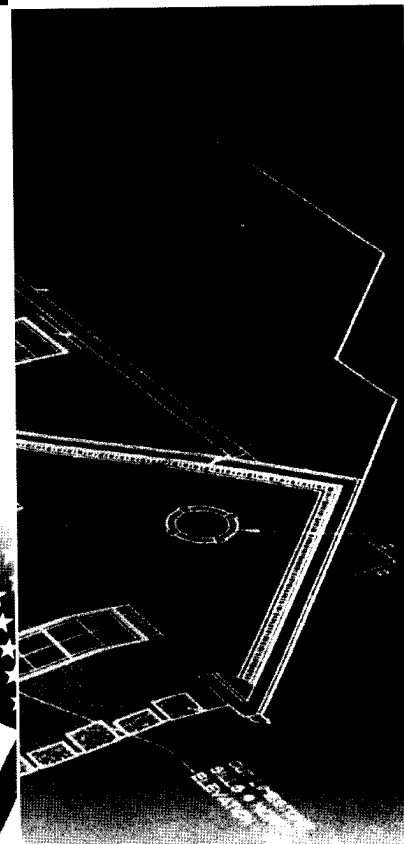


Glossary of *Terms*





Glossary of Terms

Adjustable Rate Mortgage: A loan that adjusts on a regular schedule based on a national economic index and the lender's margin. Also called "variable rate mortgage."

AFUE Rating: Annual Fuel Utilization Efficiency rating for high-efficiency furnace.

Amortization: The process of paying off a loan with regular payments over a fixed time period.

Amortization Schedule: A timetable for payment of a mortgage showing the amounts of each payment that are applied to interest and principal, as well as the remaining balance.

Annual Percentage Rate (APR): The cost of borrowing money expressed as a yearly rate, which includes the interest, points and other fees charged by the lender.

Application Fee: A one-time fee charged by a lender for processing a borrower's application for a mortgage loan. Sometimes the application fee covers the cost of the appraisal and credit report.

Appraisal: A professional opinion of the market value of a property.

Appreciation: An increase in the value of a house due to changes in market conditions, home improvement or other factors.

Assessed Value: The value placed on a house by a public tax assessor for the purpose of determining property taxes.

Asset: Anything an individual owns that has commercial or exchange value.

Automated Underwriting: A computer-based method mortgage lenders use to process and approve or deny loan applications more quickly, using credit scores and other loan application data.

Balloon Payment Mortgage: A loan with fixed monthly payments based on a 30-year schedule of payments on which the entire balance of the loan comes due at the end of a set period, usually five, seven or 10 years.

Bank: A depository institution chartered under federal and state regulations that offers services such as checking accounts, savings accounts, consumer loans, safe-deposit boxes, investment services and automatic payment of bills.

Bankruptcy: A legal proceeding declaring that an individual is unable to pay debts, which may release the person from repaying debts owed.

Biweekly Mortgage: A loan in which you qualify for a 30-year schedule of monthly payments at current interest rates but make payments every two weeks to pay off the loan sooner and save money on interest charges.

Borrower: The person who obtains a mortgage loan. Also called a “mortgagor.”

Budget: A financial plan for spending and saving money. Also called “spending plan.”

Building Permit: A written permit that must be purchased from the local government by anyone doing remodeling or rehabilitation work on a property.

Buy-Downs: Points a borrower pays in advance to lower the interest rate. Also called “discount points.”

Buyer's Agent: A real estate professional who enters into a contract-of-agency relationship with the buyer and typically gets paid by splitting the sales commission with the selling, or listing, agent.

Cap: The maximum amount an interest rate can increase or decrease in a designated period of time (interest rate cap) or over the life of the loan (lifetime cap) on an adjustable-rate loan.

Capacity: An applicant's ability to earn enough income to make mortgage loan payments and still pay all other living expenses. One of the “4 C's of credit.”

Capital: The funds a potential homebuyer has available for the upfront costs of homeownership, such as the down payment and closing costs. One of the “4 C's of credit.”

Cash-Out Refinance: When an owner refinances a loan and takes some equity out as cash.

Cash Reserves: A requirement of some lenders that buyers have sufficient cash remaining after closing to make the first several mortgage payments.

Chapter 7 Bankruptcy: A form of bankruptcy that involves total liquidation of assets. Also called “straight bankruptcy.”

Chapter 13 Bankruptcy: A form of bankruptcy that involves a wage-earner repayment plan.

Charge Off: An accounting term to indicate that the creditor does not expect to collect the balance owed on an account. Most creditors continue to pursue collection of the debt.

Chattel: A loan secured against personal property, which is common in the financing of manufactured homes.

Clear Title: A title that is free of liens and legal questions about the ownership of the property.

Closing: The final step in the transfer of property ownership, which usually occurs at a formal meeting between the buyer, seller, settlement agent and possibly real estate agents, where the buyer signs the mortgage and mortgage note, the seller receives payment for the property, the buyer or seller or both pay closing costs and the title is transferred from the seller to the buyer. Also called “settlement.”

Closing Costs: Expenses incurred over and above the purchase price of the property by buyers and sellers in transferring ownership of a property. Also called “settlement costs.”

Collateral: Property accepted as security for a loan; one of the “4 C’s of credit” that measures the value and condition of the house to make sure it is worth at least as much as is being borrowed.

Collection Account: A delinquent account that has been transferred from a routine debt to a collection department of the creditor’s firm or to a professional debt collection firm.

Commission: The fee a real estate agent is paid for helping sell a house; it is usually a percentage of the purchase price.

Community Land Trust: A type of ownership where the borrower owns the house but the land remains under the ownership of an outside entity (local municipality or non-profit organization); used to provide more affordable housing in the community.

Commitment Letter: A formal offer by a lender stating the terms under which it agrees to lend money to a homebuyer.

Community Property: Type of ownership where everything that is acquired during marriage belongs equally to each party.

Community Reinvestment Act (CRA): A federal law that requires lenders to meet the credit needs of their local communities.

Comparative Market Analysis (CMA): A written analysis of comparable houses currently being offered for sale and comparable houses sold in the past six months.

Condominium: A home that is attached to other homes and shares common areas that everyone in the building or development owns together and maintains through a homeowners association fee.

Contingency: A condition put in an offer to buy a home.

Contract for Deed: A type of seller financing in which the buyer makes the down payment and installment payments to the seller, but there is no transfer of title for the borrower to own the home until the loan is fully repaid or the property is refinanced.

Contractor: An individual hired to build, remodel or rehabilitate a property.

Conventional Mortgage: A loan made by for-profit lenders and not insured by the federal government.

Cooperative: A type of group ownership where all members own the property's living units and common areas by owning shares in the property.

Co-signer: A person who agrees to share credit responsibilities and repays the debt if the borrower defaults.

Counteroffer: A response from a seller changing some of the terms of an original offer.

Covenant: A specific agreement or regulation, which is legally enforceable and is transferred with the deed to the new owner, governing the use of a property. Also called covenants, conditions and restrictions (CC&R), deed restrictions or restrictive covenants.

Credit: The granting of money in exchange for a promise of future repayment.

Credit Counseling: Advice given by professional counselors to inform people about how to use credit responsibly and how to get out of debt.

Credit History: A record kept by the credit reporting agencies of how a borrower has repaid loans. One of the "four C's of credit" that measures an applicant's likeliness to repay a home loan based on how previous debts have been handled.

Creditor: Any person or business to whom a consumer owes money and who has the right to undertake legal action to collect money owed.

Credit Report: A record of how a consumer has repaid credit in the past, used as a guide to determine a potential homebuyer's creditworthiness.

Credit Reporting Agency: A company that gathers, files and sells information to creditors and others with a legitimate business purpose. Also called "credit bureau."

Credit Score: A numerical value based on the analysis of a credit report that is used by creditors to predict how likely an individual is to repay a new loan.

Credit Union: A financial institution that is a cooperative and offers savings and checking accounts and other financial services for its members.

Debt: Money owned. Also called "liability."

Debt Management Plan: A bill-payment plan for a borrower in a credit emergency that is agreed to by the borrower and creditors.

Debt-to-Income Ratio: The maximum percentage of a borrower's gross monthly income that can be spent on the house payment and all other creditor debts. Also called "back-end ratio."

Deductible: The amount of cash payment required by an insurance policy that is made by the homeowner to cover a portion of a damage or loss. Typically the higher the deductible, the lower the cost of the policy. Also called "out-of-pocket expenses."

Deed: A legal document conveying title to a property. Also called “grant deed” or “warranty deed.”

Deed-In-Lieu: An agreement where a delinquent borrower gives the lender the deed and the keys and moves out of the property in exchange for forgiveness of the loan. Also called deed-in-lieu of foreclosure.

Deed of Trust: An alternative to a mortgage in some states, whereby a third party holds the deed of the property as security until the buyer repays the loan. Also called “trust deed.”

Default: Failure to meet financial obligations, which may result in the lender foreclosing on the loan.

Depreciation: A decrease in the value of property due to changes in market conditions, wear and tear on the property, or other factors.

Disclosures: Federal or state requirements to provide information about a property for sale, especially as it represents actual or potential defects or problems.

Discounted Payoff: An agreement negotiated with a creditor that allows a borrower to pay less money than is actually owed to cease collection activities. Also called “settlement.”

Discretionary Income: The amount of money left over in a month after regular expenses are subtracted from the take-home pay.

Document Recording: The process of recording certain documents and making them part of the public record that follows closing.

Down Payment: The amount of cash a borrower pays towards purchasing a home.

Dual Agent: A real estate professional who represents both the buyer and the seller in a single home purchase transaction.

Due-on-Sale Clause: A provision in a mortgage allowing the lender to demand repayment in full if the borrower sells the property securing the mortgage.

Duplex: A house divided into two living units.

Earnest Money: Funds that are included with an offer to purchase to show good faith in following through with the transaction.

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

Energy Star: Logo used on most energy-efficient appliances.

Encroachment: A building, driveway, fence or other structure that extends over the legal property line or beyond the buildable space of the lot.

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, national origin, age, sex, marital status or receipt of income from public assistance programs.

Equity: Ownership interest in an asset after liabilities are deducted, or the part of the house the borrower owns.

Equity Loan: See home equity loan.

Escrow: The period between the date the purchase contract is signed and the date of the loan closing.

Escrow Account: A special account set up by the lender to collect and hold monthly payments toward annual property taxes and homeowners insurance. Also called “impound account.”

FAIR Plan: Fair Access to Insurance Requirements available in many states for those in high-risk areas.

Fair Credit Billing Act: A federal law that enables consumers to dispute inaccurate information on credit card bills.

Fair Credit Reporting Act (FCRA): A federal law that enables consumers to learn what information credit reporting agencies have on file about them and to dispute inaccurate data in the file.

Fair Debt Collection Practices Act: A federal law that protects consumers from abuse or threats from collection agencies trying to get overdue payments.

Fair Housing Act: A federal law that prohibits discrimination in housing and real estate transactions.

Fair Market Value: The price a willing buyer will pay and a willing seller will accept for real property.

FEMA: Federal Emergency Management Agency. Determines designated flood plains requiring purchase of flood insurance; provides assistance for disasters.

FHA Loan: A type of mortgage that is insured by the Federal Housing Administration, a department of the federal government.

FICO: A system of scoring credit reports and the company that developed the system.

Finance Charge: The total dollar amount charged to use credit, which includes interest and other costs.

First Mortgage: A home loan that has priority over the claims of subsequent lenders for the same property in the event of default.

Fixed Expense: An expense that does not change from period to period, such as loan payments or rent.

Fixed-Rate Mortgage: A loan on which the interest rate remains the same over the life of the loan.

Flexible Expense: Expenses that change from month to month, like the cost of groceries, entertainment and personal items.

Flood Insurance: A policy required by a lender if a buyer's house is located in a flood zone.

Forbearance: An agreement by the lender to allow a delinquent borrower to skip one or more payments completely and make them up later through a payment plan.

Foreclosure: The legal process used to force the payment of debt secured by collateral whereby the property is sold to satisfy the debt.

For-Sale-By-Owner (Fisbo): A home that is offered for sale without the use of a real estate agent.

Fourplex: A house divided into four living units.

Gift Letter: A document that is required by a lender if a borrower receives a down payment from any individual as a gift.

Good Faith Estimate: A document that discloses anticipated settlement costs.

Graduated Payment Mortgage: A loan that starts out with lower monthly payments, which rise gradually over a period of years and then stay fixed for the rest of the loan.

Gross Income: Money earned before taxes and other deductions.

Hazard Insurance: Insurance to protect the homeowner against physical damage to a property from fire, wind, vandalism and other hazards.

Home Equity Line of Credit (HELOC): A type of home equity loan that allows the homeowner to access the loan money with checks or a credit card as needed.

Home Equity Loan: A loan based on the difference of the amount of equity paid on a home and the home's current market value.

Home Equity Conversion Mortgage (HECM): FHA Reverse Mortgage product.

Home Improvement: Changes to a house that increase its value, such as modernizing a kitchen or adding a second bathroom to a three-bedroom home.

Homeowners Association: A group of homeowners within a defined community, neighborhood or complex who make decisions, pay to maintain and repair land and common areas and/or enforce community rules and covenants.

Homeowners Insurance: An insurance policy on a house and its contents that combines liability coverage and hazard insurance.

Home Warranty: A guarantee for certain features of a new home, such as the materials, workmanship and main components.

Home Warranty Policy: An optional policy that protects homeowners for one year against the cost to repair heating and cooling systems, plumbing and major appliances.

HOPE Line: Housing Ownership Preservation Foundation's help-line for those in danger of foreclosure: 1-888-995-HOPE, or www.995hope.org.

Homeownership Counselor: Trained professional providing impartial advice on the homeownership process.

Home Inspection: A professional opinion of the structural soundness of a property.

Housing Ratio: The maximum percentage of a borrower's gross monthly income that can be used to make the monthly mortgage payments. Also called "front-end ratio."

HUD-1 Settlement Statement: A final statement listing all of the costs of the sale of a property and who pays for them.

Hybrid ARM: A combination ARM program blamed for much of the subprime crisis in the mid-2000s as mortgage payments accelerated beyond the borrower's means.

Incentive Rate Reduction Mortgage: A loan program in which the borrower qualifies for an initial rate close to conventional rates and then has a set time period to make consecutive on-time payments to qualify for a one-time, 1 percent interest rate reduction.

Indebtedness Expenses: The minimum monthly payments due to creditors.

Index: A published market index rate tied to an economic indicator that is used to calculate the interest rate of an adjustable rate mortgage at origination and at each adjustment period.

Individual Account: A credit agreement where one person has sole use and responsibility for payment.

Individual Development Account: A type of matched savings account offered in some communities for people whose income is below a certain level.

Installment Loan: A credit account in which the amount of the payment and the number of payments are fixed.

Interest: The cost of borrowing money.

Interest Factor: The cost for borrowing \$1,000 of a mortgage loan based on interest rate and term.

Interest Rate: The percentage of the loan amount charged for a loan.

Interest Rate Lock-In: A written guarantee that a buyer will receive a specified interest rate from a lender, provided that the loan closes within a set period of time.

Joint Account: A credit agreement with two people, where each is liable for payment.

Joint Tenancy: A form of ownership in which two or more people have an equal and undivided interest in the property.

Judgment: The official court decision of an action or suit that may be listed on a credit report as a public record.

Land Lease: An arrangement in which a person owns a house and rents the land beneath it.

Lease-Purchase Mortgage: With this type of financing a potential homebuyer leases a home with an option to buy, and each month's rent payments include an extra amount that is deposited into a savings account to accumulate money for a down payment and closing costs.

Lender: The entity or person who offers the mortgage loan. Also called a "mortgagee."

Liability Protection: Insurance that covers people (other than the insured homeowner) and their personal property in case of injury or damage while on the homeowner's property.

Lien: A legal hold or claim of one person on the property of another as security for a debt, or a charge that may be listed on a credit report as a public record.

Listing Agent: A real estate professional who has a contract with the seller of a house to advertise the property for sale and represent the seller when offers are made. Also called "selling agent."

Loan Fees: Costs associated with loan processing.

Loan Modification: An agreement between a lender and a delinquent borrower that changes the terms of the loan.

Loan Term: The amount of time a borrower has to pay off a loan.

Loan-to-Value Ratio (LTV): The ratio of the loan balance to the appraised value of the house.

Manufactured Home: A home built entirely in a factory under a federal building code administered by the Department of Housing and Urban Development that went into effect June 15, 1976. Formerly called "mobile home."

Margin: The set percentage the lender adds to the index rate to determine the interest rate of an adjustable-rate mortgage.

Mobile Home: A factory-built home built prior to June 15, 1976.

Modular Home: Factory-built housing with onsite assembly and some onsite construction that is built to meet state and local codes and does not have a chassis.

Mortgage: A security agreement between the lender and the buyer in which the property is collateral for the loan. The mortgage gives the lender the right to collect payment on the loan and to foreclose if the loan obligations are not met.

Mortgage Bank: A type of financial institution that offers only mortgage financing.

Mortgage Broker: A company or individual that matches borrowers with lenders for a fee.

Mortgage Insurance (MI): A policy required by the lender if a borrower puts less than 20 percent cash down when buying a home with a conventional or FHA loan, which protects the lender from collateral risk in case of default. Also called “private mortgage insurance (PMI)” for conventional loans and “mortgage insurance premium (MIP)” for FHA loans.

Mortgage Life Insurance: An optional form of life insurance that pays off a mortgage if the borrower dies.

Mortgage Note: A legal document obligating a borrower to repay a loan at a stated interest rate during a specified period that is secured by a mortgage and recorded in the public records along with the deed.

Mortgage Payment: The total monthly loan payment known as principal, interest, taxes and insurance (PITI).

Multiple Listing Service (MLS): A service within a given community or area that allows real estate professionals to submit listings and agree to attempt to sell all properties in the service.

Negative Amortization: Payment terms under which the borrower’s monthly payments do not cover the interest due and the loan balance subsequently increases.

Net Income: Money earned after taxes and other payroll deductions have been withdrawn.

NFIP: National Flood Insurance Program that provides flood insurance for those in FEMA-designated flood areas at reasonable cost.

Nontraditional Credit History: A record of credit performance shown with receipts and check stubs from payments to landlords, utility companies, child care providers and others, for loan applicants who do not have a credit history from loans and other forms of credit.

Open 30-day Account: A credit agreement in which the borrower promises to repay the full balance owed each month.

Origination Fee: A fee some lenders charge for submitting, processing and evaluating a proposed mortgage loan.

Partial Claim: When the mortgage insurance company lends a delinquent borrower money to bring a loan current by making a second mortgage on the property.

Payment Plan: An agreement with a lender in which a borrower promises to make up any missed payments by sending one full payment and one partial payment each month until delinquent mortgage payments are caught up.

Planned Unit Development (PUD): A type of property that is part of a subdivision and has common areas that are shared with all residents and maintained through a homeowners association fee. Usually the owner owns the home and the land on which it stands.

Point: A fee that is 1 percent of the loan amount.

Pre-approval: A guarantee that a lender will lend a potential buyer a fixed amount as long as the borrower buys a home by a certain time and the house appraises for the amount of money for which the borrower qualifies.

Predatory Lending: A type of lending that falls between appropriate risk-based pricing and blatant fraud and combines certain products, terms, prices and practices.

Preforeclosure Sale: When the lender agrees to allow a delinquent borrower to sell the house to avoid foreclosure.

Prepayment: Paying more each month than the amount of the mortgage loan payment to pay the loan off sooner and save money on interest charges.

Prepayment Penalty: A fee charged on some loans to a borrower who pays off a loan before it is due.

Prequalification: The process lenders use to calculate a potential buyer's mortgage affordability, usually based on unverified information.

Prime Lending: Lending to borrowers with highly rated credit histories. Prime loans are often called "A" credit.

Principal: The outstanding balance of a loan, not including interest and other charges.

Promissory Note: A document in which the borrower promises to repay a loan. Also called "note."

Proprietary Lease: Granted to owners of a unit in a cooperative; provides right to occupy a particular unit.

Property Tax: A tax charged by the local government and used to fund a variety of municipal services such as schools, police or street maintenance. Also called "real estate tax."

Public Record: Information that is available to anyone, including credit reporting agencies, from court records. Includes information on liens, bankruptcy filings, judgments and deeds.

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

Purchase Offer: A proposal to the seller of a house from a would-be buyer offering a stated amount for the house, often provided certain conditions are met.

Quitclaim Deed: A deed that releases a person's interest in a property.

Real Estate Broker: A real estate agent who is authorized to operate an agency.

Real Estate Settlement Procedures Act (RESPA): A law that establishes procedures for closing mortgage loans. RESPA prohibits cost-increasing practices such as kickbacks and referral fees and requires advance disclosure of settlement costs.

REALTOR®: A real estate agent or agency that belongs to the local or state board of REALTORS® and has an affiliation with the National Association of REALTORS®.

Refinancing: The process of paying off one loan with the proceeds from a new loan secured by the same property.

Remodeling: To rebuild and improve a house, often changing the house's layout or adding rooms.

Replacement Coverage: An optional insurance feature available on both a house and its contents that pays to restore the house to its original condition if it is damaged and replace contents that are lost.

Repossession: Property such as a car that is taken back by the creditor when the borrower does not make payments due on the property.

Reserves: Money set aside for emergencies or repairs.

Reverse Mortgage: A type of home loan with which a homeowner 62 years old or older can convert the equity in the home into cash.

Revolving Account: A credit agreement that allows borrowers to pay all or part of the outstanding balance on a loan or credit card. As credit is paid off, it becomes available again to use for another purchase or cash advance.

Risk-based Pricing: A system that assesses borrowing risks loan by loan to determine interest rates and fees for mortgage loans.

Secondary Market: Investors that purchase residential mortgages originated by primary lenders, which in turn provides lenders with money for future lending.

Second Mortgage: A home loan that has rights subordinate to the rights of the first mortgage—in other words, that is repaid after the first mortgage in case of foreclosure.

Servicing: The collection of payments and management of operational procedures related to a mortgage.

Settlement Statement: A document required by the Real Estate Settlement Procedures Act that is an itemized statement of services and charges relating to the closing or settlement of the property transfer. Also called “HUD-1 Settlement Statement” or “Uniform Settlement Statement.”

Shared-Equity Ownership: Types of ownership such as Deed-Restricted, Community Land Trust, and Limited Equity Cooperatives where a municipal or nonprofit entity retains an interest in the property in order to provide continued affordable housing in the future.

Short Sale: Where the bank agrees to accept less than the amount due on a mortgage loan in order to make the sale of the house possible. May have some tax implications for the borrower.

Single-Family Home: A type of house, usually detached, that is owned by one person or family, including the land on which it sits.

Sole and Separate: A form of ownership in which one individual owns the property.

Specifications: A detailed description of the size, shape, materials and other details of a building or remodeling project.

Subprime Lending: A type of lending that relies on risk-based pricing to serve borrowers who cannot obtain credit in the prime market, where higher degrees of risk for borrowers carry higher costs for loans. Subprime loans are often called “A- through D” credits.

Survey: A professional measurement of a property and the land around it.

Tenancy in Common: A form of ownership in which two or more people own a property and may retain different shares of ownership.

Title: A legal document establishing the right of ownership in a property.

Title Insurance: Insurance to protect the lender (lender’s policy) or the buyer (owner’s policy) against loss arising from disputes over ownership of a property.

Triplex: A house that has three living units.

Truth-In-Lending Act (TILA): A federal law that requires creditors to give complete and accurate information about the cost of credit to consumers and the terms of repayment.

Truth-In-Lending Statement: A document that discloses the terms and cost of a mortgage loan, including the APR.

Underwriting: The process of analyzing a borrower’s finances in order to approve or deny a loan.

USPAP: Uniform Standards of Professional Appraisal Practice used as guidelines for appraisers.

VA Loan: A loan that is guaranteed by the U.S. Department of Veterans Affairs.

Vantage Score: A credit scoring system that provides a letter grade for risk; useful for nontraditional credit history.

Variable Expense: An expense that changes from period to period, such as utilities, food, clothing or entertainment.

Verification: The process of making sure that all of a borrower's loan application information is accurate.

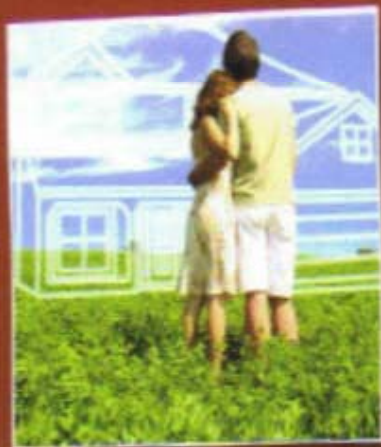
Walk-Through (also Walk-Thru): A buyer's final inspection of a property, usually conducted right before closing, to determine that the property is as described in the purchase agreement.

Workout Agreement: A negotiated agreement between a borrower and a lender or servicer to address a debt in default by the homeowner in order to avoid foreclosure.

Wraparound Mortgage: A loan with which a seller finances a new mortgage, which "wraps around" his or her previous mortgage, and the buyer repays to the seller.

Yield Spread Premium: The commission a mortgage broker receives from a lender for matching a borrower with one of its loans. Also called "service release premium."

Zoning: A county or city law stating the types of use to which properties can be put in specific areas.



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