

MORTGAGE TERMS

A

Amortization

The gradual repayment of a mortgage loan by installments.

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.

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.

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).

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.

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).

Assumable Mortgage

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

Assumption

The transfer of the seller's existing mortgage to the buyer. See assumable mortgage.

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.

B

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.

Bequeath

To transfer personal property through a will.

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.

C

Clear Title

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

Closing

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

Closing Cost Item

A fee or amount that a homebuyer 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.
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.
Co-signor
A person who signs a promissory note along with the borrower. A co-signor's signature guarantees that the loan will be repaid, because the borrower and the co-signor are equally responsible for the repayment. See endorser.
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.
Conventional Mortgage
A mortgage that is not insured or guaranteed by the federal government. Contrast with government mortgage.
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 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.
Creditor
A person to whom money is owed.
Credit Report
A report of an individual's credit history prepared by a credit bureau and is used by a lender in determining a loan applicant's creditworthiness. See merged credit report.
D
Debt
An amount owed to another. See installment loan and revolving liability.
Deed
The legal document conveying title to a property.
Down Payment
The part of the purchase price of a property that the buyers pay in cash and do not finance with a mortgage.
E
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.
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 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.
F
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
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. Over the past 30 years, Fannie Mae has provided nearly \$2.5 trillion of mortgage financing for over 30 million families.
Fannie Mae's Community Home Buyer's Program
An income-based community lending model, under which mortgage insurers and Fannie Mae offer flexible underwriting guidelines to increase a low or moderate-income family's buying power and to decrease the total amount of cash needed to purchase a home. Borrowers who participate in this model are required to attend pre-purchase homebuyer education sessions.

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.
FHA Mortgage
A mortgage that is insured by the Federal Housing Administration (FHA). Also known as a government mortgage.
First Mortgage
A mortgage that is the primary lien against a property.
Fixed-Rate Mortgage
A mortgage in which the interest rate does not change during the entire term of the loan.
H
Hazard Insurance
Insurance coverage that compensates for physical damage to a property from fire, wind, vandalism, or other hazards.
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.
Homeowner's Insurance
An insurance policy that combines personal liability insurance and hazard insurance coverage for a dwelling and its contents.
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).
I
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.
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 Rate
The rate of interest in effect for the monthly payment due.
J
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.
L
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.
Loan
A sum of borrowed money (principal) that is generally repaid with interest.
Loan Origination
The process by which a mortgage lender brings into existence a mortgage secured by real 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. See lock-in.

M

Mortgage

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

Mortgagee

The lender in a mortgage agreement.

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 the entire mortgage loan. See private mortgage insurance (MI).

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.

Mortgagor

The borrower in a mortgage agreement.

N

Net Worth

The value of all of a person's assets, including cash, minus all the liabilities.

Note

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

O

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.

P

PITI

See principal, interest, taxes, and insurance (PITI).

Point

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

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.

Principal Balance

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

Principal, Interest, Taxes, and Insurance (PITI)

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 mortgage and hazard insurance.

Private Mortgage Insurance (MI)

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

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.

Purchase and Sales Agreement

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

Q

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

Real Estate Agent

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

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 broker or an associate who holds active membership in a local real estate board that is affiliated with the National Association of Realtors.

S

Second Mortgage

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

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.

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.

Sweat Equity

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

T

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.

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.

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.

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.

V

VA Mortgage

A mortgage that is guaranteed by the Department of Veterans Affairs (VA). Also known as a government mortgage.

Veterans Affairs, Department of (VA)

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.