Financial Education and Homeownership Glossary

- **Adjustable-Rate Mortgage (ARM)**. An ARM will have interest rates and payments that change from time-to-time over the life of the loan. Depending on the type of ARM you have, your interest rate may increase gradually every few years until it reaches a preset ceiling. When you apply for an ARM, you'll be told how, when, and why the rates may change.

- **Agent**. An agent is a person who legally represents another, called a principal, and from whom they derive express or implied authority. In other words, an agent is someone who acts on behalf of another person such as a real estate agent.

- **Amortization**. Amortization is the process of paying off a loan through a series of periodic payments to a lender. The payments include two items: interest, which is what it costs you to borrow the money, and principal, which is the amount of money you borrowed.

- **Annual income**. Money you receive over the course of a year, whether it's from wages or salary, alimony or child support, rental payments, commissions, investments or other sources.

- **Annual Percentage Rate (APR)**. The APR, shown on your mortgage papers, is a standardized way of showing you the total cost of borrowing money. The APR is a combination of the interest rate charged by the creditor along with any fees they might charge. The fees are expressed in percentages and added to the actual interest rate to come up with the total APR.

- **Appraisal**. An appraisal is a written estimate of the value of something. In real estate, it is a professional opinion of the market value of property (such as a home) as of a given date.

- **Assessment**. An assessment is a value assigned to real property (your house and land) that is used to determine real property taxes. Assessment can also refer to the process of reaching an assessed value of real property. Additionally, it can be an add-on tax to raise money for a special purpose. In other words, an assessment is the way governments determine how much property tax you have to pay.

- **Assumable Loan**. An assumable loan is one where the buyer assumes responsibility for repaying the unpaid balance of the original loan.

- **Back-End Debt-to-Income Ratio**. Your debt-to-income ratio compares your monthly debt payments to your monthly income, and is a widely used measure of your creditworthiness. You [compute your debt-to-income ratio] by dividing your monthly minimum debt payments, excluding your rent or mortgage, by your monthly take-home pay.

- **Balloon Mortgage**. This is a mortgage with a low interest rate that stays level for a short time (typically five to seven years), with a large, final "balloon payment" that you will either refinance or pay off in full.
- **Balloon Payment**. This is a scheduled payment (usually the last payment) on a secured loan that is larger than any of the previous payments. Lenders do this to make the regular monthly payments more affordable. Carefully check any lending agreement to ensure you can afford to pay any balloon payments.

- **Buyer's Agent**. A buyer's agent is someone who acts on behalf of, and represents a buyer is a real estate transaction. If you plan to buy a house, it may be wise for you to contact a real estate agent to act as your buyer's agent who will have your best interests in mind and to ensure you are treated fairly throughout the home buying process.

- **Cap (Interest**). An interest cap is a consumer safeguard on an ARM that limits the amount the interest rate can change per year and over the life of the loan.

- **Cap (Payment**). A payment cap is a consumer safeguard on an ARM that limits the amount monthly payments can change.

- **Cash Reserve**. A lender's requirement that the borrower have, after settlement, at least two month's mortgage payment saved.

- **Closed-Ended Credit**. This is a loan of a specific amount of money for a specific period of time. You repay this type of loan in a set number of equal payments, which are usually made monthly. A mortgage and a home equity loan are examples of closed-ended credit.

- **Closing**. In real estate, closing is the delivery of a deed, financial adjustments, the signing of a note, and the disbursement of the funds necessary to consummate, or close, the sale or loan transaction. "Settlement" is another term for closing.

- **Closing Costs**. These are costs outside a property's sales price that must be paid to cover the cost of the transaction, such as a loan origination fee, discount points, insurance fees, survey fees, and attorney's fees. Closing costs vary from location to location, but must be described to you when you submit your mortgage loan application.

- **Closing (Settlement) Statement**. See HUD-1 Statement.

- **Comps.** Short for "comparables." These are recently sold properties similar to the home you want, with approximately the same size, location and amenities. They help an appraiser determine a property's fair market value.

- **Comparable Market Analysis**. This is an analysis done during the appraisal process. Properties with similar characteristics are compared to the property you want to buy to determine how much the home you want to buy is worth.

- **Condominium**. A form of homeownership in which the home buyer receives exclusive title to the interior space of a multi-unit structure (usually an apartment building or a townhouse), and shares title to the common areas of the residential property (for example, parking lots or a swimming pool).

- **Conforming loan**. A mortgage loan that meets guidelines established by Fannie Mae and Freddie Mac and falls below a loan amount specified by the Federal Housing Finance Agency. In 2021, that amount was $548,250 for a single-family home in most of the U.S.

- **Contingencies**. Conditions in a sales contract that must be satisfied before the home sale can occur. Some common contingencies: The appraised value must support the sales price, the house must pass inspection, and the borrower must be approved for a loan. Others might require a check for termites or the sale of the buyer's current home.

- **Contract of Sale**. A contract of sale is a contract between a buyer and seller of real property to convey title after certain conditions have been met and payments have been made.

- **Conventional Loan**. A loan that is not guaranteed or insured by a government agency.

- **Co-operative Housing**. In real estate, co-operative housing is a form of multiple ownership where a corporation or business trust entity holds title to a property (usually an apartment complex) and grants occupancy rights to shareholder tenants through proprietary leases.

- **Credit Bureau**. A credit bureau or credit reporting agency is an organization that compiles the data contained in a consumer's credit report based on information provided by creditors, financial institutions, public records, and businesses.

- **Credit Bureau Scoring**. Your credit score is a numerical index used by credit grantors to decide if you are a good credit risk. The information is based solely on your past credit performance and not on your race, gender, or other factors. When you get your credit report, you won't receive this rating. Remember, the credit bureaus don't extend credit; they provide credit information to prospective lenders.

- **Credit Limit**. Your credit limit is the maximum amount of money that can be loaned to you or the maximum amount of credit you can use in an open-ended credit account.

- **Credit Report**. A credit report is a record of your personal credit history. It is compiled by credit bureaus/credit reporting agencies based on information submitted by lenders and contained in public records. It contains very extensive information on your credit history and is probably the single most important document creditors use when deciding whether to grant you credit.

- **Debt-to-income ratio (DTI)**. One way to measure your ability to repay debt, DTI is the comparison of your monthly debt payments to your monthly income before taxes, expressed as a percentage. Many mortgage lenders prefer this figure, including a mortgage payment, to be no higher than 36 percent.

- **Deed**. This document shows that an owner of a piece of real property has title to that property. Once a deed is filed and recorded by your local government, the deed becomes a public record.

- **Deed of Trust**. A deed of trust is a document showing that a borrower conveys title to real property to a third party (trustee) to be held as security for a lender, with the provision that the trustee will return the title once the debt is paid. The trustee will sell the property and pay the debt if the borrower defaults. In other words, when you buy a house, a trustee will hold your Deed of Trust for your lender until you pay off your mortgage or default on the loan.

- **Department of Housing and Urban Development (HUD)**. HUD is a governmental entity responsible for the implementation and administration of housing and urban development programs.

- **Default**. Default is the failure to make payments on a timely basis or in accordance with the terms of your promissory note. Default may also result from failure to submit requests for deferment or cancellation on time. The consequences of default are severe.

- **Delinquency**. This is the failure of a borrower to make timely payments under a loan agreement.

- **Discount Point**. A discount point is an amount of money a borrower pays to a lender, or seller pays to a lender, to increase the lender’s effective yield. One point is equal to one percent of the loan. What a discount point effectively does is pay the lender up front in exchange for a reduced interest rate.

- **Down Payment**. A down payment is a portion of the sales price you pay to the seller to close a sale, with the understanding that the balance will be paid at settlement. It is also the difference between the sale price of real estate and the mortgage amount.

- **Due-on-Sale**. Due-on-sale is a clause in a mortgage contract that states that if the mortgagor sells, transfers, or in any other way encumbers the property, then the mortgagee has the right to implement an acceleration clause making the balance of the mortgage due. In other words, if you sell your home, you have to pay off the mortgage immediately, and then any money that's left over you can use any way you choose.

- **Earnest Money**. Earnest money is a deposit you pay to the seller of real property to show your good faith and intentions of getting a mortgage to buy the property. Depending on circumstances, you may or may not be able to get this money back if you decide not to complete the purchase.

- **Encumbrance**. An encumbrance is anything that affects or limits the fee simple title to property, such as mortgages, leases, easements, or restrictions.

- **Equal Credit Opportunity Act (ECOA)**. The ECOA is a federal law that requires lenders and other creditors to make credit equally available without discrimination based on race, color, religion, national origin, age, sex, marital status, or receipt of income from public assistance programs. It is also called "Regulation B."

- **Equity**. Equity is net ownership. In other words, it's the difference between how much your property is worth and how much you still owe on your mortgage (Market value – Mortgage balance = Equity). Equity is also sometimes called owner's interest.

- **Escrow**. Escrow is money placed with a third party for "safekeeping." During a real estate purchase, the buyer is typically required to place a portion of their down payment in an escrow account where it is held until the closing. After the home is purchased, a portion of each mortgage payment is typically held in an "escrow" account to pay for the property's taxes and insurance.

- **Fannie Mae**. Fannie Mae is the nation's largest mortgage investor. It is a private, stockholder owned company. The U.S. President appoints some of the members of its Board of Directors. It supports the secondary residential mortgage market.

- **Federal Housing Administration (FHA**). The FHA is a federal agency in the

Department of Housing and Urban Development (HUD) that provides mortgage insurance for residential mortgages and sets standards for construction and underwriting. The FHA **DOES NOT** lend money or plan or construct housing.

- **FHA-Insured Loans**. Home mortgage loans insured by the Federal Housing Administration are referred to as “FHA or FHA-Insured Loans.”

- **First Mortgage**. A first mortgage gives the lender a security right over all other mortgages on the mortgaged property.

- **Fixed Interest Rate**. A fixed interest rate is one that never changes over the life of a loan. For example, if you have a fixed rate, 30-year mortgage, you will pay the same interest rate for the entire 30-year repayment schedule.

- **Floor**. This is the minimum interest rate on an ARM.

- **Forbearance**. Forbearance is a lender’s act of not taking legal action despite the fact that a loan is delinquent. It is usually granted only when a borrower makes satisfactory arrangements to pay the amount owed at a future date.

- **Foreclosure**. A foreclosure is a legal proceeding that allows your creditor to sell your house to pay off your unpaid mortgage. Your house can be foreclosed on if you don’t make your required house payments.

- **Freddie Mac**. Freddie Mac is a stockholder-owned corporation that supports the secondary market in mortgages on residential property with mortgage purchase and securitization programs. The President of the United States appoints a portion of its board of directors. It is also known as the Federal Home Loan Mortgage Corporation (FHLMC).

- **Front End Debt-to-Income Ratio**. Your debt-to-income ratio compares your monthly debt payments to your monthly income, and is a widely used measure of your creditworthiness. You compute your debt-to-income ratio by dividing your monthly minimum debt payments, including your rent or mortgage, by your monthly take-home pay.

- **FSBO**. For Sale By Owner is a term used to describe a home that is being sold by the owner, without assistance from a real estate agent or a broker. The seller is attempting to save money by avoiding agent’s and broker’s fees, but the buyer should be careful to make sure that the terms of sale comply with all applicable federal, state, and local regulations.

- **Good Faith Estimate (GFE**). This document tells borrowers the approximate costs they’ll pay at or before closing, based on common local real estate practices. Under RESPA, your mortgage lender or mortgage broker must deliver the GFE to you within three days after accepting your mortgage loan application.

- **Graduated-Payment Mortgage**. A type of flexible payment mortgage where the payments increase for a specified period of time, then level off. This usually results in negative amortization.

- **Gross Income**. This is your total income before any deductions such as taxes, 401(k) contributions, Medicare, or Social Security contributions.

- **Hazard Insurance**. Insurance coverage that provides compensation to the insured in case of property loss or damage.

- **Home-Equity Line of Credit**. A home-equity line of credit is a revolving loan where your home is used as collateral. You are given a credit limit and can borrow as much or as little as you want against the limit. This type of loan acts much like a checking account. Your lender provides you with checks and you can draw on the account any time you like as long as you don’t exceed your credit limit.

- **Home-Equity Loan**. A home-equity loan, also known as a second mortgage, is a closed-ended, secured loan with your home used as collateral. It can have fixed or adjustable (ones that fluctuate based on a key index) terms, interest rates, and payments. You usually borrow a prearranged amount from your lender and pay it back in installments (usually monthly).

- **Home Inspection**. A close physical examination of a home to evaluate its plumbing, electrical, and heating and cooling systems, as well as its appliances, roof, foundation, and structural stability. The inspection should be completed before you purchase a home and your offer contract should state that purchase would be contingent on the home inspection results.

- **Home or Condominium Owners’ Association (HOA**). A HOA is a nonprofit corporation or association that manages the common areas and services of a planned unit development or condominium project. In a condominium project, it has no ownership interest in the common areas; in a planned unit development, it holds title to common areas.

- **Homeowner's Warranty (HOW) Program**. The HOW program is an insurance program through which participating builders provide homebuyers with a warranty on the workmanship and materials of a home, and warrant against major structural defects.

- **Inspection Certificate**. An inspection certificate is a document that verifies that a property is as described. The inspection is usually performed by a designated agent and may be accepted in place of a survey.

- **Interest**. 1) Interest is the cost of money. It is usually stated as an annual percentage (e.g. 7.5 %). You either pay interest when you borrow money, or are paid interest when you save and invest money. 2) Interest is a right, share, or title in property.

- **Interest Rate**. An interest rate is the percentage of the outstanding balance of a loan that you are charged for borrowing money, usually expressed as an annual percentage rate.

- **Jumbo Loan**. A jumbo loan is a loan that exceeds the statutory size limit eligible for purchase or securitization by federal agencies.
- **Lease-Purchase**. This is a method of purchasing property by making gradual payments over the required rent for a set period. At the end of this period, the renter uses a mortgage loan to finance the purchase of the property.

- **Lender**. A lender is a financial institution or agency that loans you money.

- **Lien**. A lien is a legal hold or claim of a creditor on the property of another as security for a debt. Liens are always against property, usually real property.

- **Loan Estimate (LE)**. A disclosure to help consumers understand the key loan terms and estimated costs of a mortgage. After a consumer submits six key elements—name, income, Social Security number, property address, estimated property value and desired loan amount—the lender is required to provide this form. All lenders are required to use the same standard Loan Estimate form to make it easier for consumers to compare and shop for a mortgage.

- **Loan Origination Fee**. This is a fee charged by lenders to prepare documents, make credit checks, inspect, and sometimes appraise property. It is usually stated as a percentage of the face value of the loan.

- **Loan Servicing**. Loan servicing, simply stated, is the management of a loan. It includes collection of loan payments, management of escrow accounts, and disbursements from escrow accounts.

- **Loan-to-Value Ratio (LTV**). LTV is the ratio of the amount borrowed compared to the appraised value or sales price of real property. LTVs are expressed as percentages.

- **Lock-In Period**. The number of days during which a lender guarantees a borrower a specific interest rate and terms on a mortgage.

- **Market Value**. The highest price that a buyer—ready, willing, and able, but not compelled to buy—would pay, and the lowest price a seller—ready, willing, and able but not compelled to sell—would accept. Market value is the basis for the "listing price" or the "asking price" of a home.

- **Manufactured Housing**. Factory-built or prefabricated housing, including mobile homes.

- **Mortgage**. This is a legal document that pledges real property (such as a home) to the lender as security for the repayment of a debt.

- **Mortgage Banker**. An individual, firm, or corporation that originates, sells, and/or services loans secured by mortgages on real property.

- **Mortgage Broker**. A firm or individual who, for a commission, matches borrowers and lenders. A mortgage broker takes applications and sometimes processes loans, but generally doesn't use its own funds for closing.

- **Mortgagee**. The mortgage loan lender.

- **Mortgagor**. The mortgage loan borrower who pledges property as a security for a debt.

- **Multiple Listing Service (MLS**). A service provided by the Board of Realtors® which renders access to real estate listings of properties for sale or lease.

- **Net Income**. Your net income is your after-tax pay. It is the money you receive after all tax withholdings, including Social Security, have been made from your gross income. (See *Disposable Income*)

- **Open-Ended Credit (Non-Installment or Revolving Credit**). This is a pre-approved loan of a specified amount of money for an unlimited period of time. You can use as little or as much of your credit line whenever you want. However, if you reach your credit limit, you must pay off some of your balance before you can charge any more to the account. A home equity line of credit is an example of open-ended credit.

- **PITI**. PITI is an acronym for principal, interest, taxes, and insurance. Most monthly residential mortgage payments include these items:

- **Point**. A point is one percent of the dollar amount of the mortgage loan. For example, if your loan amount is $150,000, a point is $1,500. By paying points, you can generally lower the loan's interest rate, however, not all lenders allow this. Points may be paid by the buyer or the seller, or split between them.

- **Pre-approval**. A written agreement from a mortgage lender to grant a loan for a home purchase. The pre-qualification is based on the lender's careful investigation and evaluation of the potential homebuyer's income, credit history, employment history, personal assets, and debts. Pre-approval assures the seller that a buyer's offer is valid. It also speeds up the buying process because, once an offer is made, there is no need to wait while the buyer finds a loan.

- **Pre-qualification**. An informal calculation to estimate the approximate amount of money a homebuyer can afford to spend on a home purchase. The pre-qualification, performed by a realtor or a potential homebuyer, compares the potential buyer's income and assets to the buyer's debts. A pre-qualification helps the realtor focus the home search on homes within a certain price range.

- **Prepaid Items**. Costs paid at closing for taxes, interest, and insurance. Because prepaid items are recurring costs that don't relate to the acquisition of the property itself, they can't be financed.

- **Prepayment Penalty**. This is a fee that may be charged if you repay all or part of your mortgage loan before the due date. FHA insured loans and some loans made by state-chartered banks do not allow prepayment penalties.

- **Pre-qualification**. An evaluation of a potential borrower's financial status to determine the size and type of mortgage available to him/her.

- **Principal**. 1) Principal is the original amount of a loan, excluding interest. Interest is charged based on the unpaid principal of a loan or credit account. 2) The remaining balance of a loan, excluding interest.

- **Private Mortgage Insurance (PMI**). Insurance written by a private company protecting the mortgage lender against financial loss occasioned by a borrower defaulting on the mortgage.

- **Property Tax**. Property tax is the money you pay to your local and state government for the pleasure of owning property within their jurisdiction.

- **Qualifying Ratios**. Calculations that are used in determining whether a borrower can qualify for a mortgage. They consist of two separate calculations: a housing expense as a percent of income ratio, and total debt obligations as a percent of income ratio.

- **Real Estate Settlement Procedures Act (RESPA**). RESPA is a federal law that requires disclosure of all known and/or estimated settlement costs a homebuyer will have to pay. You'll get this information after you apply for a loan and again when you go to settlement.

- **Real Property**. Land and objects permanently attached to it, such as buildings and fences. In some states, this term is synonymous with the term "real estate."

- **Refinancing**. Refinancing is defined as repaying a debt with the proceeds of a new loan, using the same property as collateral. For example, you pay off your original mortgage with a new one. Most of the time, people refinance to take advantage of a lower interest rate to lower their monthly payments.

- **RHS Loan**. This is a home mortgage loan that is guaranteed by the Rural Housing Service.

- **Second Mortgage**. A second mortgage is a mortgage that has rights subordinate to a first mortgage. A home-equity loan is an example of a second mortgage.

- **Secured Debt**. A secured debt is one that is tied to a specific piece of property, such as a house. The property, called collateral, guarantees repayment of the debt. If you don't pay, the creditor can take the property back (see *Foreclosure*).

- **Seller's Agent**. An agent who acts on behalf of the seller of real property.

- **Settlement**. Please see "Closing."

- **Site-Built Housing**. Housing that is built on the construction site. Although some of the house may be prefabricated off-site, the house is assembled on-site.

- **Spending Plan**. A spending plan is a tool you can use to help you manage your money. It lists your monthly expenses and monthly income, and is often referred to as a budget. Your spending plan shows you where to make adjustments to keep you expenses below – or in line with – your income. You should monitor your spending plan often to see if you are staying within your spending goals.

- **Title**. Written evidence of the right to or ownership in property. In the case of real estate, the documentary evidence of ownership is the title deed that specifies in whom the legal estate is vested and the history of ownership and transfers. Title may be acquired through purchase, inheritance, devise, gift, or through foreclosure of a mortgage.

- **Title Insurance Policy**. A contract by which the insurer agrees to pay the insured a specific amount for any loss caused by defects of title to real estate, wherein the insured has an interest. Homebuyers usually must purchase lender's title insurance to protect the lender's interest and may choose to purchase buyer's title insurance to protect their own interest.

- **Townhouse**. A two- or three-story house that shares a common wall with at least one other house. Rows of townhouses that are clustered in urban or suburban areas may also be called "rowhouses."

- **Trust**. A fiduciary relationship whereby legal title to a property is transferred to a trustee with the intention that such property be administered by the trustee for the benefit of another, the beneficiary, who holds equitable title to such property.

- **Underwriting**. Mortgage underwriting is the analysis of the risk involved in making a mortgage loan to determine whether the risk is acceptable to the lender. Underwriting involves the evaluation of the property as outlined in the appraisal report, and the borrower's ability and willingness to repay the loan.

- **Upfront Costs**. Upfront costs are fees and other costs that a buyer must pay before closing on a home. These fees can include an appraisal fee, credit report fee, hazard insurance, flood insurance, and other inspection fees.

- **VA Loan**. A mortgage loan made by an approved lender and guaranteed by the Department of Veterans Affairs. VA loans are made to eligible veterans and those currently serving in the military, and can have a lower down payment than other types of loans.

- **Variable Interest Rate**. A variable interest rate is one that is adjusted, usually quarterly, based on an economic indicator. They are commonly based on an economic index such as the prime interest rate, Treasury Bill rate, or the Federal Funds rate.