

GLOSSARY

1003 form

Commonly used mortgage loan application developed by Fannie Mae. Sometimes called the Uniform Residential Loan Application.

Acceptance

A verbal or written acceptance of an offer to buy a home, made from the seller to the buyer.

Acre

A land measurement commonly used in U.S. property negotiations. One acre equals 43,560 square feet.

Adjustable rate mortgage, ARM

A mortgage loan that allows the interest rate to fluctuate at specific intervals over the life of the loan. Typically, an ARM begins with an initial interest rate, which may fluctuate, but monthly payments may not exceed the loan cap.

Amortization

A gradual paying off of a debt through periodic installments.

Annual percentage rate, APR

The effective rate of interest for a loan per year. Disclosure of this is required by the Truth-In-Lending Law.

Appreciation

An increase in the value of the property. This can be caused by improvements in the market, renovations, home additions and other changes.

Assessed value

The value determined by local assessors used for property tax purposes.

Assumable mortgage

The purchase of a mortgaged property where the buyer accepts liability for the debt that still exists.

Attorney fees

Fees that may be due during closing.

Balloon mortgage

A mortgage with a Balloon Payment (see definition).

Balloon payment

The final payment on a loan, when the last payment is greater than the previous installment payments and will pay the loan in full.

Borrower

The individual or individuals extended a loan and mortgage for the purchase of a house and/or property. Borrower is responsible for making all payments and fees associated with the loan over the life of the loan.

Buy down

The action to pay additional discount points to a lender in exchange for a reduced rate of interest on a loan and the reduced rate may apply for all or a portion of the loan term; a loan that has been bought down by the seller of the property for the buyer's benefit.

Buyer's agent

An agent hired by the prospective buyer to find a property to purchase. They represent the buyer and negotiate the purchase deal with the seller.

Cap

On an adjustable rate mortgage, this is a limit placed on adjustments to protect the borrower from large increases in the interest rate or the payment amount.

Capital gain

The gain on a sale of a capital asset such as property.

Capital gain tax

The tax on the profit made on the sale of a home and/or property.

Cash out refinance

Refinancing a mortgage loan where the new loan is larger than the balance of the old loan. After refinancing the borrower receives the cash proceeds from the transaction.

Closing

The act of transferring ownership of a property from the seller to the buyer in accordance with the sales contract.

Closing agent

A third party (not the buyer, seller, broker or sales agent) who prepares the paperwork and conducts the closing.

Closing costs

Loan related fees payable by the seller and buyer at the time of closing.

Closing statement

An accounting of the funds from the real estate sale made to both the buyer and seller.

Co-borrower

An additional borrower who has good credit and agrees to be responsible along with the primary borrower.

Commitment letter

A document from a lender to a borrower that officially lays out the terms of a loan.

Comparable sales, comps

Similar home sale prices in the region used as a metric in the calculation of a home's appraised value.

Conforming loan

A conventional loan characterized by loan limits that fall within those guidelines laid out by the Government Sponsored Enterprises (GSEs) such as Freddie Mac and Fannie Mae.

Contingency

Any one of a number of common clauses added to real estate agreements that provide buyer or seller rights during various stages of a transaction.

Conventional mortgage

A mortgage offered by any one of the Government sponsored entities, different from an FHA loan.

Credit

Money extended from a lender to a borrower based on that borrower's credit history.

Date of closing

Date upon which all paperwork associated with a mortgage/property sales exchange is finalized.

Date of possession

Actual date upon which the buyer will move into a home or property; it is usually the closing date, but may be another agreed upon date as well.

Debt

Amount of money a borrower owes to creditors. A metric used to calculate creditworthiness.

Deed

An official and public document that establishes property ownership.

Deed of reconveyance

When a borrower has paid in full on a mortgage, the lender then awards the borrower a deed of reconveyance. This document becomes also a part of public record. Also known as reconveyance deed and recon.

Deed of trust

A document that in some states is used in place of a mortgage. A deed of trust may be held by a third party, similar to a mortgage.

Default

Inability of borrower to make regular and consecutive payments on a loan.

Depreciation

The measure of loss in value of a home or property. Depreciation could be driven by poor economic factors or property damage.

Discount points

A measure of interest; 1 point = 1% of the home loan value. Homebuyers may pay points up front, a type of buy-down, in order to lower their overall interest rate and mortgage payment.

Earnest money

A sum of money usually put up by the buyer when an offer on a home or property is made. The purpose of earnest money is as a token of good faith, a symbol that the buyer is seriously pursuing purchase.

Equity

The measurable value of a home or property above and beyond that owed on a loan. A value upon which many homeowners often borrow.

Escrow account

A separate account held by a mortgage lender out of which required property bills, separate from the loan payment, are made. Property taxes and insurance are examples of costs paid out of escrow. Sometimes called an "impound account."

Fair-market-value

The price that a piece of property will bear in the current market.

Fannie Mae

A private mortgage corporation that began as a government subsidized entity in the late 30s. Today Fannie Mae, along with Freddie Mac, is a government sponsored enterprise (GSE) and together they are responsible for setting annual conforming loan limits and assuring that most Americans are able to finance a home. Fannie Mae is commonly known as a secondary mortgage market and lends to mortgage lenders which in turn extend mortgages to borrowers.

First time buyer

A home loan borrower who has never taken out a mortgage before; often qualifies for various discounts and first-time buyer perks.

Fixed rate mortgage

A conventional mortgage that is outfitted with a fixed interest rate over the life of the loan. Monthly payments are the same from month to month.

Flood certification

In most real estate cases a lender will require a flood certification before making a loan on a home. In areas where a property falls in a flood zone, the borrower may be required to purchase standalone flood insurance before a mortgage and/or home loan is approved.

Foreclosure

The repossession of a home and/or property by a lender in the event of borrower loan default or the inability to meet mortgage agreements.

Freddie Mac

In concert with Fannie Mae, Freddie Mac is a leading government sponsored enterprise (GSE) and is responsible for maintaining reasonable mortgage market stability, this assuring that Americans are able to

purchase homes. Freddie Mac is a secondary mortgage market, meaning the corporation lends to lenders, which in turn extend mortgage products directly to borrowers.

Good Faith Estimate

An itemized list of anticipated loan costs and closing fees passed from a lender to a potential borrower within three days of an application for a home loan. This is a required step in the loan application process per the Real Estate Settlement Procedures Act.

Hazard insurance

Also known as homeowner's insurance; extra insurance taken out on a home that protects the borrower and lender in the event of damage. Usually covers the value of the home.

Home inspection

A comprehensive and exhaustive examination of a home by a licensed inspector. Often required as part of a mortgage and home loan process.

Home inspection contingency clause

A clause added to an offer letter that gives the buyer certain rights pending home inspection. A buyer may ask the seller to repair defects discovered during the home inspection or even request release from the offer to buy in light of a home inspection.

Home loan

Not a mortgage, but the actual amount of money a buyer owes the lender in the purchase of a home.

Home price index

Financial and market tool that provides historical data on residential home prices in various regions.

Homeowner's association

An association attached to a neighborhood, apartment, condo or town home complex that establishes certain rules of ownership. Common, but not exhaustive, responsibilities of a homeowner's association includes collection of neighborhood dues for landscape maintenance or membership in recreation and entertainment facilities.

Homeowner's insurance

Insurance that protects the value of the home for both lender and borrower. Homeowner's insurance typically covers the cost of replacing the home and various parts of the same. Most mortgage lenders require borrowers to carry a term of insurance.

Impound account

See, **Escrow account**.

Initial interest rate, introductory

The interest rate at which an Adjustable Rate Mortgage, ARM, will begin. See **Adjustable rate mortgage**

Interest rate

A figure calculated as a percentage that is used in the financial industry to indicate the rate charged for use of money in a loan. Interest rates may be fixed or variable. See, **Annual percentage rate**

Investment property

Real estate bought for investment purposes as opposed to private residential. Often the property will be used for rental purposes, such as rental home, apartments or other spaces that give owners the opportunity to create profit and income over the long term.

Joint ownership

A type of property ownership in which two people share equally in a home and/or property; common for spouses.

Joint tenancy

A type of property ownership in which two *or more* people share.

Jumbo mortgage

A type of high-risk loan, or non-conforming loan, in which the loan limit is higher than that of a conventional loan.

Lender fees

Typically included in fees associated with closing costs, sometimes called processing fees; designed to cover costs incurred by lenders during the loan process.

Lender, mortgage lender

The bank or finance company that directly awards home loan or mortgage money to a borrower or homebuyer. Legal-mortgagee.

Lien

A formal, legal symbol of money owed on a major asset such as property. Also, mortgage.

Loan

Money lent from a financial institution to a creditworthy borrower(s) over a specified period of time and at a particular interest rate.

Maturity

Typically applied to the term of a home loan or mortgage; the life span of a mortgage; for example, a 15-year loan matures in 15 years, the period of time in which the debt must be paid off.

Mortgage

A legal document between a mortgagor and a mortgagee that establishes a home and/or property as security for a home loan.

Mortgage broker

The entity that acts as a go-between between a homebuyer and mortgage lender, handling paperwork and finally effecting a mortgage. A broker does not make direct loans to buyers, but works to find the best deal and finally collects fees as part of the mortgage process.

Mortgage calculators

Online financial tools available on many sites that allow potential buyers to plug in various personal financial figures to arrive at a mortgage value they can afford.

Mortgage company

Could be either a brokerage business or a direct lender.

Mortgage insurance

When buyers take out a mortgage with less than a certain dollar percentage to put down on the loan, lenders require them to pay mortgage insurance, a monthly premium that is added to the mortgage. This protects the lender should a buyer default on the home loan.

Mortgage Insurance Premium, MIP

A required 1.5% fee added into a FHA loan, paid at closing.

Mortgage originator

The actual company that lends the mortgage, the "originator."

No-fee mortgage

A sales tactic to attract buyers who may be unable to pay out of pocket closing fees. Typically a no-fee or no-cost mortgage is bundled with a slightly higher interest rate that more than makes up the difference in so-called "no fees" over the life of the loan.

Notice of Incomplete Application, NOIA

A form sent to the buyer that indicates missing or incomplete loan application information. Buyer must provide all required information for the lender to complete the application process.

Offer

A verbal and written offer to buy a home for a certain dollar amount made from a buyer to a seller.

Origination fee

A fee, calculated as a small percentage of the value of the loan, charged by a mortgage lender for processing the loan. One of many fees often due at closing and one that must be disclosed on the Good Faith Estimate when a buyer first completes a loan application.

Payment cap

For an adjustable rate mortgage, this is the maximum payment amount a buyer could ever be expected to pay per month.

Power of attorney

A legal document that grants an individual the rights to act on behalf of another. For example, if a borrower dies or becomes incapable of managing his or her home loan or mortgage, a power of attorney assigned by that individual could manage his or her mortgage and related decisions.

Preferred lender

A lender that is closely affiliated with a brokerage based on reputation and other industry factors. A mortgage lender that is recommended by a broker.

Pre-paid costs or fees

Any of a number of fees associated with a mortgage and usually paid out of pocket at the time of closing; includes origination fees, underwriting fees, attorney fees, etc.

Pre-qualification

The process in which a homebuyer may find out how much of a home loan he or she would be approved for with a lender; gives many buyers more flexibility when shopping for a home.

Primary mortgage market

Direct lenders.

Prime loan

A conforming loan, one whose loan limits fall within those set by Fannie Mae or Freddie Mac and often awarded to borrowers with good credit.

Principal

The amount borrowed on a home loan.

Principal balance

The amount currently owed on a home loan.

Private mortgage insurance, PMI

A type of insurance many homebuyers are required to purchase, particularly when they are unable to put down a certain dollar amount on the loan; protects the lender in the event of borrower default.

Processing fees

Lender fees associated with creating the loan or mortgage, usually part of closing costs.

Property address

The physical street address of a home or property, required for mortgage application.

Property appraisal

A fair market value of property performed by a licensed appraiser; takes into account not only condition, but also the value of similar local properties or comparable sales.

Property taxes

Annual local taxes charged against the value of a homeowner's property.

Property valuation

See **Property appraisal**.

Quit claim deed

A document that releases one party in a home title from any responsibility and grants all responsibility to another. Commonly used for spouses or in family situations in which more than one individual has an interest in a mortgage or property title.

Rate commitment option, RCO

See **Rate lock**.

Rate lock

A short-term agreement by a lender to "hold" a certain interest rate on a home loan while the buyer negotiates a sale transaction. Also, Rate commitment option.

Real estate investment trust

Securities or mutual funds that invest directly in real estate.

Real Estate Settlement Procedures Act (RESPA)

This act passed in 1974 reeled in hidden costs, fees and kickbacks that had become widespread among real estate entities. Per this act all fees and costs must be disclosed to both buyers and sellers.

Real estate tax

See **Property tax**.

Refinance

Process by which a borrower/homeowner may negotiate a lower interest rate on a mortgage, thereby lowering monthly payments.

Remaining balance

The current balance owed on a home loan.

Remaining term

The current amount of time remaining in the length of the loan.

Repayment schedule

Mortgage payments laid out over the life of the loan. Some mortgage calculators let borrowers see their repayment schedule based on the amount of the home loan, the interest rate and monthly payments. See also Amortization.

Sales contract

A real estate sales agreement is a formal written contract made between a homebuyer and seller. The document includes property address, condition, purchase price, inspections, date of closing, date of possession and more.

Second mortgage

Also known as a home equity loan, a second mortgage gives borrowers flexibility to access the cash equity in their home, usually useful for other high-dollar expenses such as auto and college loans.

Secondary mortgage market

The segment of the mortgage and real estate securities market that deals in the investment of mortgages; not direct mortgage lenders.

Seller's agent

A real estate agent that works on behalf of the home seller.

Short sale

Useful tool for lenders and homeowners when foreclosure could be a worst-case scenario. In a real estate short-sale lenders give homeowners permission to discount the home value (an outstanding loan balance) to effect a quick sale, thereby averting foreclosure.

Speculative home market

One in which investors snatch up homes for quick re-sale hoping to cash in on improving markets; considered risky by some.

Sub-prime loan

A high-risk loan packaged with non-conforming loan limits and interest rates that make it possible for homebuyers with poor credit to qualify for a mortgage.

Survey

A formal survey of property that establishes boundary lines and defines any types of limits on construction and other features that could affect the value of property; in many cases lenders require buyers to purchase a property survey.

Tenancy in common

One or more persons may possess the property title, but ownership may be declared in various percentages.

Third-party fees

See **Closing costs**.

Title

The official document used in the real estate industry that specifies at any one time who owns a piece of property.

Title company

A title company typically handles all tasks associated with the property title, including insurance and search.

Title insurance

Insurance taken out on the property title that protects both borrower and lender in the event of a title dispute.

Title search

Research on a property title usually conducted by a title company to determine if there exist any outstanding liens against the property prior to a sales transaction.

Truth in Lending disclosure

A document that all lenders are required to provide when a borrower applies for a home loan. The document discloses interest rates, the amount to be loaned, plus the final cost of the loan upon maturity.

Underwriter

The company or service that evaluates a borrower's creditworthiness prior to loan and mortgage approval.

Warranty deed

Indicates no past liens or disputes against the property; the holder of the property deed has the right to sell it to another.