added to a contract, agreement, or other document such as a letter of intent.

### **Additional Principal Payment**

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

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

A mortgage in which the interest rate is adjusted periodically according to a pre-selected index.

### **Adjusted Gross Income**

A member's total income, as reported on his or her IRS 1040 tax return form, after allowable contributions, deductions and expenses (Alimony).

### **Adjustment Period**

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

### **Agricultural Property**

Unimproved property available for farming activities.

### **Alimony**

Periodic payments made under a divorce decree or a written separation agreement toward the support of a former spouse.

**American Land Title Association (ALTA)**

A national association of title insurance companies, abstractors, and attorneys specializing in real property law. The association speaks for the title insurance and abstracting industry and establishes standard procedures and title policy forms.

**Amortization**

Payment of a debt in regular, periodic installments or principal and interest as opposed to interest only payments.

**Amortization Schedule**

A timetable for payment of a mortgage showing the amount of each payment applied to interest and principal and the remaining balance.

**Annual Percentage Rate (APR)**

The cost of credit on a yearly basis expressed as a percentage.

**Applicant**

A prospective member who has completed an application. An application is series of steps, usually including the completion of documents, a lender requires of those seeking a loan.

**Application**

A printed form used by a mortgage lender to record necessary information concerning a prospective mortgage.

**Application Fee**

A sum of money paid towards estimated initial mortgage processing expenses such as appraisal and credit report.

**Appraisal**

A report made by a qualified person setting forth an opinion or estimate of property value. The term also refers to the process by which this estimate is obtained.

**Appraised Value**

An opinion of value reached by an appraiser based upon knowledge, experience, and a study of pertinent data.

**Appraiser**

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

**Appreciation**

An increase in the value of property due to either a positive improvement of the area or the elimination of negative factors. Commonly, and incorrectly, used to describe an increase in value through inflation.

**Arm's-Length Transaction**

Legal slang meaning that there existed no special relationship between the parties involved in any matter which would taint the result.

**As Separate Property**

Ownership in real property which is to be specifically excluded from community property.

**Assessed Valuation**

The value that a taxing authority places on real or personal property for the purpose of taxation.

**Assessment**

A charge against a property for purpose of taxation. This may take the form of a levy for a special purpose or a tax in which the property owner pays a share of the cost of community improvements according to the valuation of his or property.

**Assumable Mortgage**

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

**Balloon Mortgage**

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

**Balloon Payment**

A lump-sum payment due at the end of an earlier specified loan term with level monthly payments.

**Bankruptcy**

A proceeding in a federal court in which a debtor, who owes more than his or her assets, can discharge personal liability for his or her debts. This affects the member's personal liability for a mortgage debt but not the lien of the mortgage.

**Biweekly Mortgage**

A mortgage with payments due every two weeks, totaling 26 payments a year.

**Borrower**

A member (also known as mortgagor) who receives funds in the form of a loan with an obligation to repay principal with interest.

**Break-Even Point**

The point at which total income is equal to total expenses.

**Bridge Financing**

A loan spanning the gap between the termination of one loan (generally short-term) and the start of another (generally permanent long-term) loan. Also referred to as gap financing.

**Bridge Loan**

A form of second deed of trust or mortgage that is collateralized by the member'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.

**Buy-down**

Money advanced by an individual (builder, seller, etc.) to reduce the monthly payments for a home mortgage either during the entire term or for an initial period of years.

**Cap**

A limit on how much the variable interest rate can increase during the life of the plan.

**Cash to Close**

Liquid assets that are readily available to be used to pay the closing costs involved in a closing of a mortgage transaction.

**Cash Reserve**

A requirement by some lenders that buyers have sufficient cash remaining after closing to make the first mortgage payment.

**Cash Out Refinancing**

When the principal amount of a new mortgage involved in refinancing is greater than the principal amount outstanding of the existing mortgage being refinanced, and all or a portion of the equity is converted to cash.

**Closing**

The consummation of a real estate transaction. The closing includes the delivery of a deed, financial adjustments, the signing of notes, and the disbursement of funds necessary to complete the sale and loan transaction.

**Closing Costs**

Money paid by the member in connection with the closing of a mortgage loan. This generally involves an origination fee, discount points, appraisal, credit report, title insurance, attorney fees, survey, and pre-paid items such as tax and insurance escrow payments.

**Closing Statement**

A form used at closing that gives an account of the funds received and paid at the closing, including the escrow deposits for taxes, hazard insurance and mortgage insurance.

**Co-Borrower**

Additional borrower(s) whose income contributes to qualifying for a loan and whose name(s) appear on documents with equal legal obligations.

**Collateral**

Property pledged as security for a debt, such as the real estate pledged as security for a mortgage.

**Collection**

The servicing procedure followed to bring a delinquent mortgage current and to file the required notices to bring foreclosure when necessary.

**Commitment (Loan)**

A binding pledge made by the lender to the borrower to make a loan, usually at a stated interest rate within a given period of time for a given purpose, subject to the compliance of the borrower to stated conditions.

**Commitment Letter**

A formal offer by a lender stating the terms under which it agrees to loan money to a homebuyer.

**Compensating Factors**

Positive characteristics of a borrower's credit, employment or savings history which may be used to offset high debt-to-income ratios in the underwriting process.

**Co-mortgager**

A second borrower who signs a mortgage loan with a mortgagor. The co-mortgagor's income, assets and debts are combined with the mortgagor's for underwriting and ratio analysis purposes.

**Comparable Properties**

Properties used for comparative purposes in the appraisal process that have been recently sold and have characteristics similar to property being appraised, thereby indicating the approximate fair market value of the subject property.

**Concession**

A discount or other inducement given by a landlord or seller to a prospective tenant or buyer to induce them to sign a lease or purchase property.

**Conforming Loan**

Conventional home mortgages eligible for sale and delivery to either the Federal National Mortgage Association (FNMA) or the Federal Home Loan Mortgage Corporation (FHLMC). These agencies generally purchase first mortgages up to loan amounts mandated by Congressional directive.

**Contingency**

A condition that must be met before a contract is legally binding.

**Conventional Mortgage**

A mortgage not obtained under a government insured program (such as FHA or VA).

**Convertible ARM**

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

**Covenant**

A clause in a contract that obligates or restricts the parties and which, if violated, can result in legal action.

**Credit Limit**

The maximum amount that you can borrow under a first mortgage or home equity plans.

**Credit Report**

A report detailing an individual's credit history.

**Deed**

The legal document conveying title to a real property.

**Deed of Trust**

An instrument used in many states in place of a mortgage. Property is transferred to a trustee by the borrower (trustor), in favor of the lender (beneficiary) and reconveyed upon payment in full.

**Default**

The failure to perform an obligation as agreed in a contract.

**Delinquency**

A loan payment that is overdue but within the period allowed before actual default is declared.

**DeMinimus PUD**

A planned unit development (PUD) in which the common property has less than a 2% influence upon the value of the premises. The 2% rule of thumb is calculated by dividing the dollar amount of amenities by the total number of units.

**Deposit**

A sum of money given to bind a sale of real estate. Also known as earnest money.

**Depreciation**

A loss of value in real property brought about by age, physical deterioration, functional or economic obsolescence.

**Disclosure**

Information relevant to specific transactions that is required by law.

**Discount Point**

A point paid to the lender to permanently buy down or lower an interest rate. It is usually a percentage of the loan amount.

**Discounted Loan**

When the note rate on a loan is less than the market rate, it is a discounted loan. However, the lender requires additional points to raise the yield on the loan to the market rate.

**Down Payment**

Money paid to make up the difference between the purchase price and the mortgage amount.

**Earnest Money**

A portion of the down payment delivered with a purchase offer by the purchaser of real estate. Delivered to the seller, or an escrow agency, by the purchaser with the purchase offer as evidence of good faith. Also known as a deposit.

**Easement**

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

**Effective Interest Rate**

The actual rate of return or yield to an investor. The actual rate of interest paid by a borrower.

**Encroachment**

An improvement that illegally violates another's property or right to use that property.

**Encumbrance**

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

**Equal Credit Opportunity Act (ECOA)**

A federal law requiring lenders and other creditors to make credit equally available without discrimination based on race, color, religion, national origin, sex, age, marital status, receipt of income from public assistance programs or past exercising of rights under the Consumer Credit Protection act.

**Equity**

The ownership interest; i.e. portion of a property's value over and above the liens against it.

**Equity Loan**

A loan based on the borrower's equity in his or her home.

**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. In some parts of the country, escrows of taxes and insurance premiums are called impounds or reserves.

**Escrow Account**

The segregated trust account in which escrow funds are held.

**Escrow Agent**

The person or organization having a fiduciary responsibility to both the buyer and seller (or lender and borrower) to see that the terms of the purchase/sale (or loan) are carried out. Also called escrow company or escrow depository.

**Escrow Payment**

That portion of a mortgagor's monthly payments held by a lender or servicer to pay taxes, hazard insurance, mortgage insurance, lease payments and other items as they become due. Also called impounds or reserves in some states.

**Fair Credit Reporting Act (FCRA)**

This law requires consumer reporting agencies to exercise fairness, confidentiality and accuracy in preparing and disclosing credit information.

**Federal Home Loan Mortgage Corporation – FHLMC (FREDDIE MAC)**

A quasi-governmental agency that purchases conventional mortgages in the secondary mortgage market from insured depository institutions and HUD-approved mortgage bankers. It sells participation sales certificates secured by pools of conventional mortgage loans, their principal, and interest guaranteed by the federal government through the FHLMC. It also sells Government National Mortgage Association bonds to raise funds to finance the purchase of mortgages. Popularly known as Freddie Mac.

**Federal National Mortgage Association – FNMA (FANNIE MAE)**

A taxpaying corporation created by Congress to support the secondary mortgage market. It purchases and sells residential mortgages insured by the Federal Housing Administration (FHA) or guaranteed by the Veterans Administration (VA) as well as conventional home mortgages.

**Fee Simple**

The greatest possible interest a person can have in real estate, including the right to dispose of the property or pass it on to one's heirs.

**First Mortgage**

A real estate loan that has priority over any subsequently recorded mortgages.

**Fixed Interest Rate**

An interest rate which does not change during the loan term.

**Fixed-rate Mortgage (FRM)**

A mortgage in which the interest rate and payments remain the same for the life of the loan.

**Foreclosure**

A legal procedure in which property mortgaged as security for a loan is sold to pay the defaulting borrower's debt.

**Gift Letter**

A written explanation signed by the individual giving the gift stating, "This is a bona fide gift and there is no obligation expressed or implied to repay this sum at any time."

**Ginnie Mae**

Created in 1968 by an amendment to title III of the National Housing Act (12 USC 1716 et seq.), this federal government corporation is a constituent part of the Department of Housing and Urban Development. Among other government functions, it guarantees securities backed by mortgages that are insured or guaranteed by other government agencies. Also called Government National Mortgage Association (GNMA).

**Good Faith Estimate (GFE)**

A document which tells borrowers the approximate costs they will pay at or before settlement, based on common practice in the locality. Under requirements of the Real Estate Settlement Procedures Act (RESPA), the mortgage banker or mortgage broker, if any, must deliver or mail the GFE to the applicant.

**Gross Income**

Total income produced by a property before any expenses are deducted.

**Gross Monthly Income**

Total monthly income earned before tax and other deductions.

**Hazard Insurance**

A contract whereby an insurer, for a premium, undertakes to compensate the insured for loss on a specific property due to certain hazards.

**High-Ratio Loan**

Mortgage loans in excess of 80% of the loan amount divided by the lower of the sales price or appraised value.

**Home Equity Line of Credit**

A form of revolving credit in which your home serves as collateral.

**Home Equity Loan**

A revolving line of credit or fixed home equity loan based on the equity in the mortgagor's house. The property is the security for the loan, which is usable for any purpose.

**Homeowners' Association Dues**

The fees imposed by a condominium or homeowners' association for maintenance of common areas.

**Home Mortgage Disclosure Act (HMDA)**

Federal legislation which requires certain types of lenders to compile and disclose data on where their mortgage and home improvement loans are being made.

**Homeowner's Insurance**

An insurance policy that combines liability coverage and hazard insurance.

**Homeowner's Policy**

A multiple peril insurance policy available to owners of private dwellings which covers the dwelling and its contents, as well as personal liability.

**Housing Expense Ratio**

The relationship of a borrower's monthly payment obligation on housing (PITI and other applicable housing expenses) divided by gross monthly income, expressed as a percentage. Also called the top ratio.

**Income/Expense Ratio**

A qualifying ratio used in underwriting a residential mortgage loan which computes the percentage of monthly income required.

**Index**

A published interest rate, such as the prime rate, LIBOR, T-Bill rate, or the 11<sup>th</sup> District COFI. Lenders use indexes to establish interest rates charged on mortgages or to compare investment returns. On ARMs, a predetermined margin is added to the index to compute the interest rate adjustment.

**In File Credit Report**

Unverified credit report which may contain unchecked, duplicated, or overlapping data. It is often used for a quick look at a prospective borrower's credit history.

**Installment**

The periodic payment that a borrower agrees to pay a mortgage lender.

**Insured Loans**

A loan insured by HUD-FHA or a private mortgage insurance company.

**Interest**

Consideration in the form of money paid for the use of money. Also a right, share or title in property.

**Interest Rate**

The percentage of an amount of money which is paid for its use for a specified time.

**Interest Rate Cap**

A provision of an ARM limiting how much interest rate may increase per adjustment period.

**Interest Rate Floor**

On a floating rate instrument, the lowest the interest rate may go.

**Investment Property**

Real estate owned with the intent of supplementing income and not intended for owner occupancy.

**Joint Tenancy**

An undivided interest in property, taken by two or more joint tenants. Upon the death of a joint tenant, the interest passes to the surviving joint tenants, rather than to the heirs of the deceased.

**Judgment**

Final determination by a court of the rights and claims of the parties to an action.

**Land Acquisition Loan**

A loan made for the purpose of purchasing land only, not improvements on or to the land. Also called an acquisition loan.

**Late Charge**

The penalty a borrower must pay when a payment is made after the due date.

**Lien**

A legal claim or attachment against property as security for payment of an obligation.

**Lifetime Cap**

A provision of an ARM that limits the total increase in interest rates over the life of the loan.

**Limited Partnership**

A form of business ownership that consists of one or more general partners who are fully liable and one or more limited partners who are liable only for the amount of their investment.

**Liquidity**

The ability to readily convert assets or investments to cash.

**Loan-to-Value Ratio**

The ratio between the amount of a given mortgage loan and the lower of sales price of appraised value.

**Lock-In Period**

The number of days during which a lender guarantees a borrower a specific interest rate and terms on a mortgage.

**London Interbank Offered Rate (LIBOR)**

The rate at which banks in the foreign market lend dollars to one another. LIBOR varies by deposit maturity. A common interest rate index; one of the most valid barometers of the international cost of money.

**Loss Payable Clause**

An insurance policy provision for payment of a claim to someone other than the insured, who holds an insurable interest in the insured property.