DEFINITION OF COMMON TERMS

Actual Cash Value: An amount equal to the replacement value of damaged property minus depreciation.

Adjustable-Rate Mortgage (ARM): Also known as a variable-rate loan, an ARM usually offers a lower initial rate than a fixed-rate loan. The interest rate can change at a specified time, known as an adjustment period, based on a published index that tracks changes in the current finance market. Indexes used for ARMs include the LIBOR index and the Treasury index. ARMs also have caps or a maximum and minimum that the interest rate can change at each adjustment period.

Adjustment Period: The time between interest rate adjustments for an ARM. There is usually an initial adjustment period, beginning from the start date of the loan and varying from 1 to 10 years. After the first adjustment period, adjustment periods are usually 12 months, which means that the interest rate can change every year.

Amortization: Paying off a loan over the period of time and at the interest rate specified in a loan document. The amortization of a loan includes the payment of interest and a part of the amount borrowed in each mortgage payment.

Amortization Schedule: Provided by mortgage lenders, the schedule shows how over the term of your mortgage the principal portion of the mortgage payment increases and the interest portion of the mortgage payment decreases.

Annual Percentage Rate (APR): How much a loan costs annually. The APR includes the interest rate, points, broker fees and certain other credit charges a borrower is required to pay.

Application Fee: The fee that a mortgage lender charges to apply for a mortgage to cover processing costs.

Appraisal: A professional analysis used to estimate the value of the property. This includes examples of sales of similar properties.

Appraiser: A professional who conducts an analysis of the property, including examples of sales of similar properties in order to develop an estimate of the value of the property. The analysis is called an "appraisal."

Appreciation: An increase in the market value of a home due to changing market conditions and/or home improvements.

Arbitration: A process where disputes are settled by referring them to a fair and neutral third party (arbitrator). The disputing parties agree in advance to agree with the decision of the arbitrator. There is a hearing where both parties have an opportunity to be heard, after which the arbitrator makes a decision.

Asbestos: A toxic material that was once used in housing insulation and fireproofing. Because some forms of asbestos have been linked to certain lung diseases, it is no longer used in new homes. However, some older homes may still have asbestos in these materials.

Assets: Everything of value an individual owns.

Assumption: A homebuyer's agreement to take on the primary responsibility for paying an existing mortgage from a home seller.

Balloon Mortgage: A mortgage with monthly payments based on a 30-year amortization schedule, with the unpaid balance due in a lump sum payment at the end of a specific period of time (usually 5 or 7 years). The mortgage contains an option to "reset" the interest rate to the current market rate and to extend the due date if certain conditions are met.

Bankruptcy: Legally declared unable to pay your debts. Bankruptcy can severely impact your credit and your ability to borrow money.

Capacity: Your ability to make your mortgage payments on time. This depends on your income and income stability (job history and security), your assets and savings, and the amount of your income each month that is left over after you've paid for your housing costs, debts and other obligations.

Closing (Closing Date): The completion of the real estate transaction between buyer and seller. The buyer signs the mortgage documents and the closing costs are paid. Also known as the settlement date.

Closing Agent: A person who coordinates closing-related activities, such as recording the closing documents and disbursing funds.

Closing Costs: The costs to complete the real estate transaction. These costs are in addition to the price of the home and are paid at closing. They include points, taxes, title insurance, financing costs, items that must be prepaid or escrowed and other costs. Ask your lender for a complete list of closing cost items.

Collateral: Property which is used as security for a debt. In the case of a mortgage, the collateral would be the house and property.

Commitment Letter: A letter from your lender stating the amount of the mortgage, the number of years to repay the mortgage (the term), the interest rate, the loan origination fee, the annual percentage rate and the monthly charges.

Concession: Something given up or agreed to in negotiating the sale of the house. For example, the sellers may agree to help pay for closing costs.

Condominium: A unit in a multiunit building. The owner of a condominium unit owns the unit itself and has the right, along with other owners, to use the common areas but does not own the common elements such as the exterior walls, floors and ceilings or the structural systems outside of the unit; these are owned by the condominium association. There are usually condominium association fees for building maintenance, property upkeep, taxes and insurance on the common areas and reserves for improvements.

Contingency: A plan for something that may occur but is not likely. For example, your offer may be contingent on the home passing a home inspection. It the home does not pass inspection, you're protected.

Counter-offer: An offer made in response to a previous offer. For example, after the buyer presents their first offer, the seller may make a counter-offer with a slightly higher sale price.

Credit: The ability of a person to borrow money, or buy good by paying over time. Credit is extended based on a lender's good opinion of the person's financial situation and reliability.

Credit Bureau: A company that gathers information on consumers who use credit. These companies sell that information to credit lenders in the form of a credit report.

Credit History: A record of credit use comprised of a list of individual consumer debts and a record of whether or not these debts were paid back on time or "as agreed." Credit institutions have created a detailed document of your credit history called a credit report.

Credit Report: A document used by the credit industry to examine your use of credit. It provides information on money that you've borrowed from credit institutions and your payment history.

Credit Score: A computer-generated number that summarizes your credit profile and predicts the likelihood that you'll repay future debts.

Creditworthy: Your ability to qualify for credit and repay debts.

Debt: Money owed from one person or institution to another person or institution.

Debt-to-Income Ratio: The percentage of gross monthly income that goes toward paying for your monthly housing expense, alimony, child support, car payments and other installment debts, and payments on revolving or open-ended accounts such as credit cards.

Deed: The legal document transferring ownership or title to a property

Deed-in-lieu of foreclosure: A Deed-in-lieu of foreclosure is a cancellation of your mortgage if you voluntarily transfer title of your property to your mortgage company. Usually you must try to sell your home for its fair market value for at least 90 days before a mortgage company will consider this option. A deed-in-lieu of foreclosure may not be an option if there are other liens on the property, such as second mortgages, judgments from creditors, or tax liens.

Deed of Trust: A legal document in which the borrower transfers the title to a 3rd party (trustee) to hold as security for the lender. When the loan is paid in full the trustee transfers title back to the borrower. If the borrower defaults on the loan the trustee will sell the property and pay the lender the mortgage debt.

Default: Failure to fulfill a legal obligation. A default includes failure to pay on a financial obligation, but may also be a failure to perform some action or service that is non-monetary. For example, when leasing a car, the lessee is usually required to properly maintain the car.

Depreciation: A decline in the value of a house due to changing market conditions or lack of upkeep on a home.

Down Payment: A portion of the price of a home, usually between 3-20%, not borrowed and paid up front.

Earnest Money Deposit: The deposit to show that you're committed to buying the home. The deposit will not be refunded to you after the seller accepts your offer, unless one of the sales contract contingencies is not fulfilled.

Equity: The value in your home above the total amount of the liens against your home. If you owe $100,000 on your house but it is worth $130,000, you have $30,000 of equity.

Escrow: The holding of money or documents by a neutral third party before closing. It can also be an account held by the lender (or servicer) into which a homeowner pays money for taxes and insurance.

Fixed-Rate Mortgage: A mortgage with an interest rate that does not change during the entire term of the loan.

Forbearance: Your lender may offer a temporary reduction or suspension of your mortgage payments while you get back on your feet. Forbearance is often combined with a reinstatement or a repayment plan to pay off the missed or reduced mortgage payments.

Foreclosure: A legal action that ends all ownership rights in a home when the homebuyer fails to make the mortgage payments or is otherwise in default under the terms of the mortgage.

Gift Letter: A letter that a family member writes verifying that s/he has given you a certain amount of money as a gift and that you don't have to repay it. You can use this money towards a portion of your down payment with some mortgages.

Good-Faith Estimate: A written statement from the lender itemizing the approximate costs and fees for the mortgage.

Gross Monthly Income: The income you earn in a month before taxes and other deductions. It may also include rental income, self-employed income, income from alimony, child support, public assistance payments, and retirement benefits.

Home Inspection: A professional inspection of a home to determine the condition of the property. The inspection should include an evaluation of the plumbing, heating and cooling systems, roof, wiring, foundation and pest infestation.

Homeowner's Insurance: A policy that protects you and the lender from fire or flood, which damages the structure of the house; a liability, such as an injury to a visitor to your home; or damage to your personal property, such as your furniture, clothes or appliances

Housing Expense Ratio: The percentage of your gross monthly income that goes toward paying for your housing expenses.

HUD-1 Settlement Statement: A final listing of the costs of the mortgage transaction. It provides the sales price and down payment, as well as the total settlement costs required from the buyer and seller.

Index: The published index of interest rates used to calculate the interest rate for an ARM. The index is usually an average of the interest rates on a particular type of security such as the LIBOR.

Individual Retirement Account (IRA): A tax-deferred plan that can help you build a retirement nest egg.

Inflation: An increase in prices.

Inquiry: A request for a copy of your credit report. An inquiry occurs every time you fill out a credit application and/or request more credit. Too many inquiries on a credit report can hurt your credit score.

Interest: The cost you pay to borrow money. It is the payment you make to a lender for the money it has loaned to you. Interest is usually expressed as a percentage of the amount borrowed.

Keogh Funds: A tax-deferred retirement-savings plan for small business owners or self-employed individuals who have earned income from their trade or business. Contributions to the Keogh plan are tax-deductible.

Liabilities: Your debts and other financial obligations.

Lien: A claim or charge on property for payment of a debt. With a mortgage, the lender has the right to take the title to your property if you don't make the mortgage payments.

Loan modification: This is a written agreement between you and your mortgage company that permanently changes one or more of the original terms of your note to make the payments more affordable.

Loan Origination Fees: Fees paid to your mortgage lender for processing the mortgage application. This fee is usually in the form of points. One point equals 1% of the mortgage amount.

Lock-In Rate: A written agreement guaranteeing a specific mortgage interest rate for a certain amount of time.

Low-Down-Payment Feature: A feature of some mortgages, usually fixed-rate mortgages, that helps you buy a home with as little as a 3% down payment.

Margin: A percentage added to the index for an ARM to establish the interest rate on each adjustment date.

Market Value: The current value of your home based on what purchaser would pay. An appraisal is sometimes used to determine market value.

Mortgage: A loan using your home as collateral. In some states the term mortgage is also used to describe the document you sign [to grant the lender a lien on your home]. It may also be used to indicate the amount of money you borrow, with interest, to purchase your house. The amount of your mortgage is usually the purchase price of the home minus your down payment.

Mortgage Broker: An independent finance professional who specializes in bringing together borrowers and lenders to complete real estate mortgages.

Mortgage Insurance (MI or PMI): Insurance needed for mortgages with low down payments (usually less than 20% of the price of the home).

Mortgage Lender: The lender providing funds for a mortgage. Lenders also manage the credit and financial information review, the property and the loan application process through closing.

Mortgage Rate: The cost or the interest rate you pay to borrow the money to buy your house.

Mutual Funds: A fund that pools the money of its investors to buy a variety of securities.

Net Monthly Income: Your take-home pay after taxes. It is the amount of money that you actually receive in your paycheck.

Offer: A formal bid from the homebuyer to the home seller to purchase a home.

Open House: When the seller's real estate agent opens the seller's house to the public. You don't need a real estate agent to attend an open house.

Points: 1% of the amount of the mortgage loan. For example, if a loan is made for $50,000, one point equals $500.

Pre-Approval Letter: A letter from a mortgage lender indicating that you qualify for a mortgage of a specific amount. It also shows a home seller that you're a serious buyer.

Predatory Lending: Abusive lending practices that include making mortgage loans to people who do not have the income to repay them or repeatedly refinancing loans, charging high points and fees each time and "packing" credit insurance onto a loan.

Pre-Qualification Letter: A letter from a mortgage lender that states that you're pre-qualified to buy a home, but does not commit the lender to a particular mortgage amount.

Principal: The amount of money borrowed to buy your house or the amount of the loan that has not yet been repaid to the lender. This does not include the interest you will pay to borrow that money. The principal balance (sometimes called the outstanding or unpaid principal balance) is the amount owed on the loan minus the amount you've repaid.

Private Mortgage Insurance: See Mortgage Insurance

Property Appreciation: See Appreciation

Radon: A toxic gas found in the soil beneath a house that can contribute to cancer and other illnesses.

Rate Cap: The limit on the amount an interest rate on an ARM can increase or decrease during an adjustment period.

Ratified Sales Contract: A contract that shows both you and the seller of the house have agreed to your offer. This offer may include sales contingencies, such as obtaining a mortgage of a certain type and rate, getting an acceptable inspection, making repairs, closing by a certain date, etc.

Real Estate Professional: An individual who provides services in buying and selling homes. The real estate professional is paid a percentage of the home sale price by the seller. Unless you've specifically contracted with a buyer's agent, the real estate professional represents the interest of the seller. Real estate professionals may be able to refer you to local lenders or mortgage brokers, but are generally not involved in the lending process.

Refinance: Getting a new mortgage with all or some portion of the proceeds used to pay off the original mortgage.

Reinstatement: Your lender may agree to let you pay the total amount you are behind, in a lump sum payment and by a specific date. This is often combined with forbearance when you can show that funds from a bonus, tax refund, or other source will become available at a specific time in the future. Be aware that there may be late fees and other costs associated with a reinstatement plan.

Repayment Plan: This is an agreement that gives you a fixed amount of time to repay the amount you are behind by combining a portion of what is past due with your regular monthly payment. At the end of the repayment period you have gradually paid back the amount of your mortgage that was delinquent.

Replacement Cost: The cost to replace damaged personal property without a deduction for depreciation.

Securities: A financial form that shows the holder owns a share or shares of a company (stock) or has loaned money to a company or government organization (bond).

Short Payoff: If you can sell your house but the sale proceeds are less than the total amount you owe on your mortgage, your mortgage company may agree to a short payoff and write off the portion of your mortgage that exceeds the net proceeds from the sale.

Title: The right to, and the ownership of, property. A title or deed is sometimes used as proof of ownership of land.

Title Insurance: Insurance that protects lenders and homeowners against legal problems with the title.

Truth-In-Lending Act (TILA): Federal law that requires disclosure of a truth-in-lending statement for consumer loans. The statement includes a summary of the total cost of credit, such as the APR and other specifics of the loan.

Underwriting: The process a lender uses to determine loan approval. It involves evaluating the property and the borrower's credit and ability to pay the mortgage.

Uniform Residential Loan Application: A standard mortgage application your lender will ask you to complete. The form requests your income, assets, liabilities, and a description of the property you plan to buy, among other things.

Warranties: Written guarantees of the quality of a product and the promise to repair or replace defective parts free of charge.