

Acceleration clause

A clause in a mortgage stating that the entire loan balance shall become due immediately if a breach of certain conditions occurs.

Adjustable-rate mortgage (ARM)

A mortgage that permits the lender to adjust the interest rate periodically on the basis of changes in a specified index.

Amortization

The gradual repayment of a mortgage by installments, calculated to pay off the obligation at the end of a fixed period of time.

Annual percentage rate (APR)

The total cost of a mortgage stated as a yearly rate; includes the base interest rate, loan origination fee (points), commitment fees, prepaid interest, and credit costs that may be paid by the borrower.

Appraisal

A professional estimate of the market value of a property, based on prices that have been recently paid for similar properties in the same area.

Appreciation

An increase in the value of a property due to changes in market conditions or other causes.

APR

See annual percentage rate.

ARM

See adjustable-rate mortgage.

Assessed value

The valuation placed upon property that is used to compute property taxes.

Assumable mortgage

A mortgage that can be taken over by the buyer when a home is sold.

Assumption fee

A processing fee paid to the lender upon the transfer of the seller's existing mortgage to the buyer.

Automated underwriting

A tool (such as Fannie Mae's Desktop Underwriter and Desktop Home Counselor) that automates the process of qualifying and underwriting borrowers.

Binder

A preliminary agreement between a home buyer and seller that includes the price and terms of the contract.

Cap

A provision of an ARM limiting how much the interest rate or mortgage payments may increase.

Capital gains tax

A tax levied on profits realized from the sale of capital assets, including houses and other real property.

Cash reserves

A requirement that buyers have sufficient cash remaining after closing (such as two months' mortgage payments).

Clear title

A title that is free of liens or legal questions as to ownership of property.

Closing

A meeting to finalize the sale of property by delivery of a deed from seller to buyer. The buyer signs the mortgage documents and pays the closing costs. Also called "settlement."

Closing costs

The upfront expenses that must be paid at the time of purchase (over and above the price of the property). Some of these expenses are typically paid by the buyer and others by the seller.

Combined loan-to-value (CLTV) ratio

The ratio between the total amount of mortgages (including any subordinate financing) and the appraised value of the property.

Commission

A fee, usually a percentage of the purchase price of the property, paid to a real estate agent.

Commitment letter

A formal offer by a lender stating the terms under which it agrees to lend money to a home buyer.

Community Home Buyer's Program

A Fannie Mae mortgage targeting low- and middle-income borrowers that allows a low down payment and no cash reserves at closing.

Community Lending

A group of flexible Fannie Mae loan products designed to expand the availability of mortgages for low- and moderate-income families.

Community Seconds loan

A subsidized second mortgage (or “soft second”) that is issued by a housing agency or nonprofit organization. Payment is usually deferred or forgiven over time and carries no or low interest rates.

Condominium

A form of property ownership in which the owner holds title to an individual dwelling unit, while the facilities and common areas are owned collectively by the owners of a multi-unit project.

Conservator

An individual or organization that has been named by a court to exercise control over a person (or in some states, a person’s estate).

Contingency

A condition that must be met before a contract is legally binding.

Conventional mortgage

Any mortgage that is not insured or guaranteed by the federal government.

Convertible ARM

An adjustable-rate mortgage that may be converted to a fixed-rate mortgage under specified conditions.

Cooperative

A type of ownership in which the residents of a multiunit housing complex own shares in a corporation, giving each resident the right to occupy a specific unit.

Counteroffer

Response from a seller to a buyer’s offer. A counteroffer is typically higher than the buyer’s offer and lower than the original sales price of the house.

Covenant

A clause in a mortgage that obligates or restricts the borrower and which, if violated, can result in foreclosure.

Credit counselor

A person who is trained to give advice about money management. The counselor may work for a lender, mortgage insurer, or independent credit counseling agency.

Credit report

A report of an individual’s credit history prepared by a credit bureau and used by a lender in determining a loan applicant’s creditworthiness.

Credit scoring

A process by which credit bureaus summarize a borrower's credit history in the form of a score that many lenders use to evaluate a loan applicant's creditworthiness.

Deductible

A set amount that an insured person pays out of his or her own funds to cover repairs or replacement of lost or damaged property.

Deed

A legal document conveying title to a property.

Deed of trust

A document used in some states in place of a mortgage that gives the lender a security interest in the property. Title is conveyed to a trustee who holds title to the property until the loan is paid off.

Default

The failure to make a mortgage payment on a timely basis or to comply with other requirements of a mortgage.

Deficiency judgment

A judgment for the balance of the debt following the foreclosure of a mortgage.

Delinquency

A situation in which a payment on a loan is overdue but not yet in default.

Deposit

A "good faith" payment submitted by a buyer along with a purchase offer; the payment is held in escrow and is returned if the seller doesn't accept the buyer's offer. Also called "earnest money."

Down payment

The portion of the purchase price that the buyer pays in cash and does not finance with a mortgage.

Early delinquency counseling

A requirement of certain Fannie Mae loan products in which mortgage servicers refer borrowers who fail to make a mortgage payment on time to a third-party counseling agency to help resolve any problems.

Earnest money

A deposit submitted by a buyer along with an offer to purchase a house.

Easement

A right of way giving persons other than the owner access to or over property.

Equal Credit Opportunity Act

A federal law passed in 1974 that prohibits lenders from discriminating on the basis of a borrower's race, sex, religion, age, national origin, receipt of public assistance funds, marital status, or disability.

Equity

A homeowner's financial interest in a property. Equity is the difference between the market value of the property and the amount still owed on the mortgage.

Escrow

The holding of the buyer's deposit by the real estate agent prior to closing; also, an account into which a portion of the mortgage payment is held by the lender for payment of taxes and insurance on the borrower's behalf.

Fair Credit Reporting Act

A federal law that guarantees individuals the right to examine the information about them on file with a credit report agency.

Fannie 97

A Fannie Mae mortgage for low- and moderate-income home buyers that requires only a 3 percent down payment and allows higher-than-normal qualifying ratios.

FHA mortgage

A mortgage that is insured by the Federal Housing Administration, a unit of the U.S. Department of Housing and Urban Development (HUD).

First mortgage

A mortgage that has first claim to the secured property in the event of default.

Fixed-rate mortgage

A mortgage in which the interest rate does not change during the entire term of the loan.

Flood insurance

Insurance that compensates for property damage resulting from flooding.

Forbearance

The lender's postponement of foreclosure to give the borrower time to catch up on overdue payments.

Foreclosure

Legal action taken by a lender if a borrower fails to pay monthly mortgage payments on time. The lender takes back the property and sells it to try to recover the money loaned.

Grace period

The length of time after the payment due date that a lender or other creditor will allow a monthly payment to be paid without charging a penalty.

Graduated payment mortgage

A mortgage that starts with low monthly payments that increase at a predetermined rate for a specified time.

Grant

Money that does not need to be repaid; grants to home buyers may be available from government agencies, including affordable housing programs, or private foundations and nonprofits.

Guardian

An individual or organization who has been named by a court to exercise some or all powers and rights over a person or a person's estate.

Hazard insurance

Insurance coverage that compensates for damage to a property from fire, wind, vandalism, or other hazards.

Home inspection

A property inspection to evaluate the structural and mechanical condition (but not the market value) of a property based on observable, unconcealed structural conditions.

Home-buyer education

A requirement of some Fannie Mae loan products in which borrowers take a series of classes designed to ensure that they are prepared for the responsibilities of homeownership.

HomeChoice loan

A Fannie Mae mortgage targeting low- and moderate-income home buyers with disabilities (or who have family members with disabilities living with them). These loans allow very low down payments and higher-than-normal qualifying ratios.

Homeowner's insurance

An insurance policy that combines personal liability coverage and hazard insurance coverage for a dwelling and its contents.

Homeowner's warranty

An insurance policy that covers repairs to a home's major systems (such as the heating system, air conditioning, and major appliances), usually in the first year following purchase.

Housing counselor/education provider

A person who is trained to provide pre-purchase home-buyer education and otherwise assist prospective home buyers throughout the purchase process.

Housing finance agency

A state-mandated agency that provides financing for low- and moderate-income home buyers.

HUD

U.S. Department of Housing and Urban Development.

HUD-1 Settlement Statement

A federally mandated form used to itemize charges to the buyer and the seller.

Interest

The fee charged for borrowing money.

Interest rate cap

A provision of an ARM limiting how much the interest rate may increase per adjustment period or over the life of a mortgage.

Joint tenancy

A form of co-ownership giving each owner equal interest and rights in the property, including the right of survivorship.

Late charge

A penalty imposed by the lender when a payment is received after the due date.

Lease-Purchase Mortgage Loan

A Fannie Mae mortgage product under which the home buyer leases a home from a nonprofit organization or private seller with an option to buy. Each month's rent payment includes an amount that accumulates toward the down payment.

Lien

A legal claim against a property that must be paid off when the property is sold.

Lifetime cap

A provision of an ARM that limits the total increase in the interest rate over the life of the loan.

Loan interview

A meeting between the person applying for a mortgage and the loan officer.

Loan officer

An agent of the lending institution who collects the information that the loan underwriter uses to evaluate the loan application.

Loan origination fee

A charge imposed by the lender to cover the administrative costs of processing the loan.

Loan processing

The steps performed by the lender to determine whether to grant or deny a loan.

Loan servicing

The collection of mortgage payments from borrowers and the related responsibilities of a loan servicer.

Loan term

The number of years over which the mortgage is to be repaid.

Loan-to-value (LTV) ratio

The relationship between the unpaid principal balance of the loan and the appraised value of the property.

Lock-in

An agreement guaranteeing the borrower a specified interest rate provided the loan is closed within a set period of time.

Medicaid

A federal/state program that provides medical services to low-income people, including people with disabilities.

Mortgage

A legal document that pledges a property to the lender as security for repayment of a loan.

Mortgage broker

An individual or company that, for a fee, acts as intermediary between borrowers and lenders.

Mortgage insurance (MI)

Insurance paid for by the borrower that protects the lender against loss if the buyer fails to repay the mortgage loan.

Mortgage life insurance

A type of insurance that automatically pays off the mortgage in the event of the borrower's death.

Mortgage margin

The set percentage the lender adds to the index value to determine the interest rate of an ARM.

Mortgage note

A legal document obligating the borrower to repay a loan at a stated interest rate during a specified period of time. The mortgage note is secured by a mortgage.

Mortgagee

The lender in a mortgage agreement.

Mortgagor

The borrower in a mortgage agreement.

Multiple listing service (MLS)

A computerized system that generates a list of properties for sale.

Negative amortization

A gradual increase in the mortgage debt that occurs when the monthly payment is not large enough to cover the entire amount of principal and interest due.

Nontraditional credit history

Documentation of a borrower's monthly rent, utility, and other payments that do not appear on a traditional credit report; canceled checks, receipts, and letters from creditors may be used to supplement a traditional credit report (but not to "fix" a derogatory credit history).

Occupancy date

The date that a buyer may move into a newly purchased home.

Origination fee

A fee paid to the lender for processing a loan application.

Owner financing

A transaction in which the property seller provides all or part of the financing.

Payment cap

A provision of some ARMs limiting the amount of a borrower's payments, regardless of the interest rate increase; may result in negative amortization.

PITI

An abbreviation that stands for principal, interest, taxes, and insurance — the components of a monthly mortgage payment.

Planned unit development (PUD)

A development plan for a tract of land that provides for residential and commercial uses and for supporting services such as schools and recreational facilities.

Points

A one-time fee charged by the lender to originate the mortgage; a point is 1 percent of the amount of the mortgage.

Prepays

Fees collected from the buyer at closing to cover items such as property taxes and homeowner's insurance that the seller has already paid.

Prepayment penalty

A fee that may be charged by a lender if the borrower pays off a loan before it is due.

Prequalification

The process of determining how much money prospective home buyers will be eligible to borrow in advance of applying for a mortgage.

Principal

The amount borrowed or remaining unpaid; also, the portion of the monthly mortgage payment that reduces the outstanding balance.

Probate court

A court that has jurisdiction over wills and also may oversee guardianships and conservatorships.

Property inspection

An inspection to evaluate the structural and mechanical condition of a property based on observable, unconcealed structural conditions.

Purchase and sale agreement

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

Qualifying ratios

The ratios that are used to compare the buyer's monthly housing costs (PITI) and total debt (including housing costs) with the buyer's monthly gross income. These ratios are used to determine how large a loan to grant a home buyer.

Rate lock-in

An agreement guaranteeing the home buyer a specified interest rate provided the loan is closed within a set period of time.

Real Estate Settlement Procedures Act (RESPA)

A consumer protection law that requires lenders to give borrowers advance notice of closing costs.

Recording fee

A fee charged for the filing of a legal instrument in a county's public records.

Refinancing

The process of paying off one loan with the proceeds from a new loan using the same property as security.

Representative payee

A person or organization selected by the Social Security Administration to manage the benefit payments of individuals receiving Supplemental Security Income (SSI) or Social Security Disability Insurance (SSDI).

Reserves

A requirement of many mortgages that buyers have sufficient cash remaining after closing to cover one or two months' mortgage payments.

Rider

An addendum to an insurance policy that provides specific additional coverage.

Rural Housing Service (RHS) mortgages

Low-interest, no-down-payment mortgages offered to low- and moderate-income home buyers in rural areas by RHS, a branch of the U.S. Department of Agriculture.

Second mortgage

A mortgage that has a lien position subordinate to the first mortgage.

Servicing

A lender's responsibilities that include collecting and accounting for mortgage payments, handling escrow funds, following up on delinquencies, and remitting and reporting to investors.

Settlement agent

A lender, title insurance company, escrow company, real estate broker, or attorney who conducts the loan closing.

Social Security Disability Insurance (SSDI)

A Social Security benefit available to disabled workers based on time employed and past earnings.

Supplemental Security Income (SSI)

A Social Security benefit available to disabled persons with limited income and resources.

Survey

A drawing or map that shows the precise legal boundaries of a property and physical features, such as improvements to the property (buildings, fences, etc.).

Tenancy by entirety

A type of joint ownership that provides rights of survivorship and is available only to a husband and wife.

Tenancy in common

A type of joint ownership in a property without rights of survivorship.

Title

A legal document evidencing property ownership.

Title company

A company that specializes in examining and insuring titles to real estate.

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.

Title search

An examination of the public records to ensure the seller is the legal owner of the property and to determine whether there are any liens or other claims outstanding.

Transfer of servicing

The transfer of responsibility for servicing a mortgage (collecting and processing the borrower's monthly payments) from one lender to another.

Transfer tax

A state or local tax payable upon the transfer of real property.

Trust

A legal agreement in which one person places money or property in the name of an individual or organization (the trustee) to be used for the benefit of another person (the beneficiary).

Truth-in-Lending Act (TILA) Act

A federal law that requires lenders to fully disclose, in writing, the terms and conditions of a mortgage, including the APR and other charges.

Underwriting

The process of evaluating a loan application to determine the risk involved for the lender. It involves an analysis of the borrower's creditworthiness and the value of the property.

VA mortgage

A loan that is guaranteed by the Veterans Administration and allows qualified veterans to buy a house with no down payment.

Walk-through

A buyer's final inspection of the house being bought prior to loan closing.