

## Mortgage Glossary

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### **adjustable-rate mortgage (ARM)**

A mortgage that changes interest rate periodically based upon the changes in a specified index.

### **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).

### **amortization**

The repayment of a mortgage loan by installments with regular payments to cover the principal and interest.

### **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.

### **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).

### **application**

A form, commonly referred to as a 1003 form, used to apply for a mortgage and to provide information regarding a prospective mortgagor and the proposed security.

### **appraisal**

A written analysis of the estimated value of a property prepared by a qualified appraiser.

### **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.

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**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.

**assumption**

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

**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.

**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.

**binder**

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

**biweekly payment mortgage**

A mortgage that requires payments to reduce the debt every two weeks (instead of the standard monthly payment schedule). The 26 (or possibly 27) biweekly payments are each equal to one-half of the monthly payment that would be required if the loan were a standard 30-year fixed-rate mortgage, and they are usually drafted from the borrower's bank account. The result for the borrower is a substantial savings in interest.

**blanket mortgage**

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

**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.

**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.

**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.

**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.

### **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).

### **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."

### **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.

### **closing statement**

Also referred to as the HUD1. The final statement of costs incurred to close on a loan or to purchase a home.

**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.

**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.

**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. See endorser.

**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 home buyer. Also known as a "loan commitment."

**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.

**Community Home Improvement Mortgage Loan**

An alternative financing option that allows low- and moderate-income home buyers to obtain 95 percent financing for the purchase and improvement of a home in need of modest repairs. The repair work can account for as much as 30 percent of the appraised value.

**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.

**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.

**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.

**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.

**consumer reporting agency (or bureau)**

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.

**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.

**contract**

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

**conventional mortgage**

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

**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.

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**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.

**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 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 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. See merged credit report.

**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.

**debt**

An amount owed to another.

**deed**

The legal document conveying title to a property.

**deed-in-lieu**

A deed given by a mortgagor to the mortgagee to satisfy a debt and avoid foreclosure.

**deed of trust**

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

**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.

**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.

**depreciation**

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

**down payment**

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

**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.

**earnest money deposit**

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

**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.

**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.



**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.

**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.

**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.

**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 congressionally chartered, shareholder-owned company that is the nation's largest supplier of home mortgage funds.

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## **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 home-buyer 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.

## **fee simple**

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

## **FHA mortgage**

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

## **finder's fee**

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

## **first mortgage**

A mortgage that is the primary lien against a property.

## **fixed-rate mortgage (FRM)**

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

## **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.

## **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.

## **good faith estimate**

An estimate of charges which a borrower is likely to incur in connection with a settlement.

## **hazard insurance**

Insurance protecting against loss to real estate caused by fire, some natural causes, vandalism, etc., depending upon the terms of the policy.

**housing ratio**

The ratio of the monthly housing payment in total (PITI - Principal, Interest, Taxes, and Insurance) divided by the gross monthly income. This ratio is sometimes referred to as the top ratio or front end ratio.

**HUD**

The U.S. Department of Housing and Urban Development.

**index**

A published interest rate to which the interest rate on an Adjustable Rate Mortgage (ARM) is tied. Some commonly used indexes include the 1 Year Treasury Bill, 6 Month LIBOR, and the 11th District Cost of Funds (COFI).

**lien**

An encumbrance against property for money due, either voluntary or involuntary.

**lifetime cap**

A provision of an ARM that limits the highest rate that can occur over the life of the loan.

**loan to value ratio (LTV)**

The ratio of the amount of your loan to the appraised value of the home. The LTV will affect programs available to the borrower and generally, the lower the LTV the more favorable the terms of the programs offered by lenders.

**lock-in**

A written agreement guaranteeing the home buyer a specified interest rate provided the loan is closed within a set period of time. The lock-in also usually specifies the number of points to be paid at closing.

**margin**

The number of percentage points a lender adds to the index value to calculate the ARM interest rate at each adjustment period. A representative margin would be 2.75%.

**mortgage**

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

**mortgage disability insurance**

A disability insurance policy which will pay the monthly mortgage payment in the event of a covered disability of an insured borrower for a specified period of time.

**mortgage insurance (MI)**

Insurance written by an independent mortgage insurance company protecting the mortgage lender against loss incurred by a mortgage default. Usually required for loans with an LTV of 80.01% or higher.

**mortgagee**

The person or company who receives the mortgage as a pledge for repayment of the loan. The mortgage lender.

**mortgagor**

The mortgage borrower who gives the mortgage as a pledge to repay.

**non-conforming loan**

Also called a jumbo loan. Conventional home mortgages not eligible for sale and delivery to either Fannie Mae (FNMA) or Freddie Mac (FHLMC) because of various reasons, including loan amount, loan characteristics or underwriting guidelines. Non-conforming loans usually incur a rate and origination fee premium. Contact Us for the current non-conforming loan limit.

**note**

A written agreement containing a promise of the signer to pay to a named person, or order, or bearer, a definite sum of money at a specified date or on demand.

**origination fee**

A fee imposed by a lender to cover certain processing expenses in connection with making a real estate loan. Usually a percentage of the amount loaned, such as one percent.

**owner financing**

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

**Planned Unit Developments (PUD)**

A subdivision of five or more individually owned lots with one or more other parcels owned in common or with reciprocal rights in one or more other parcels.

**PITI**

Principal, interest, taxes and insurance--the components of a monthly mortgage payment.

**points**

Charges levied by the mortgage lender and usually payable at closing. One point represents 1% of the face value of the mortgage loan.

**prepaids**

Those expenses of property which are paid in advance of their due date and will usually be prorated upon sale, such as taxes, insurance, rent, etc.

**prepayment penalty**

A charge imposed by a mortgage lender on a borrower who wants to pay off part or all of a mortgage loan in advance of schedule.

**principal**

Amount of debt, not including interest. The face value of a note or mortgage.

**private mortgage insurance (PMI)**

Insurance provided by nongovernment insurers that protects lenders against loss if a borrower defaults. Fannie Mae generally requires private mortgage insurance for loans with loan-to-value (LTV) percentages greater than 80%.

**qualifying ratios**

The ratio of your fixed monthly expenses to your gross monthly income, used to determine how much you can afford to borrow. The fixed monthly expenses would include PITI along with other obligations such as student loans, car loans, or credit card payments.

**rate cap**

A limit on how much the interest rate can change, either at each adjustment period or over the life of the loan.

**rate lock-in**

A written agreement in which the lender guarantees the borrower a specified interest rate, provided the loan closes within a set period of time.

**rebate**

Compensation received from a wholesale lender which can be used to cover closing costs or as a refund to the borrower. Loans with rebates often carry higher interest rates than loans with "points" (see above).

**refinancing**

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

**residential mortgage credit report (RMCR)**

A report requested by your lender that utilizes information from at least two of the three national credit bureaus and information provided on your loan application.

**seller carry back**

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

**survey**

A print showing the measurements of the boundaries of a parcel of land, together with the location of all improvements on the land and sometimes its area and topography.

**tenants-in-common**

An undivided interest in property taken by two or more persons. The interest need not be equal. Upon death of one or more persons, there is no right of survivorship.

**title**

The evidence one has of right to possession of land.

**title insurance**

Insurance against loss resulting from defects of title to a specifically described parcel of real property.

**title search**

An investigation into the history of ownership of a property to check for liens, unpaid claims, restrictions or problems, to prove that the seller can transfer free and clear ownership.

**total debt ratio**

Monthly debt and housing payments divided by gross monthly income. Also known as Obligations-to-Income Ratio or Back-End Ratio.

**Truth-in-Lending Act**

A federal law requiring a disclosure of credit terms using a standard format. This is intended to facilitate comparisons between the lending terms of different financial institutions.

**Veterans Administration (VA)**

A government agency guaranteeing mortgage loans with no down payment to qualified veterans.