Glossary of Common Real Estate and Foreclosure Terms*

Amortization: repayment of a mortgage loan through monthly installments of principal and interest; the monthly payment amount is based on a schedule that will allow you to own your home at the end of a specific time period (for example, 15 or 30 years).

Annual Percentage Rate (APR): calculated by using a standard formula, the APR shows the cost of a loan; expressed as a yearly interest rate, it includes the interest, points, mortgage insurance, and other fees associated with the loan.

Appraisal: a document that gives an estimate of a property's fair market value; an appraisal is generally required by a lender before loan approval to ensure that the mortgage loan amount is not more than the value of the property.

ARM: Adjustable Rate Mortgage; a mortgage loan subject to changes in interest rates; when rates change, ARM monthly payments increase or decrease at intervals determined by the lender; the change in monthly -payment amount, however, is usually subject to a cap.

Assessor: a government official who is responsible for determining the value of a property for the purpose of taxation.

Assumable mortgage: a mortgage that can be transferred from a seller to a buyer; once the loan is assumed by the buyer the seller is no longer responsible for repaying it; there may be a fee and/or a credit package involved in the transfer of an assumable mortgage.

Balloon Mortgage: a mortgage that typically offers low rates for an initial period of time (usually 5, 7, or 10) years; after that time period elapses, the balance is due or is refinanced by the borrower.

Bankruptcy: a federal law whereby a person's assets are turned over to a trustee and used to pay off outstanding debts; this usually occurs when someone owes more than they have the ability to repay.

Borrower: a person who has been approved to receive a loan and is then obligated to repay it and any additional fees according to the loan terms.

Cap: a limit, such as that placed on an adjustable rate mortgage, on how much a monthly payment or interest rate can increase or decrease.

Cash reserves: a cash amount sometimes required to be held in reserve in addition to the down payment and closing costs; the amount is determined by the lender.

Certificate of title: a document provided by a qualified source (such as a title company) that shows the property legally belongs to the current owner; before the title is transferred at closing, it should be clear and free of all liens or other claims.

Closing costs: customary costs above and beyond the sale price of the property that must be paid to cover the transfer of ownership at closing; these costs generally vary by geographic location and are typically detailed to the borrower after submission of a loan application.

Conventional loan: a private sector loan, one that is not guaranteed or insured by the U.S. government.

Credit history: history of an individual's debt payment; lenders use this information to gauge a potential borrower's ability to repay a loan.

Credit report: a record that lists all past and present debts and the timeliness of their repayment; it documents an individual's credit history.

Credit bureau score: a number representing the possibility a borrower may default; it is based upon credit history and is used to determine ability to qualify for a mortgage loan.

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Debt-to-income ratio: a comparison of gross income to housing and non-housing expenses; With the FHA, the-monthly mortgage payment should be no more than 29% of monthly gross income (before taxes) and the mortgage payment combined with non-housing debts should not exceed 41% of income.

Deed: the document that transfers ownership of a property.

Deed-in-lieu: to avoid foreclosure ("in lieu" of foreclosure), a deed is given to the lender to fulfill the obligation to repay the debt; this process doesn't allow the borrower to remain in the house but helps avoid the costs, time, and effort associated with foreclosure.

Default: the inability to pay monthly mortgage payments in a timely manner or to otherwise meet the mortgage terms.

Delinquency: failure of a borrower to make timely mortgage payments under a loan agreement.

Discount point: normally paid at closing and generally calculated to be equivalent to 1% of the total loan amount, discount points are paid to reduce the interest rate on a loan.

Equity: an owner's financial interest in a property; calculated by subtracting the amount still owed on the mortgage loan(s) from the fair market value of the property.

Escrow account: a separate account into which the lender puts a portion of each monthly mortgage payment; an escrow account provides the funds needed for such expenses as property taxes, homeowners insurance, mortgage insurance, etc.

Fair Housing Act: a law that prohibits discrimination in all facets of the home buying process on the basis of race, color, national origin, religion, sex, familial status, or disability.

Fannie Mae: Federal National Mortgage Association (FNMA); a federally-chartered enterprise owned by private stockholders that purchases residential mortgages and converts them into securities for sale to investors; by purchasing mortgages, Fannie Mae supplies funds that lenders may loan to potential homebuyers.

FHA: Federal Housing Administration; established in 1934 to advance homeownership opportunities for all Americans; assists homebuyers by providing mortgage insurance to lenders to cover most losses that may occur when a borrower defaults; this encourages lenders to make loans to borrowers who might not qualify for conventional mortgages.

Fixed-rate mortgage: a mortgage with payments that remain the same throughout the life of the loan because the interest rate and other terms are fixed and do not change.

Foreclosure: a legal process in which mortgaged property is sold to pay the loan of the defaulting borrower.

Freddie Mac: Federal Home Loan Mortgage Corporation (FHLM); a federally-chartered corporation that purchases residential mortgages, securitizes them, and sells them to investors; this provides lenders with funds for new homebuyers.

Good faith estimate: an estimate of all closing fees including pre-paid and escrow items as well as lender charges; must be given to the borrower within three days after submission of a loan application.

Homeowner's insurance: an insurance policy that combines protection against damage to a dwelling and is contents with protection against claims of negligence or inappropriate action that result in someone's injury or property damage.

Housing counseling agency: provides counseling and assistance to individuals on a variety of issues, including loan default, fair housing, and home buying.

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HUD: the U.S. Department of Housing and Urban Development; established in 1965, HUD works to create a decent home and suitable living environment for all Americans; it does this by addressing housing needs, improving and developing American communities, and enforcing fair housing laws.

HUD1 Statement: also known as the "settlement sheet," it itemizes all closing costs; must be given to the borrower at or before closing.

Index: a measurement used by lenders to determine changes to the Interest rate charged on an adjustable rate mortgage.

Inflation: the number of dollars in circulation exceeds the amount of goods and services available for purchase; inflation results in a decrease in the dollar's value.

Interest: a fee charged for the use of money.

Interest rate: the amount of interest charged on a monthly loan payment; usually expressed as a percentage.

Judgment: a legal decision; when requiring debt repayment, a judgment may include a property lien that secures the creditor's claim by providing a collateral source.

Lease purchase: assists low- to moderate-income homebuyers in purchasing a home by allowing them to lease a home with an option to buy; the rent payment is made up of the monthly rental payment plus an additional amount that is credited to an account for use as a down payment.

Lien: a legal claim against property that must be satisfied when the property is sold.

Loan fraud: purposely giving incorrect information on a loan application in order to better qualify for a loan; may result in civil liability or criminal penalties.

Loan-to-value (LTV) ratio: a percentage calculated by dividing the amount borrowed by the price or appraised value of the home to be purchased; the higher the LTV, the less cash a borrower is required to pay as down payment.

Lock-in: since interest rates can change frequently, many lenders offer an interest rate lock-in that guarantees a specific interest rate if the loan is closed within a specific time.

Loss mitigation: a process to avoid foreclosure; the lender tries to help a borrower who has been unable to make loan payments and is in danger of defaulting on his or her loan.

Margin: an amount the lender adds to an index to determine the interest rate on an adjustable rate mortgage.

Mortgage: a lien on the property that secures the promise to repay a loan.

Mortgage banker: a company that originates loans and resells them to secondary mortgage lenders like Fannie Mae or Freddie Mac.

Mortgage broker: a firm that originates and processes loans for a number of lenders.

Mortgage insurance: a policy that protects lenders against some or most of the losses that can occur when a borrower defaults on a mortgage loan; mortgage insurance is required primarily for borrowers with a down payment of less than 20% of the home's purchase price.

Mortgage insurance premium (MIP): a monthly payment -usually part of the mortgage payment - paid by a borrower for mortgage insurance.

Mortgage Modification: a loss mitigation option that allows a borrower to refinance and/or extend the term of the mortgage loan and thus reduce the monthly payments.

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Partial Claim: a loss mitigation option offered by the FHA that allows a borrower, with help from a lender, to get an interest-free loan from HUD to bring their mortgage payments up to date.

PITI: Principal, Interest, Taxes, and Insurance - the four elements of a monthly mortgage payment; payments of principal and interest go directly towards repaying the loan while the portion that covers taxes and insurance (homeowner's and mortgage, if applicable) goes into an escrow account to cover the fees when they are due.

PMI: Private Mortgage Insurance; privately-owned companies that offer standard and special affordable mortgage insurance programs for qualified borrowers with down payments of less than 20% of a purchase price.

Pre-foreclosure sale: allows a defaulting borrower to sell the mortgaged property to satisfy the loan and avoid foreclosure.

Pre-qualify: a lender informally determines the maximum amount an individual is eligible to borrow.

Premium: an amount paid on a regular schedule by a policyholder that maintains insurance coverage.

Prepayment: payment of the mortgage loan before the scheduled due date; may be subject to a prepayment penalty.

Principal: the amount borrowed from a lender; doesn't include interest or additional fees.

REALTOR: a real estate agent or broker who is a member of the NATIONAL ASSOCIATION OF REALTORS, and its local and state associations.

Refinancing: paying off one loan by obtaining another; refinancing is generally done to secure better loan terms (like a lower interest rate).

Rehabilitation mortgage: a mortgage that covers the costs of rehabilitating (repairing or improving) a property; some rehabilitation mortgages - like the FHA's 203(k) - allow a borrower to roll the costs of rehabilitation and home purchase into one mortgage loan.

Special Forbearance: a loss mitigation option where the lender arranges a revised repayment plan for the borrower that may include a temporary reduction or suspension of monthly loan payments.

Subordinate: to place in a rank of lesser importance or to make one claim secondary to another.

Title insurance: insurance that protects the lender against any claims that arise from arguments about ownership of the property; also available for homebuyers.

Title search: a check of public records to be sure that the seller is the recognized owner of the real estate and that there are no unsettled liens or other claims against the property.

Truth-in-Lending: a federal law obligating a lender to give full written disclosure of all fees, terms, and conditions associated with the loan initial period and then adjusts to another rate that lasts for the term of the loan.

Underwriting: the process of analyzing a loan application to determine the amount of risk involved in making the loan; it includes a review of the potential borrower's credit history and a judgment of the property value.

VA: Department of Veterans Affairs: a federal agency which guarantees loans made to veterans; similar to mortgage insurance, a loan guarantee protects lenders against loss that may result from a borrower default.

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