GLOSSARY

See more details about financing terminology on page 29.

80/20 MORTGAGE: A type of 100 percent financing for borrowers, often called a piggyback loan, which combines a first mortgage at 80 percent loan-to-value with a second mortgage for the remaining 20 percent.

ADJUSTABLE-RATE MORTGAGE (ARM): A loan that adjusts on a regular schedule based on a national economic index and the lender's margin.

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

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.

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.

ARBITRATION: A dispute resolution mechanism, whereby an independent, neutral third party is appointed to hear and consider the merits of the dispute and render a final and binding decision.

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

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.

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 with a fixed term and a schedule of monthly payments at the current interest rate, where partial payments are made every two weeks. This results in one extra payment per year, helping the borrower to pay the off the loan sooner and save money on total interest charges.

BORROWER: The person who obtains a mortgage loan.

BREAK-EVEN POINT: How long it would take for a borrower to recoup the total costs of refinancing, including closing costs, fees, points and prepayment penalties.

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

CASH-OUT REFINANCE: A loan that allows a homeowner to borrow more money using the home's value as collateral by replacing the old mortgage with a new, larger one.

CLOSING: The final step in the mortgage loan process, where the borrower signs the mortgage and mortgage note and pays any closing costs.

CLOSING COSTS: Expenses incurred by obtaining a mortgage loan.

COLLATERAL: Property accepted as security for a loan.

COMBINED LOAN-TO-VALUE: The ratio of the sum of all loan balances to the value of the house.

COMMITMENT LETTER: A formal offer by a lender stating the terms under which it agrees to loan money to a borrower.

CONFORMING CONVENTIONAL LOAN: A loan made by for-profit lenders and not insured by the federal government that meets specific eligibility criteria to be sold to secondary-market investors.

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

CREDIT REPORTING AGENCY: A company that gathers, files and sells information to **creditors** and others with a legitimate business purpose.

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.

CREDITOR: A person or firm to whom money or its equivalent is owed.

DEBT: Money owed. Also called "liability."

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.

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.

DISCOUNT POINTS: Points a borrower pays in advance in order receive a lower interest rate.

DISCRETIONARY INCOME: The amount of money left over in a month after regular expenses are subtracted from take-home pay (net income).

DOCUMENT RECORDING: The process of recording certain documents following closing and making them part of the public record.

EQUITY: The difference between what a house is worth and what the owner owes, or a borrower's ownership interest in a property.

ESCROW ACCOUNT: A special account set up by the lender to collect and hold monthly payments toward annual property taxes and homeowners insurance.

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

FIXED-RATE MORTGAGE: A loan on which the interest rate remains the same over the life of the loan.

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

FUNDING FEE: The charge paid by the borrower at closing to the VA or USDA for issuing its guarantee on a VA or USDA, Rural Development, Rural Housing Service loan.

GOOD FAITH ESTIMATE: A document that discloses anticipated settlement costs.

HOME-EQUITY LINE OF CREDIT: A specialized form of a home-equity loan, where the balance can go up or down. The borrower is approved to borrow up to a certain amount of money in large or small amounts as needed.

HOME-EQUITY LOAN: A second or junior mortgage loan that is secured by a portion of the home's value.

HOME IMPROVEMENT: Changes to a house that increase its value.

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

HUD-1 SETTLEMENT STATEMENT: A final statement listing all of the closing costs for a mortgage transaction.

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.

INTEREST: The cost of borrowing money.

INTEREST-ONLY MORTGAGE: A fixed- or adjustable-rate loan that allows a borrower to pay only monthly interest payments during an initial period of time. At the end of the interest-only period, the loan becomes fully amortizing for the remainder of the loan 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.

LENDER: The entity or person who offers the mortgage loan.

LIABILITY: Money owed. Also called "debt."

LIEN: A legal hold or claim of one person on the property of another as security for a debt.

LOAN FEES: Costs associated with loan processing.

LOAN MODIFICATION: An agreement between a lender and a borrower that changes the terms of the loan.

LOAN SERVICER: The company that collects mortgage payments and manages the operational procedures related to a mortgage 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 value of the house.

LOAN WORKOUT: A negotiated agreement between a borrower and a lender or servicer to address a mortgage in default in order to avoid foreclosure.

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

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 INSURANCE: A policy required by conventional and FHA lenders when a borrower has a first mortgage loan with a loan-to-value above 80 percent of the appraised value of the home. This insurance protects the lender from collateral risk in case of default.

MORTGAGE LIFE INSURANCE: An optional form of life insurance that pays off a mortgage if the borrower dies.

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

NET INCOME: Money earned after taxes and other payroll deductions have been withdrawn.

NONPRIME LOAN: A type of loan 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. Nonprime loans are often called "A– through D" credits.

ORIGINATION FEE: A fee some lenders charge for submitting, processing and evaluating a proposed mortgage loan. This fee is expressed in points.

POINT: A fee that is one percent of the loan amount.

PREDATORY LENDER: A type of lender whose lending practices combine certain products, terms, prices and practices that make it difficult for the borrower to repay the mortgage loan.

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.

PRIME LOAN: A mortgage loan that is reserved for 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 written commitment to repay a loan at specified terms, signed at closing. Also called "note."

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.

REFINANCING: The process of taking out a new mortgage and using the money to pay off the current mortgage.

REVERSE MORTGAGE: A type of home loan through which a homeowner 62 years old or older can convert the equity in the home into cash. A reverse mortgage works like a home-equity line of credit, but the homeowner does not make any payments on the loan balance as long as she or he is living in the home.

RIGHT OF RESCISSION: A right provided under federal law to borrowers who are refinancing or borrowing against their home equity that allows them three days after signing the loan documents to cancel the contract.

RISK-BASED PRICING: A system that assesses borrowing risks loan by loan to determine interest rates and fees for mortgage loans.

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

SECONDARY MARKET: Investor entities that purchase residential mortgages originated by primary lenders, thus providing lenders with money for future lending.

STREAMLINE REFINANCING: A type of refinancing that reduces the lender's level of documentation and underwriting and does not require an appraisal, credit check, income verification or qualifying ratios.

SUBORDINATION: An agreement by which a lender places its lien position behind that of another lender.

TAX DEDUCTION: An amount that is subtracted from the taxpayer's adjusted gross income to reduce the taxable income, which results in a lower amount of income tax being due.

TAX RATE: The percentage of income required to be paid in income taxes.

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.

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.

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