Glossary

A

Adjustable Rate Mortgage (ARM)- Type of mortgage loan with an interest rate which changes. Arms typically have a fixed period- usually 1, 3 or 5 years- then begin to adjust on a regular basis. This means the rate can increase above the initial rate and the payments may change as well.

Alternative Mortgage- Any home loan that is not a standard fixed-rate mortgage with a typically qualifying term. This includes ARMs, as well as loans where the qualifying rules may have been relaxed. Some jumbo mortgages (larger loan amounts) are also considered alternative mortgages.

Amortization- The process of gradually repaying a debt with regularly scheduled payments over a period of time. Most fixed rate mortgages amortize over the term of the loan.

Application Fee- Amount a lender charges to process your loan application documents. These are common with mortgage loans and many lenders will apply the fees towards your closing costs. Application fees are generally non-refundable.

Appraisal- An evaluation of the market value of your home made by a professional. This analysis is based on the sales price of similar houses in your area, the condition of your home and any extra features which may add or take away value compared to similar homes.

Appraisal Fee- The amount charged to deliver a professional opinion about how much a property is worth. For a standard house or condominium, this fee is usually between $300 and $500.

Assets- Any physical property that is owned and has a value in money. This can include cash or other items readily converted into cash, such as investments as well as real estate and land.

B

Back-End Ratio or Back Ratio- A calculation used by lenders to determine a borrower's ability to repay his or her debts. This is calculated by taking the sum of housing expenses (mortgage payment, taxes and insurance) and all other monthly debts (credit cards, car payments, student loans, and other monthly payments) divided by monthly gross (pre-tax) income. Traditionally, lenders won't give people loans when the back-end ratio exceeds 36%, meaning that more than 36% of the gross income is being used for debt service.

Balance- The amount that remains in an account after debt or payments are subtracted and credit or deposits are added.

Balloon Mortgage- A type of mortgage where the amortization schedule will not cancel out the debt by the end of the mortgage term. Instead, a large payment (see "Balloon Payment") of the remaining principal balance must be paid. This usually occurs about five to seven years after the loan has been taken out.

Balloon Payment- The last payment of your mortgage which is much larger than the other payments. Since the other, smaller payments do not cover the full amount of the loan that needs to be repaid, this amount settles that balance.

Bankruptcy- A proceeding that legally releases you, the borrower, from repaying a portion or all debts owed. Bankruptcy can stay on your credit report for up to 10 years and should only be considered as a last resort if you cannot repay your debts. Typically a mortgage can be not cleared in a bankruptcy process.

Borrower- The person who receives funds in the form of a loan for a specific period of time at a fee. This person is required to pay back the amount borrowed (see “Principal”) with interest. This person can also be referred to as the “mortgagor.” If a person receives a loan to purchase a home, the borrower is also the homeowner.

Borrower Relocation Assistance- Also referred to as “cash for keys,” this program gives certain qualified homeowners up to $3,000 to help them move into a new home after working out a settlement with their lender. Usually this is the result of a successful short sale or deed-in-lieu of foreclosure.

Broker- An intermediary “middle man” who negotiates terms of a transaction for an individual. For the purchase or sale of a home, this is often the Realtor. For a mortgage, this is the professional who originates a loan application and then secures the financing from the lender. See “mortgage broker.”

Broker Premium- The amount a mortgage broker is paid for serving as the middleman between a lender and the borrower. This premium, sometimes referred to as Yield Spread Premium, comes from the lender from funds generated from the rate charged to a borrower by the broker.

C

Cash-Out Refinance- Occurs when the homeowner takes out a loan on the home for a greater amount of money than what is owed. In most cases, the loan is used to pay off the home and the rest is received as cash at settlement.

Closing Costs- Money that is paid by the borrower at the closing (or completion) of a real estate or mortgage transaction. This includes origination fee, title insurance, attorney fees and taxes. These costs range from three to six percent of your original purchase price or mortgage amount. In some cases, these fees may be paid by the lender or included in the loan amount in the case of a refinance.

Combined Loan-to-Value Ratio (CLTV)- The total amount you are borrowing in your mortgage loan divided by your home's fair market value. For example, if you took out $50,000 from your first mortgage and $20,000 from your HELOC (from a $100,000 house) you would have a CLTV ratio of seventy percent.

Conforming Loan- A mortgage that meets the requirements for purchase by the financing agencies Fannie Mae and Freddie Mac. Requirements include size of the loan, type of loan, and the qualifying characteristics. Typical loan size limits for single-family homes range between $200,000 and $417,000 depending on geography. To help deal with the foreclosure crisis, the agencies changed the rules in areas where home prices dwarf the conforming loan limits – these are declared "high-cost" areas which are assigned a local conforming loan limit that ranges up to $729,750. Loans that exceed the conforming size are considered jumbo mortgages and usually have higher interest rates.

Contract- A legally binding agreement between two or more parties. In the case of your mortgage (which is a legally binding contract), the agreement is between the borrower and your lender. The terms of the mortgage must be in writing in a formal document in order to be upheld in a court.

Credit History- Your financial background. This includes your current account balance, credit limit on any cards you hold, delinquency and other information.

Credit Report- A documentation of your financial behavior that is given to businesses by credit bureaus. The report includes records of your name, current and former addresses, employment, credit and loan histories, inquiries, collection records and public records such as bankruptcy filings and tax liens.

Credit Score- This is the formal evaluation of your loan repayment history that is given to a lender to help determine your creditworthiness. The score is an actual number that ranges, usually, from 300-850 and the greater the number, the better your score. The number is calculated using information about your debt and history to give businesses a quick way to understand your credit. Credit scores increase when you repay your debts on time and decrease when you miss payments on your debts.

Current (on a payment)- When your account has been paid up to date and there are no past dues remaining.

D

Debt- Money, goods or service that are owed. The specific amount, for example $50,000, is the actual debt.

Debt Forgiveness- Also referred to as "debt relief," this is when a lender will agree to not collect and not secure a judgment for a portion of all of a loan balance. This is typically done as part of a settlement with the lender for some portion of the balance, or as part of a successful short sale or deed-in-lieu of foreclosure.

Deed (to property)- A written and signed contract to your home that deals with the transfer in ownership of the property.

Deed-In-Lieu (DIL) of Foreclosure- The borrower, most likely you, gives the property rights of the home to the lender. This is another option to avoiding foreclosure and has a less negative effect on your credit.

Default- The failure to make a payment on your mortgage or loan for either the principal or the interest. An account will usually not be listed as “default” until several payments are missed. Defaults can have a very negative effect on your credit report.

Defer- When a charge or payment is temporarily put on hold.

Delinquency- When a loan payment is overdue, but still within the grace period that it is not officially declared to be a default. Delinquencies can have a very negative effect on your credit score and stay on your credit report for seven years.

E

Equity- The value of your home minus the amount of existing liens. This is sometimes called the “net value” of your home. “Building equity” means that you are paying off your mortgage and also that the value of your property is increasing.

Expense- The cost of your day-to-day life. This is sometimes referred to as “living expenses” because it is the amount of money that you spend on a regular basis to sustain your lifestyle. This includes utility bills, groceries, car payments and other payments.

F

FHA- Stands for “Federal Housing Administration,” which is a division of the Department of Housing and Urban Development (HUD) that provides insurance for mortgage loans made by private lenders.

First Mortgage- The primary loan on a real estate property. This loan has priority over all other “secondary” loans.

Fixed Rate- An interest rate that does not change.

Fixed Rate Mortgage (FRM)- A type of loan with an interest rate that remains constant for the entire duration of its life. These types of loans generally have longer terms and higher interest rates than ARMs but are not at risk for changing interest rates.

Forbearance (Principal)- A special arrangement to postpone legal action, even if you are still behind on your mortgage.

Foreclosure- Under the terms of your mortgage, it is a procedure done by your lender in which the rights and title of your home are taken so that the property can be sold. This occurs when you, the borrower, are in default. The sale of property is used to pay off the debt of your home.

Front-End Ratio or Front Ratio- A calculation of the percentage of monthly pre-tax income that goes toward a house payment. The general rule is that your front ratio shouldn't exceed 28 percent.

G

Good Faith Estimate (GFE)- This is a service which must be provided, by law, by your mortgage lender or broker to you, the homeowner, before you complete your loan application process. It includes an estimate of loan fees so that you may compare the loan with others before you make your final decision. The GFE must be provided within three days of the application and you must sign and return it to finish the process.

Gross Income- The total amount of money that you make in a certain period of time. For instance, your gross monthly income would be the amount (or average amount) of money you make in one month.

H

HAMP- Stands for "Home Affordable Modification Program." This program was introduced by President Obama in 2009 to help homeowners. If eligible, you, the homeowner, can have the principal on your mortgage adjusted or interest rate lowered.

Hardship Letter- A tool to help you, the homeowner, get a loan modification. The letter should be written for the bank's loss mitigator and explain why you are in financial trouble and what your plan of action is to solve it. The letter should be as specific as possible and include any specific dates (such as when the trouble started and when you expect it to end, if possible), facts (such as where you live and how long you've lived there) and figures (such as how much you owe and how many months behind you are on payments).

High-LTV Equity Loan- A specific kind of home loan that causes your loan-to-value (LTV) ratio to be 125 percent or more.

Home Equity Line of Credit (HELOC)- A type of loan in which you, the homeowner, can borrow money as needed over a period of time, instead of all at once. This loan works almost like a credit card because it allows you to borrow a lot of money at once with a low interest rate. It is also important to remember that with this type of loan, your actual home is used as collateral.

Homeowner's Association- A group to which you, the homeowner, may belong to if your neighborhood has one. In order to collect dues and enforce any rules, the homeowner's association must get signatures from 100 percent of the neighborhood. The group may have the power to impose fines or place a lien on your home if its membership dues are not paid.

HUD- Stands for the Department of Housing and Urban Development. This division of the Federal Government is responsible for housing and development programs across the nation.

I

Income Verification- Proof that you can provide to show how much your average monthly income is. This is often required for a loan application or to go through a trial modification.

Interest- A charge due in accordance with the terms of your loan. This value is a percentage.

Interest Rate- The percentage rate charged in accordance with the terms of your loan, usually stated in the terms of "on an annual basis."

Investor- The person who holds the mortgage.

J

Judgment (against homeowner)- This decision is made by a judge and a payment must be made as a result of a court order. A judgment can have a very negative effect on your credit score and remains on your credit report for seven years.

Jumbo Mortgage- A loan that exceeds the limits set by Fannie Mae and Freddie Mac (usually when the loan amount is more than $400,000). Also known as a non-conventional or non-conforming loan, these mortgages usually have higher interest rates than standard loans.

L

Late Payment- A delinquent payment or failure to make a payment on or before the time agreed. Late payments can harm your credit score for up to seven years and are usually penalized with late payment charges.

Late Payment Charge- A fee charged by your creditor or lender when your payment is made after the date due. Late payment charges usually range from $10 to $50.

Lender- This person can also be called the "mortgagee." This is the person or institution which gave you the loan for your home.

Liability- The money that you owe to creditors.

Lien- The legal right a creditor has over your home that acts as security for payment, in the event that you are not fulfilling your payment obligations. If you are in the process of selling your home, it cannot be sold until the lien is paid. Left unpaid, a lien will stay on your credit report forever; but if you pay it, it can remain on your credit report 15 years after payment.

Lien Holder- Also referred to as the “lienor,” this is the person, most likely the lender, that holds the mortgage or right on your home as a security for debt.

Life (of a loan)- The period of time you have to pay off the loan.

Loan- A legally enforceable contract between you, the borrower, and a lender. The agreement will specify how much needs to be repaid, interest rates and when the loan needs to be completely repaid.

Loan Origination Fee- An extra cost charged by a lender for underwriting a loan. The fee often is expressed in “points,” where one point is equal to one percent of the loan amount.

Loan Processing Fee- An extra cost charged by a lender for accepting a loan application and collecting the necessary paperwork.

Loan-to-Value (LTV) Ratio- The percentage of your home that is financed with a loan. For example, if your house is worth $100,000 house and you made a $20,000 down payment when you purchased it and borrowed the other $80,000, the LTV ratio would be 80%. When refinancing a mortgage, the LTV ratio is calculated using the appraised value of the home, not the sale price. You will usually get the best deal if your LTV ratio is below 80%.

Loan Modification- A permanent change in the terms of your loan so that you are better able to make the loan payments.

Low-Documentation Loan- A mortgage that requires less income and/or assets verification than a conventional loan. These types of loans are designed for entrepreneurs, self-employed borrowers or borrowers who choose not to reveal information about their incomes.

Low-Down Mortgage- Secured loans that require a small down payment, usually less than 10 percent, and are generally offered to “special” borrowers, such as first-time buyers, police officers, veterans. These kinds of loans sometimes require that PMI is purchased, too.

M

MHA- Stands for “Making Home Affordable.” This program was introduced in 2009 under the Obama Administration to stabilize the housing market and help you, the homeowner, avoid foreclosure. The plan offers a variety of different options, such as the Second Lien Modification Program, Home

Affordable Refinance Program and Home Affordable Foreclosure Alternatives Program, to help you avoid foreclosure.

Mortgage- An agreement in which you, the borrower, give your lender a right to your property to act as a security for payment (see “Lien”). Once the repayment obligation has been satisfied and all payments have been made, the lien is removed.

Mortgage Banker- A person or company that originates or makes home loans directly for customers, sells them to investors and processes monthly payments.

Mortgage Broker- A person or company that matches lenders with borrowers who meet their criteria. A mortgage broker does not make the loan directly like a mortgage banker does, but still receives payment for his or her services.

Mortgage Interest Expense- A tax term for the interest paid on a loan that is fully deductible, up to certain limits, when you itemize income taxes.

Mortgagee- See “Lender.”

Mortgagor- See “Borrower.”

N

Negative Amortization- When your minimum payment toward a debt is not enough to cover the interest charges. When this occurs, your debt balance continues to increase even though you are making payments.

Net Present Value Test (NPV)- A type of test that is required by the Treasury if your loan is being considered for a modification. It involves going over you, the borrower’s, information to determine what the outcome might be if you were given the modification.

Note- A written promise to pay a specified amount to a certain entity on demand or on a specified date. A “mortgage note” offers a mortgage as proof of debt and describes the terms under which the mortgage is to be repaid.

O

Offer- The selling price of your home.

P

Past Due Charges- Extra charges on payments that were supposed to have been made at an earlier date, but were either made too late or never made.

PITI- Acronym for the four elements of a mortgage payment: Principal, Interest, Taxes and Insurance.

Pre-Approved- A “first glance” way that lenders determine if you may be eligible to take out a loan. After the pre-approval, you will need to file an application so that the lender can better examine your credit history to make the final decision.

Premium- The amount by which your home is bought or sold for more than its face value.

Prepayment Penalty- A fee that a lender charges you, the borrower, if you pay off your loan before the end of its scheduled term. Prepayment penalties are not charged by most standard lenders. If you are a subprime borrower, you should review the terms of your loan offer carefully to see if this fee is included.

Pre-Sale Agreement- A contract on a property, such as a home, that is sold before it has finished being built.

Principal- The amount of money from your loan that does not include interest.

Principal Balance- The remaining balance of your mortgage that does not include interest or other charges.

Primary Residence- If you own more than one home, this is the home where you spend the majority of your time. Primary residence can also be determined by the location of your bank, where your job is and where most of your family lives.

Privacy Policy- A legal document that an organization, like HPF, makes public to help consumers understand how it collects and uses their information.

Private Mortgage Insurance (PMI)- A kind of insurance that protects the lender by paying the foreclosure costs if you, the borrower, stop paying the loan. Private mortgage insurance usually is required if the down payment is less than 20 percent of the sale price.

Q

Qualifying Ratios- As calculated by lenders, the percentage of your household income that is spent on housing debt and combined household debt.

R

Realtor- A person, also known as a "real estate broker," that deals with the buying and selling of homes.

Refinance- Usually done so that you, the homeowner, can have a lower interest rate or have a longer time to repay your loan. The process involves retiring the securities you currently own and being sold new ones.

Repayment Period- The period of a loan when a borrower is required to make payments. Usually applies to HELOC. During the repayment period, you, the borrower, cannot take out any more money and must pay down the loan.

Reverse Mortgage- A type of loan that allows elderly borrowers to access their equity without selling their home. The lender makes payments to the borrower with a reverse mortgage. The loan is repaid from the proceeds of the estate when the borrower moves or passes away.

S

Second Mortgage- A loan that can be taken out on the home in an amount that is the market value of the home minus the balance on the "first" mortgage. Usually, the second mortgage has a shorter term than the original mortgage. If you are facing foreclosure, the second mortgage does not have to be paid until the first mortgage is completely paid off.

Securitize- A collection of different assets that together make a new asset and can be sold to an investor to use as a security.

Servicer- Another name for the mortgage banker who collects your mortgage payments.

Short Sale- A sales transaction in which the seller's (the homeowner's) mortgage lender agrees to accept a payoff of less than the balance due on the loan.

Subprime Borrower- A person attempting to take out a loan who does not meet the qualifications for standard or "prime" loan offers. Usually a subprime borrower has poor credit (a score under 650). Lenders often grade them based on the severity of past credit problems, with categories ranging from "A-" to "D." Subprime borrowers can still qualify for loans, but usually at a higher interest rate or with special terms.

T

Term (of loan)- The period of time in which the loan lasts; from the beginning to the last payment or termination. See “Life (of a loan).”

Title (of home)- The legal right of ownership on your home or property.

Title Report- A document written by the insurance company which gives a legal description of your home and includes a listing of all restrictions and liens against it.

Trial Modification- A short period of time for the loan servicer to determine if you, the borrower, will be able to make the new payments on your loan modification before the process is finalized. For Fannie Mae, a trial modification lasts three months.

V

Variable Rate- A type of ARM that changes because of some other economic index. For example, a variable rate might be prime rate plus 3 percent. The extra percentage will adjust as the prime rate does.

W

W-2 Form- A type of tax form given by an employer to you, the employee, to help file your taxes. W-2 forms include information such as how much you made (wages), how much was paid in taxes (state and Federal that is withheld) and Social Security information.