

# Glossary

## A

### **Addendum**

A supplemental document attached to a purchase agreement that becomes legally binding.

### **Adjustable Rate Mortgage (ARM)**

A mortgage loan with an interest rate that changes during the term of the loan based on the adjustment period.

### **Amortization**

The process of paying off debt and interest over a set period of time.

### **Annual Percentage Rate (APR)**

The annual cost of a mortgage loan, stated as a percentage of the loan amount to compare the overall cost of loans.

### **Appraisal**

A professional opinion of the market value of a property.

### **Appreciation**

When the value of a home or property increases.

### **Assessed Value**

A value assigned to property by the local government for the purpose of calculating property taxes.

### **Assessment Fees**

A tax or charge to homeowners for public service or improvements that benefit their property.

### **Asset**

Item of value owned by a person.

### **Association Fees**

A required payment for association members to pay for the upkeep and management of shared property.

### **Automated Underwriting**

A computer-based method lenders use to process loan applications and recommend whether or not to approve the loan.

## B

### **Buyer's Agent**

A broker or agent who only represents the buyer.

## C

### **Capacity**

The ability to earn enough income to afford mortgage payments and other living expenses.

### **Capital**

The funds available for the upfront costs of homeownership, such as the down payment and closing costs.

**Carbon Monoxide**

A colorless, odorless, deadly gas that can be produced by home furnaces and other combustible appliances.

**Charge-offs**

An accounting term used when the creditor does not expect to collect the balance owed on an account.

**Clear Title**

A title that is free of liens and any claims against the property.

**Closing Costs**

Fees and expenses paid by the buyer and seller for the purchase, sale or financing of property.

**Commitment Letter**

A formal offer by a lender stating the approved terms for a mortgage loan.

**Comparable Market Analysis**

A written analysis of comparable homes currently for sale or recently sold in the surrounding area.

**Consumer Statement**

A consumer's explanation of specific information appearing on their credit report.

**Contingency**

A clause added to a purchase agreement that states specific conditions that must be met within a set amount of time, or the agreement may be canceled.

**Contract for Deed**

An agreement to buy a home from the seller, while the seller retains the legal title and rights to the property.

**Covenant, Conditions and Restrictions (CC&Rs)**

A specific agreement or regulation that is legally enforceable and must be followed by the homeowner and future owners.

**Credit**

A way to buy products or services now and pay for them later.

**Credit History**

A seven to ten year history of an individual's record of payment for credit obligations, used to determine how likely they are to repay debt.

**Credit Report**

A record of an individual's credit history and current credit status.

**Credit Reporting Agency (credit bureau)**

Private record keeping companies that collect information about how individuals manage their credit.

**Credit Score**

A number based on a credit report that shows lenders how likely an individual is to repay debt.

**Creditor**

Any person or company to whom money is owed.

**D****Debt-to-Income Ratio (back-end ratio)**

The maximum percentage of a borrower's gross monthly income that can be spent on the mortgage payment and all other debts.

**Deed**

A legal document that formally transfers ownership of property from the seller to the buyer.

**Default**

Failure to meet financial obligations, which can result in the lender foreclosing on the property.

**Depreciation**

When the value of a home or property decreases. (Opposite of appreciation.)

**Discretionary Money**

Available money not used to pay expenses.

**Down Payment**

The amount of money paid by the buyer for the home, that is not financed with the mortgage loan.

**Dual Agent**

A broker or agent who represents both the buyer and the seller.

**E****Earnest Money**

A deposit made by the buyer at the time of the purchase agreement to demonstrate to the seller they are serious about buying the home.

**Eminent Domain**

The right of the government to seize private property for public use.

**Energy Audit**

Determines the energy efficiency of a home and ways it can be improved.

**Energy Efficient**

A description of a property that has features to reduce the use of electrical or heating power (i.e. insulation, double-insulated windows, high-efficiency furnace, etc.).

**Entry Cost**

The up-front costs paid by the buyer to purchase a home, including the down payment, earnest money and closing costs.

**Equity**

The amount of ownership a homeowner has in their home. It is estimated by subtracting the balance of the mortgage loan from the current market value.

**Escrow Account**

A special account managed by the loan servicer to collect and hold monthly payments toward annual property taxes, homeowner's insurance and if applicable mortgage insurance.

**F****Fixed Expense**

An expense that does not change or changes only a small amount.

**Fixed Rate Loan**

A mortgage loan with an interest rate that remains the same for the entire term of the loan. The principle and interest are fixed.

**Flexible Expense**

An expense that can be controlled and adjusted.

**For Sale By Owner (FSBO)**

A property that is for sale by the owner, without the assistance of a real estate agent or broker.

**Foreclosure**

The legal process that allows the lender to take possession of and sell a home, because the borrower did not meet the mortgage terms.

**G**

**Good Faith Estimate**

A document that discloses anticipated closing costs.

**Grace Period** The last date the mortgage payment can be received by the loan servicer before a late fee is charged.

**Gross Income**

Income before taxes or deductions are taken out.

**Ground Lease**

A legally binding agreement that defines the roles and responsibilities of a Community Land Trust and the homeowner.

**H**

**Home Equity Line of Credit**

A type of home equity loan that allows the homeowner to access loan dollars with checks or a credit card as needed.

**Home Equity Loan**

A loan based on the home's equity and the home's current market value.

**Homeowners Association**

A group of homeowners within a defined community, neighborhood or complex who make decisions about maintenance and repair of the land and common areas and/or enforces community rules and covenants (CC&Rs).

**Homeowners Insurance**

A form of insurance that protects the insured property against loss from theft, liability and most common disasters.

**Homestead**

A property tax classification for owner-occupied homes, that reduces the amount paid for property taxes.

**Housing Ratio (front-end ratio)**

The maximum percentage of a borrower's gross monthly income that can be spent on mortgage payments.

## I

**Identity Theft**

Is when an individual uses another individual's personal identifying information, like their name or Social Security number, without their permission to commit fraud or other crimes.

**Installment Credit**

A credit account with a fixed number of payments.

**Insurance Policy**

A written insurance contract detailing coverage.

**Insurance Premium**

The cost of an insurance policy.

**Interest**

A fee paid for borrowing money.

**Interest Rates**

The percentage of a loan amount charged for borrowing money.

## J

**Joint Tenancy**

A form of ownership where two or more people have an equal and undivided interest in the property.

**Judgment**

The official court decision that determines a specific amount of money is owed by a debtor to another party and may be listed on a credit report as a public record.

## L

**Lead**

A metal that if breathed or swallowed is hazardous and can cause health problems. More common in homes built before 1978.

**Lender**

A financial institution that provides credit with the understanding that the money borrowed will be repaid, with interest, over a set time period.

**Liability Protection**

Insurance that covers property owners and other household members against personal liability or legal responsibility.

**Lien**

A claim of money against a property. The value of the property is used as security for repayment of debt.

**Loan Closing**

A meeting to transfer ownership of the home from the seller to the buyer.

**Loan Servicer**

Handles the day-to-day collection of mortgage payments and manages escrow accounts.

**Loan-to-Value**

Is the relationship between the loan amount and the value of the property, used to determine the required down payment.

## M

### **Manufactured Home**

A home built entirely in a factory and then delivered to the site.

### **Market Value**

The most likely sale price for a home at a specific point in time.

### **Merged Credit Report**

A single report that combines information from the three major credit reporting agencies.

### **Modular Home**

The home is built in sections at a factory, which are then brought to the site and assembled.

### **Mold**

A form of fungus that grows on various kinds of damp or decaying matter.

### **Mortgage Insurance Premium**

Mortgage insurance required for FHA insured loans, paid by the borrower it protects lenders against loss if borrowers are unable to pay the mortgage.

### **Mortgage Life Insurance**

Optional form of life insurance that pays off the mortgage if the borrower dies or becomes disabled.

### **Mortgage Loan**

A secured loan used to buy a home or property.

### **Mortgage Note**

A legal document stating a borrower's obligation to repay the mortgage loan at a stated interest rate, during a set time period.

### **Mortgage Payment**

The payment made by the borrower to the loan servicer for the mortgage loan. Usually the payment includes principal, interest, taxes and insurance.

## N

### **Net Income**

Income after taxes and deduction have been taken out.

### **New Construction**

A recently built home, that has never been lived in.

### **Nontraditional Credit**

A record of payment history to landlords, utility companies and childcare providers. Used for borrowers who do not have a credit history from loans and other forms of credit.

## O

### **Origination Fee**

Fees charged by lenders for processing loans.

## P

### **Perils**

An event such as a fire or storm, that can damage a home.

### **Periodic Expenses**

Not a regular expense, sometimes paid quarterly or annually.

### **PITI**

A term used to describe a mortgage payment that includes principal, interest, property taxes and insurance.

### **Point**

Equals one percent of the loan amount.

### **Police Power**

The governments right to regulate behavior to protect the general public's safety and welfare.

### **Preapproval**

The lender guarantees to loan a potential buyer a set amount of money, so long as, they meet certain conditions and the home meets the requirements of the lender.

### **Predatory Lending**

The practice of lenders deceiving borrowers and convincing them to agree to unfair loan terms and prices.

### **Prequalification**

An estimate of what can be borrowed from a lender to buy a home, based on gross income and debt.

### **Principal**

The amount borrowed (loan amount) or the outstanding balance of a loan, not including interest and other charges.

### **Private Mortgage Insurance**

Provided by private insurance companies, paid by the borrower, it protects lenders against loss if borrowers are unable to pay their mortgage.

### **Property Protection**

An insurance that covers the home, other structures on the property and the personal property of household members.

### **Property Taxes**

A tax charged by the local government, used to fund a variety of services such as schools, police and street maintenance.

### **Purchase Agreement**

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

## Q

### **Qualifying Ratios**

Guidelines used by lenders to determine how much gross income can be used to pay for a mortgage.

## R

### **Radon**

A colorless, odorless radioactive gas that seeps up from the earth and may leak into homes. Exposure to Radon is known to cause cancer.

**Real Estate Agent (salesperson)**

A person licensed to negotiate and transact the sale or purchase of real estate property.

**Real Estate Broker**

A person or corporation licensed by the state to operate a real estate business.

**Redemption Period**

A period established by state law during which the property owner has the right to redeem their property from foreclosure by paying the sale price, interest and fees.

**Refinancing**

The process of paying off one mortgage loan with a new mortgage loan secured by the same property.

**Reserves**

Money lenders required borrowers to set aside to pay for unexpected repairs and the mortgage payment.

**Revolving Credit**

A credit agreement that allows a borrower to pay all or part of the outstanding balance for a loan or credit card. As credit is paid off, it becomes available again.

**S**

**Seller's Agent (listing agent)**

A broker or agent who only represents the seller.

**Seller's Property Disclosure**

A form required by state law and completed by the seller, it discloses facts about the property the seller is aware of, that could negatively impact the buyer.

**Servicing Disclosure Statement**

A document that states whether the lender expects that another company will be servicing you loan.

**Settlement Statement (HUD -1)**

A document required by the Real Estate Settlement Procedures Act that itemizes services and charges relating to loan closing and the transfer of property.

**Sheriff's Sale**

A public auction of a borrower's assets seized in a foreclosure, carried out by a sheriff or other court officer.

**Short Sale**

The home is sold for less than what the owner owes for the mortgage. Lenders sometime agree to a short sale when the owner cannot pay the mortgage.

**Site-Built Home**

The home is constructed entirely onsite, piece by piece.

**Sole Ownership**

A form of ownership where one individual owns the property.

**Spending Plan**

A tool used to manage money and reach financial goals.

**T****Tenancy-in-Common**

A form of ownership where two or more people own a property and can have different shares of ownership.

**Term**

The number of years over which a loan is repaid.

**Title**

A legal document establishing the right of ownership in a property.

**Title Examination**

A search of public records to ensure the seller is the legal owner and determine if the current title is free of liens or any claims against the property.

**Title Insurance**

Insurance that protects against loss, if any claim is made against the title of the property.

**Truth-in-Housing**

An inspection and report of the condition of the property. It is required by some cities and counties, before a property can be sold.

**Truth-in-Lending Disclosure**

A document that discloses the terms and cost of a mortgage loan, including the Annual Percentage Rate.

**U****Underwriting**

The process of a lender analyzing a borrower's finances in order to approve or deny a loan.

**Universal Default**

Is when one creditor is paid late and other creditors automatically consider the consumer late or in default.

**Unsecured Debt**

Debt that is not backed by any collateral.

**W****Will**

A legally binding document stating how to distribute someone property upon their death.

**Work Order**

Items the appraiser determines must be repaired, before the lender will approve the mortgage loan.

**Workout Agreement**

A special arrangement made between the borrower and lender, to bring the mortgage loan current and prevent foreclosure.