

Mortgage Glossary, Mortgage Terms

[A](#) | [B](#) | [C](#) | [D](#) | [E](#) | [F](#) | [G](#) | [H](#) | [I](#) | [J](#) | [L](#) | [M](#) | [N](#) | [O](#) | [P](#) | [Q](#) | [R](#) | [S](#) | [T](#) | [U](#) | [V](#) | [Z](#)

A

Abstract (Of Title)

Summary of public records relating to the title to a particular piece of land. An attorney or title insurance company searcher reviews an abstract of title to determine whether there are any title defects which must be cleared before a buyer can purchase clear, marketable, and insurable title.

Acceleration Clause

Standard clause in a mortgage that requires the balance of the loan to become due immediately, if regular mortgage payments are not made or for breach of other conditions of the mortgage.

Adjustable-Rate Mortgage (ARM)

Interest rate is not fixed, but changes during the life of the loan in line with movements in an index rate. You may also see ARMs referred to as AMLs (adjustable mortgage loans) or VRMs (variable-rate mortgages).

Adjustment Period

Length of time for which the interest rate is fixed on an ARM. After that period it will be adjusted. Typically once (T-Bill) or twice a year (LIBOR), depending on the index.

Agreement of Sale

A.K.A. Purchase Agreement or Sales Agreement. Contract in which a seller agrees to sell and a buyer agrees to buy, under certain specific terms and conditions spelled out in writing and signed by both parties.

Alienation Clause/Due on Sale Clause

Provision in a mortgage document stating that the loan must be paid in full if ownership is transferred.

Amortization

A payment plan which enables the borrower to reduce his debt gradually through monthly payments of principal.

Annual Percentage Rate (APR)

Measure of the cost of credit, expressed as a yearly rate. It includes interest as well as other loan charges (points, PMI, etc). Since all lenders follow the same (complex and sometimes error prone) rules to ensure the accuracy of the annual percentage rate, it provides consumers with a good basis for comparing the cost of loans, including mortgage plans. Only a zero point, zero closing cost loan would have an APR equal to the actual Note rate. The APR is almost always greater than the Note Rate.

Appraisal

Expert's estimate of the quality or value of real estate as of a given date.

Assessed Value

Figure in dollars determined for tax purposes by an assessor which reflects a property's worth and which, unless exempt, is used to compute a tax dollar obligation by multiplying it by a tax rate. This is often confused with the term appraisal.

Assumability

When a home is sold, the seller may be able to transfer the mortgage to the new buyer. Lenders generally require a credit review of the new borrower and may charge a fee for the assumption. Some mortgages contain a due-on-sale clause, which means that the mortgage may not be transferable to a new buyer. Instead, the lender may make you pay the entire balance that is due when you sell the home. Assumability can help you attract buyers if you sell your home. It is common for FHA and VA Loans.

Attached Home

A home that has one or more common walls adjoining another home. Condominiums, townhomes and row houses are attached homes.

B

Balloon Mortgage

Short-term fixed-rate loan which involves smaller payments for a certain period of time and one large payment for the entire amount of the outstanding principal. Usually they have terms of 5 and 7 years.

Biweekly Mortgage

A mortgage which requires a payment for half the monthly amount every two weeks. As a result the loan amortizes much faster than a loan with normal monthly payments. The result is as if one extra monthly payment were made each year. With this, 30 year fixed rate loan will be paid off in approximately 22.7 years. You may achieve the same affect by making extra monthly principal payments.

Blanket Mortgage

A mortgage covering at least two pieces of real estate as collateral.

Bridge Loan

Interim loan to finance a buyer's new residence if the buyer is unable to sell his/her current residence first.

Broker

Real estate broker

Building Line or Setback

Buffer distances from the ends and/or sides of the lot beyond which construction may not extend.

The building line may be established by a filed plat of subdivision, by restrictive covenants in deeds or leases, by building codes, or by zoning ordinances.

Buydown

The seller pays an amount to the lender so that the lender can give you a lower rate and lower payments, usually for an early period in an ARM. The seller may increase the sales price to cover the cost of the buydown. Buydowns can occur in all types of mortgages, not just ARMs.

C

Caps

Limit on how much the interest rate or the monthly payment can change, either at each adjustment or during the life of the mortgage. All ARMs have interest rate caps to protect you from enormous increases in monthly payments.

A **lifetime cap** limits the interest rate increase over the life of the loan. Lifetime caps can vary by lender, but most ARMs have caps of 5% or 6%.

A **periodic or adjustment cap** limits how much your interest rate can rise at one time. Generally, a 6 month ARM will have a cap of 1% while a 1 year ARM will have a 2% cap.

Periodic and lifetime caps are quoted as two numbers as in 2/6 which would mean that periodic cap is 2% and the lifetime cap is 6%. Examples:

1. The initial interest rate is 5.5%, the index is 8%, and the margin is 2.875%, then the new interest rate = $8\% + 2.875\% = 10.875\%$.

If the lifetime cap is 5% then

the actual new interest rate will be $5.5\% + 5\% = 9.5\%$.

2. The initial interest rate is 6%, the index is 7%, and the margin is 3%, then the new interest rate = $7\% + 3\% = 10\%$.

But, If the periodic cap is 1% then

the actual new interest rate will be $6\% + 1\% = 7\%$.

ARMs which have an initial fixed period -- 30/3/1, 30/5/1, 30/7/1 and 30/10/1 -- can have also **first adjustment cap**. It limits the interest rate you will pay the first time your rate is adjusted. These ARMs are quoted as three numbers as in 5/2/5 which would mean that the first adjustment cap is 5%, adjustment cap thereafter is 2%, and the lifetime cap is 5%.

Two-Step loans -- 5/25 and 7/23 -- have only one adjustment after the first five or seven years of its term. They are quoted with a single first adjustment cap.

Capital Gains

Profit earned from the sale of real estate. The new tax code may not tax the first \$500,000 of profits from the sale of a home (married filing jointly, \$250,000 single) if you have occupied the home for at least 2 years. Consult your tax advisor.

Cash out refinance

A refinance on a property that you own where the loan amount will result in extra money left after paying off the existing 1st mortgage plus any purchase money 2nd mortgages and closing costs. Usually \$2,000 can be received back at closing loan before is it considered a cash out refinance. A borrower is "cashing out" their equity in this type of loan and there could be additional fees at higher LTV's.

Certificate of Eligibility

A document issued by the U.S. Department of Veterans Affairs. It is required when applying for VA loans.

Certificate of Occupancy

Document which is issued by local governments that states a property meets the local building standards for occupancy. Required for new construction and sometimes also for the sale of an existing property.

Certificate of Reasonable Value

An appraisal by a VA approved appraiser which estimates the property's current market value.

Clear Title

A title/deed that free of clouds and disputed interests.

Closing Costs

The numerous expenses which buyers and sellers normally incur to complete a transaction in the transfer of ownership of real estate. These costs are in addition to price of the property and are items prepaid at the closing day. This is a typical list:

- **BUYER'S EXPENSES** Recording Deed and Mortgage Escrow Fees Attorney's Fee
(optional) Title Insurance Appraisal Endorsements to Title 1% PA
Transfer Tax Pre-Paid Property tax, sewer, water, trash, adjustments Points and other loan fees
Homeowners/Hazard Insurance Policy for 1st year
- **SELLER'S EXPENSES** Attorney's Fee (optional) Real Estate Commission 1% PA Transfer Tax
Satisfaction of liens Express mail for lien payoff(s)

The agreement of sale negotiated previously between the buyer and the seller may state in writing who will pay each of the above costs.

Closing Day

The day on which the formalities of a real estate sale are concluded. The deed is generally prepared for the closing by an attorney and this cost charged to the buyer. The buyer signs the mortgage, and closing costs are paid. The final closing merely confirms the original agreement reached in the agreement of sale.

Cloud (On Title)

An outstanding claim or encumbrance which adversely affects the marketability of title.

Commission

Fee paid to a real estate agent or broker by the seller as compensation for finding a buyer and completing the sale. Usually it is a percentage of the sale price--6 to 7 percent on houses, 10 percent on land.

Commitment

A written agreement between a lender and a borrower to loan money on specific terms or conditions.

Condominium

Individual ownership of a dwelling unit and an individual interest in the common areas and facilities which serve the multi-unit project.

Construction loan

A short term loan to pay for the construction of buildings or homes. These loans usually provide periodic disbursements to the builder as each stage of the building is completed. Generally followed by long term financing called a "take out" loan issued upon completion of construction.

Contingency

A condition put on an offer to buy a home; such as the perspective buyer making an offer contingent on his or her sale of a present home, or being approved for a mortgage.

Conventional Mortgage

Any mortgage loan not insured by HUD or guaranteed by the Veterans' Administration. It is subject to conditions established by the lending institution, Fannie Mae, Freddie Mac, and State statutes

Conversion Option

Some ARMs come with options to convert them to a fixed rate mortgage during a given time period without having to go through a refinancing, which could cost up to 5 percent or 6 percent of the loan amount. For example popular conversion options for 1 year treasury-indexed ARMs include:

1. Option to convert on the third, fourth, or fifth adjustment date, i.e. during the 37th, 49th and 61st months of the loan.
2. Option to convert during the first five years on the adjustment date, i.e. during the 13th, 25th, 37th, 49th and 61st months of the loan.

The interest rate or points may be somewhat higher for a convertible ARM. Also, a convertible ARM may require a small fee at the time of conversion.

Conveyance

The transfer of title to the property from one party to another.

Cooperative Housing

An apartment building or a group of dwellings owned by a corporation, the stockholders of which are the residents of the dwellings. It is operated for their benefit by their elected board of directors. In a cooperative, the corporation or association owns title to the real estate. A resident purchases stock in the corporation which entitles him to occupy a unit in the building or property owned by the cooperative. While the resident does not own his unit, he has an absolute right to occupy his unit for as long as he owns the stock.

Credit Report

A report documenting the history of how you paid back the companies you have borrowed money from, or how you have met other financial obligations.

D

Deed

A formal written instrument by which title to real property is transferred from one owner to another. The deed should contain an accurate description of the property being conveyed, should be signed and witnessed according to the laws of the State where the property is located, and should be delivered to the purchaser at closing day. There are two parties to a deed: the grantor and the grantee. (See also Deed of Trust, General Warranty Deed, Quitclaim Deed, and Special Warranty Deed)

Deed of Trust

Like a mortgage, a security instrument whereby real property is given as security for a debt. However, in a deed of trust there are three parties to the instrument: the borrower, the trustee, and the lender, (or beneficiary). In such a transaction, the borrower transfers the legal title for the property to the trustee who holds the property in trust as security for the payment of the debt to the lender or beneficiary. If the borrower pays the debt as agreed, the deed of trust becomes void. If, however, he defaults in the payment of the debt, the trustee may sell the property at a public sale, under the terms of the deed of trust. In most jurisdictions where the deed of trust is in force, the borrower is subject to having his property sold without benefit of legal proceedings. A few States have begun in recent years to treat the deed of trust like a mortgage.

Default

Failure to make mortgage payments as agreed to in a commitment based on the terms and at the designated time set forth in the mortgage or deed of trust. It is the mortgagor's responsibility to remember the due date and send the payment prior to the due date, not after. Generally, thirty days after the due date if payment is not received, the mortgage is in default. In the event of default, the mortgage may give the lender the right to accelerate payments, take possession and receive rents, and start foreclosure. Defaults may also come about by the failure to observe other conditions in the mortgage or deed of trust.

Deferred interest

When the monthly payments do not cover all of the interest cost, the unpaid interest is deferred by adding it to the loan balance.

Deficiency Judgment

Personal claim against the debtor when the sale of foreclosed property does not yield sufficient proceeds to pay off the mortgages.

Depreciation

Decline in value of a house due to wear and tear, adverse changes in the neighborhood, or any other reason.

Discount

In an ARM with an initial rate discount, the lender gives up a number of percentage points in interest to give you a lower rate and lower payments for part of the mortgage term (usually for one year or less). After the discount period, the ARM rate will probably go up depending on the index rate.

A State tax, in the forms of stamps, required on deeds and mortgages when real estate title passes from one owner to another. The amount of stamps required varies with each State.

Down payment

The amount of money to be paid by the purchaser to the seller upon the signing of the agreement of sale. The agreement of sale will refer to the down payment amount and will acknowledge receipt of the down payment. Down payment is the difference between the sales price and maximum mortgage amount. The downpayment may not be refundable if the purchaser fails to buy the property without good cause. If the purchaser wants the downpayment to be refundable, he should insert a clause in the agreement of sale specifying the conditions under which the deposit will be refunded, if the agreement does not already contain such clause. If the seller cannot deliver good title, the agreement of sale usually requires the seller to return the downpayment and to pay interest and expenses incurred by the purchaser.

Due-on-Sale Clause

A clause in the Deed of Trust or Mortgage that states that the entire loan is due upon the sale of the property.

E**Earnest Money**

The deposit money given to the seller or his agent by the potential buyer upon the signing of the agreement of sale to show that he is serious about buying the house. If the sale goes through, the earnest money is applied against the down payment. If the sale does not go through, the earnest money will be forfeited or lost unless the binder or offer to purchase expressly provides that it is refundable.

Easement Rights

A right-of-way granted to a person or company authorizing access to or over the owner's land. An electric company obtaining a right-of-way across private property is a common example.

Encroachment

An obstruction, building, or part of a building that intrudes beyond a legal boundary onto neighboring private or public land, or a building extending beyond the building line.

Encumbrance

A legal right or interest in land that affects a good or clear title, and diminishes the land's value. It can take numerous forms, such as zoning ordinances, easement rights, claims, mortgages, liens, charges, a pending legal action, unpaid taxes, or restrictive covenants. An encumbrance does not legally prevent transfer of the property to another. A title search is all that is usually done to reveal the existence of such encumbrances, and it is up to the buyer to determine whether he wants to purchase with the encumbrance, or what can be done to remove it.

Equal Credit Opportunity Act

Prohibits discrimination in any aspect of a credit transaction on the basis of race, religion, age, color, national origin, receipt of public assistance funds, sex, or marital status.

Equity

The value of a homeowner's unencumbered interest in real estate. Equity is computed by subtracting from the property's fair market value the total of the unpaid mortgage balance and any outstanding liens or other debts against the property. A homeowner's equity increases as he pays off his mortgage or as the property appreciates in value. When the mortgage and all other debts against the property are paid in full the homeowner has 100% equity in his property.

Escrow

Funds paid by one party to another (the escrow agent) to hold until the occurrence of a specified event, after which the funds are released to a designated individual. In FHA mortgage

transactions an escrow account usually refers to the funds a mortgagor pays the lender at the time of the periodic mortgage payments. The money is held in a trust fund, provided by the lender for the buyer. Such funds should be adequate to cover yearly anticipated expenditures for mortgage insurance premiums, taxes, hazard insurance premiums, and special assessments. See also Escrow Account.

F

Fair Housing Act

Prohibits discrimination in housing sales or loans on the basis of race, religion, color, national origin, sex, familial status, or handicap. Your Rights under the Fair Housing Act.

Federal Home Loan Mortgage Corporation (FHLMC, Freddie Mac)

A stockholder-owned corporation chartered by Congress to create a continuous flow of funds to mortgage lenders in support of homeownership and rental housing. Freddie Mac purchases single-family and multifamily residential mortgages from lenders and packages them into securities that are sold to investors.

Federal Housing Administration (FHA)

A part of the U.S. Department of Housing and Urban Development (HUD). FHA assists 1st-time home buyers and low to moderate income borrowers who may not be able to meet down payment requirements for conventional loans by providing mortgage insurance to private lenders. It also insures loans for home improvements and buying manufactured/mobile homes. These programs operate through FHA approved lending institutions and their correspondents, such as Allegiance mortgage..

Federal National Mortgage Association (FNMA, Fannie Mae)

A stockholder-owned federally chartered corporation. Fannie Mae purchases residential home loans from mortgage lending institutions, packages the mortgages into securities and sells the securities to investors. They are the largest source of residential mortgage funds in the USA.

FHA Loan

A loan insured by the Federal Housing Administration open to all qualified home purchasers. Interest rates on FHA loans are generally market rates, while down payment requirements are lower than for conventional loans. FHA loans cannot exceed the statutory limit.

First Mortgage

A mortgage that has priority as a lien over all other mortgages.

Flood Insurance

Insurance that compensates for physical property damage resulting from flooding. It is required for properties located in federally designated flood areas.

Foreclosure

A legal term applied to any of the various methods of enforcing payment of the debt secured by a mortgage, by taking and selling the mortgaged property, and depriving the mortgagor of possession.

FSBO

For sale by owner.

G

General Warranty Deed

A deed which conveys not only all the grantor's interests in and title to the property to the grantee, but also warrants that if the title is defective or has a "cloud" on it (such as mortgage claims, tax liens, title claims, judgments, or mechanic's liens against it) the grantee may hold the grantor liable. Buyers have used this as an alternate to purchasing title insurance.

Government National Mortgage Association (GNMA, Ginnie Mae)

A government owned corporation within the HUD that helps to finance government-assisted housing programs. Ginnie Mae guarantees securities backed by pools of mortgages. The mortgages are insured by FHA, or guaranteed by VA, or by the Rural Housing Service (RHS). Ginnie Mae securities are bought and sold through financial institutions that trade government securities.

Graduated Payment Mortgage

A type of a mortgage that has lower payments for up to 5 years initially and then payments increase each year until the loan is fully amortized. Can result in negative amortization.

Grantee

That party in the deed who is the buyer or recipient.

Grantor

That party in the deed who is the seller or giver.

H

Hazard Insurance

Protects against damages caused to property by fire, windstorms, and other common hazards.

HUD

U.S. Department of Housing and Urban Development. Office of Housing/Federal Housing Administration within HUD insures home mortgage loans made by lenders and sets minimum standards for such homes.

HUD-1 Settlement Statement

A standard form that shows all charges imposed on borrowers and sellers in connection with the settlement. RESPA allows the borrower to request to see the HUD-1 Settlement Statement one day before the actual settlement.

I

Impound/Escrows

That portion of a borrower's monthly payments held by the lender or servicer to pay for taxes, hazard insurance, mortgage insurance, lease payments, and other items as they become due.

Index

A published measure of economic conditions usually relative to other financial instruments such as Treasury notes or Treasury bills. The lender uses a particular index to calculate the interest rate on an adjustable rate mortgage (ARM) by adding a fixed margin to the index. The most common indexes are:

- Constant Maturity Treasury (CMT)
- Treasury Bill (T-Bill)
- 12-Month Treasury Average (MTA)
- 11th District Cost of Funds Index (COFI)
- London Inter Bank Offering Rates (LIBOR)
- Certificates of Deposit (CD) Indexes
- Prime Rate

Interest

A charge paid for borrowing money. See [Mortgage Note](#)

J

Joint Tenancy

Joint tenancy is one of the methods available for two or more people to hold title to real estate or personal property. It includes a right of survivorship, meaning that on the death of one joint tenant, his/her interests transfer to the remaining joint tenants.

Jumbo Loan

A loan that exceeds the [conforming loan limits](#) established by [Fannie Mae](#) or [Freddie Mac](#). It has interest rates a little higher than conforming loan.

L

Lender Paid Mortgage insurance (LPMI)

An alternative to PMI. The lender will increase the interest rate instead of charging PMI on loans with LTV's greater than 80%. [Read about different PMI options.](#)

Lien

A claim by one person on the property of another as security for money owed. Such claims may include obligations not met or satisfied, judgments, unpaid taxes, materials, or labor. See also Special Lien

Loan-to-Value Ratio (LTV)

The relationship between the amount of the mortgage loan and the value of the real property expressed as a percentage. For purchase loans the value of the property is the appraised value or the purchase price, whichever is less. For refinance loans the value is the appraised value on seasoned properties (owned more than one year).

A LTV of 90% means that you are borrowing 90% of the property value. If a LTV exceeds 80%, Private Mortgage Insurance (PMI) -- that insures the lender in the event a borrower defaults -- is generally required.

Downpayment is the difference between the purchase price and the mortgage amount.

Lock

A lender's promise to hold a certain interest rate and points for you, for a given number of days, while your loan application is processed. If not locked, the interest rates quoted to you may stay the same, decrease, or increase from the day you apply for your mortgage. Lock-ins on rates remove the risk of rising rates.

However, a locked-in rate could also prevent you from taking advantage of rate decreases. If you think that rates will remain level or even go down, you may choose to bet on interest rates decreasing by electing to float until you go to closing. It is a gamble.

Lock-ins of 30-60 days are common. If your lock-in period expires before you go to closing, you might lose the interest rate and the number of points you had locked-in. You may ask lender for a longer lock-in period. But bear in mind that lenders may charge you a fee for extending the lock-in period. Request information from the lender regarding lock procedures.

M

Marketable Title

A title that is free and clear of objectionable liens, clouds, or other title defects. A title which enables an owner to sell his property freely to others and which others will accept without objection.

Margin

The number of percentage points the lender adds to the index rate to calculate the ARM interest rate at each adjustment. It is typically between 2.5 to 3% on a conforming loan. Sub-prime loans may have margins of 5% to 6%.

Mortgage

A lien or claim against real property given by the buyer to the lender as security for money borrowed. Under government-insured or loan-guarantee provisions, the payments may include escrow amounts covering taxes, hazard insurance, PUD association fees, and special assessments. Mortgages generally run from 10 to 30 years, during which the loan is to be paid off.

Mortgage Banker

A company who is a direct lender but does not retain loans they have made. They use a line of credit to fund loans and immediately sell the mortgage, at closing or within a matter of days, to another lender at which time the borrower will receive a "Goodbye Letter" announcing who they will be sending payments to. Mortgage Bankers do not service loans.

Mortgage Broker

A person (not an employee of a lender) who brings a borrower and a lender together to obtain a federally-related mortgage loan. A mortgage broker has access to a variety of lenders and offers the most choice in loan programs. 1999 saw Mortgage Brokers with a 70% market share of all originations.

Mortgage Commitment

A written notice from the bank or other lending institution saying it will advance mortgage funds in a specified amount to enable a buyer to purchase a house by a certain date.

Mortgage Insurance Premium (MIP)

The payment made by a borrower to the lender for transmittal to HUD to help defray the cost of the FHA mortgage insurance program and to provide a reserve fund to protect lenders against loss in insured mortgage transactions. In FHA insured mortgages this represents an annual rate of 1/2% paid by the mortgagor on a monthly basis.

Mortgage Note

A written agreement to repay a loan. The agreement is secured by a mortgage, serves as proof of an indebtedness, and states the manner in which it shall be paid. The note states the actual amount of the debt that the mortgage secures and renders the mortgagor personally responsible for repayment.

Mortgage (Open-End)

Line of Credit. A mortgage with a provision that permits borrowing additional money in the future without refinancing the loan or paying additional financing charges. Open-end provisions often limit such borrowing to no more than would raise the balance to the original loan figure.

Mortgagee

The lender in a mortgage agreement.

Mortgagor

The borrower in a mortgage agreement.

Multiple Listing Service (MLS)

A service offered to participating real estate brokers that lists available homes for sale. The listings are published and distributed among the member brokers to assist in sales efforts.

A | B | C | D | E | F | G | H | I | J | L | M | N | O | P | Q | R | S | T | U | V | W | Z

N

Negative Amortization

Negative amortization typically only occurs when an ARM has a payment cap that results in monthly payments not high enough to cover the interest due. Negative amortization occurs when the monthly payments do not cover all of the interest cost. The interest cost that isn't covered is added to the unpaid principal balance. This means that even after making many payments, you could owe more than you did at the beginning of the loan.

Non-conforming loan

Loans that do not comply with Fannie Mae or Freddie Mac guidelines. These guidelines establish the maximum loan amount, down payment, borrower credit and income requirements, and suitable properties. Loans that does conform to these guidelines may be sold to Fannie Mae or Freddie Mac.

O

Open End Mortgage

See Mortgage (Open-End)

Owner Financing

A property purchase transaction in which the property sellers provide all or part of the financing by means of holding a second mortgage. Minimum duration for this "seller second" is 5 years with most lenders.

P

Parcel

A separately assessed for tax purposes lot or piece of real property.

PITI

Principal, Interest, Taxes and Insurance. These components are usually all included in the monthly mortgage payment unless escrows are waived.

Planned Unit Development (PUD)

A project or subdivision that includes common property that is owned and maintained by a homeowners 'association for the benefit and use of the individual PUD unit owners.

Plat

A map or chart of a lot, subdivision or community drawn by a surveyor showing boundary lines, buildings, improvements on the land, and easements.

Points

Sometimes called "discount points". A point is one percent of the amount of the mortgage loan amount. (eg: For a \$50,000 loan, one point is \$500). Points are interest paid in advance and allow a borrower to buy a lower mortgage rate, which results in a lower payment. For borrowers who are not able to cover the cost of points in addition to the other costs of buying a home, or for those who do not plan to stay in the house for long, 0 points are preferred. Buyers are prohibited from paying points on HUD or VA guaranteed loans (sellers can pay, however). On a conventional mortgage, points may be paid by either buyer or seller or split between them.

Power of Attorney

A legal document that authorizes another person to act on one's behalf. A power of attorney can grant complete authority or can be limited to certain acts and/or certain periods of time.

Prepayment

Payment of mortgage loan, or part of it, before due date. Mortgage agreements sometimes restrict the right of prepayment either by limiting the amount that can be prepaid in anyone year or charging a penalty for prepayment. Lenders who impose prepayment penalties will charge borrowers a fee if they wish to repay part or all of their loan in advance of the regular schedule. The Federal Housing Administration does not permit such restrictions on FHA insured mortgages. Prepayment penalties are typically only found on bad credit mortgage loans.

Principal

The basic element of the loan as distinguished from interest and mortgage insurance premium. In other words, principal is the amount upon which interest is paid.

Private Mortgage Insurance (PMI)

An insurance policy the borrower buys to protect the lender from non-payment of the loan. This is required for loans where the borrower puts less than 20% down. With a new law that took effect in 1999, PMI will automatically be removed when the loan is paid down to 78% LTV, subject to the borrower's good credit history. [Read about different PMI options.](#)

Pro-rations

The allocation of expenses, such as taxes between buyer and seller at closing based on the number of days the property is owned during the month of closing. The seller has prepaid taxes for a year, and is reimbursed for that part of the year he will not own the house.

Processing, Underwriting, Courier and Document Fees

Charges for the lender's services associated with making the loan.

Purchase Agreement

See Agreement of Sale

Q

Quitclaim Deed

A deed which transfers whatever interest the maker of the deed may have in the particular parcel of land typically for no sales price. A quitclaim deed is often given after a divorce to remove one person from the deed or for family transactions. By accepting such a deed the buyer assumes all the risks. Such a deed makes no warranties as to the title, but simply transfers to the buyer whatever interest the grantor has. See Deed

Qualifying Ratios

Lenders use certain guidelines to determine a potential borrower's credit-worthiness. The two guidelines used are the housing and debt ratios. They are expressed as two numbers like 28/38 where 28 would be the housing ratio and 36 would be the debt ratio. It means that:

1. Your housing expenses (PITI) should not exceed 35 percent of your gross monthly income and
2. Housing expenses plus long- term debt should not exceed 40 percent of your gross monthly income.

The housing expenses include monthly mortgage principal, interest payments, property taxes and homeowner's insurance. There may be other expenses, such as condominium fees, homeowners fees, special assessments, etc., that are included. Long-term debt is defined as monthly expenses extending more than 10 months into the future. The qualifying ratios may vary but 40% is common (40/40 ratio).

Please note that qualifying ratios are only a rough guidelines and underwriters consider many variables in their analysis. Many times, borrowers fall outside the guidelines, but have strong compensating factors that reflect low credit risk. Some compensating factors are history of savings, long-term job stability, a substantial down payment or excellent credit history will influence the decision to approve or deny a particular loan with ratios up to 30/50% common.

R

Rate and Term Refinance

A refinance of a property whereby the loan amount covers only the existing 1st mortgage, plus any 2nd mortgage that was used to purchase the home, plus closing costs, with up to \$2,000 cash back at closing. Any other refinance would be a cash out refinance.

Real Estate Broker

A middle person or agent who buys and sells real estate for a company, firm, or individual on a commission basis. The broker does not have title to the property, but generally represents the owner.

Real Estate Settlement Procedures Act (RESPA)

A consumer protection law designed to help consumers be more informed with the home buying process. It requires that borrowers receive disclosures at various times. RESPA also prohibits referral fees and similar acts that increase the cost of settlement services.

Recorder

The public official who keeps records of transactions that affect real property in the area. Sometimes known as a "Registrar of Deeds" or "County Clerk."

Refinancing

The process of the same mortgagor paying off one loan with the proceeds from another loan.

Rescission

The cancellation of a contract. When you use your home as collateral for a refinance or second mortgage, you generally have the right to cancel the credit transaction within three business days.

Reserves

The amount of money left in a borrower's possession after settlement. Typically the guidelines call for 2months PITI to be left over in reserves. 401K and retirement plans count towards reserves. The borrower needs to show they have funds in an account in the event of an emergency (furnace breaks). These funds can remain in vested in a 401k or stocks and still be counted to qualify.

Restrictive Covenants

Private restrictions limiting the use of real property. Restrictive covenants are created by deed and may "run with the land," binding all subsequent purchasers of the land, or may be "personal" and binding only between the original seller and buyer. Restrictive covenants that run with the land are encumbrances and may affect the value and marketability of title. Restrictive covenants may limit the density of buildings per acre, regulate size, style or price range of buildings to be erected.

Reverse Mortgage

A special type of home loan that lets elderly homeowners convert the equity in their home into regular payments of cash.

Right of Survivorship

In joint tenancy, the right of survivors to acquire the interest of a deceased joint tenant.

S

Sales Agreement

See Agreement of Sale

Second Home (or Vacation Home)

This home is not rented and is occupied occasionally by the owners. It is typically in a resort area not in close proximity to the borrower's primary residence.

Second mortgage

A mortgage in addition to the first mortgage. Home equity loans, credit lines, home improvement loans are second mortgage loans. Second mortgages are subordinate to the first one. Second mortgage loans are non-conforming loans, so they usually carry a higher interest rate, and they often are for a shorter time.

Secondary(subordinate) financing

Borrowing additional money toward the down payment. If it is acceptable, usually subject to a maximum combined LTV. Secondary financing is used as an alternative to obtaining Private Mortgage Insurance and to avoid Jumbo loan rates.

Servicing

The collection of payments, handling your escrow accounts and management of operational procedures that a lender performs.

Set Back Ordinance

Regulates the distance from the lot line to the point where improvements may be constructed.

Settlement (Closing)

The meeting between the related parties of the mortgage where the mortgage documents are executed. Here the property ownership is transferred to the buyer on a purchase transaction.

Shared Appreciation Mortgage

Residential loan in which a borrower receives a below-market interest rate in return for which the lender receives a specified share of the future appreciation in the value of the property.

Special Assessments

A special tax imposed on property, individual lots or all property in the immediate area, for road construction, sidewalks, sewers, street lights, etc.

Special Lien

A lien that binds a specified piece of property, unlike a general lien, which is levied against all one's assets. It creates a right to retain something of value belonging to another person as compensation for labor, material, or money expended in that person's behalf. In some localities it is called "particular" lien or "specific" lien. (See lien.)

Special Warranty Deed

A deed in which the grantor conveys title to the grantee and agrees to protect the grantee against title defects or claims asserted by the grantor and those persons whose right to assert a claim against the title arose during the period the grantor held title to the property. In a special warranty deed the grantor guarantees to the grantee that he has done nothing during the time he held title to the property which has, or which might in the future, impair the grantee's title.

Sub-prime loan

A mortgage for someone who does not meet conventional guidelines. The borrower may have damaged credit, own too many properties, or have a debt-to-income ratio that exceeds the conforming loan guidelines. These loans are considered to have a higher risk of default and hence carry a higher interest rate than conforming loans.

Survey

A map or plat made by a licensed surveyor showing the results of measuring the land with its elevations, improvements, boundaries, and its relationship to surrounding tracts of land. A survey is often required by the lender for construction loans to assure them that a building is actually sited on the land according to its legal description.

T

Taxable Assessed Value

The assessed value of a parcel against which the tax rate is applied to compute the tax due. In case of a partial exemption, the exempt amount is subtracted from the assessed value in order to determine the taxable assessed value.

Teaser Rate

A low initial interest rate on a mortgage.

Title

The rights of ownership and possession of particular property. In real estate usage title may refer to the instruments or documents by which a right of ownership is established (title documents), or it may refer to the ownership interest one has in the real estate.

Title Insurance

Protects lenders or homeowners against loss of their interest in property due to legal defects in title. Insurance benefits will be paid only to the "named insured" in the title policy, so it is important that an owner purchase an "owner's title policy", if he desires the protection of title insurance.

Title Insurance Binder

Written commitment of a title insurance company to insure title to the property under the conditions stated in the binder.

Title Search or Examination

A check of the title records, generally at the local courthouse, to make sure the buyer is purchasing a house from the legal owner and there are no liens, or other claims or outstanding restrictive covenants filed in the record, which would adversely affect the marketability or value of title.

Transfer Tax

In PA the buyer and seller each pay 1% state tax on the sales price of the real estate, unless stated otherwise in the sales contract. In Philadelphia County, the tax rate is 2% for each the buyer and seller.

Trustee

A party who is given legal responsibility to hold property in the best interest of or "for the benefit of" another. The trustee is one placed in a position of responsibility for another, a responsibility enforceable in a court of law. See Deed of Trust

Truth-In-Lending Act (TIL, also called Regulation Z)

Under this act a lender is required to provide you with a disclosure estimating the costs of the loan you have applied for, including your total finance charge and the Annual Percentage Rate (APR) within three business days of your application for a loan.

Two-Step Mortgage

With this type of loan homebuyers get a fixed rate loan at a slightly lower interest rate for a fixed period of time (most often for 5, 7, or 10 years) and then the interest rate is adjusted to fit market conditions at that time. After that adjustment, the mortgage maintains a fixed rate for the remaining years.

U

Underwriting

A process of deciding whether to make a loan based on your credit reputation, income, debt, appraised value of the house and other factors.

V

VA Loan

A mortgage for veterans and servicepersons guaranteed by the Department of Veterans Affairs (VA), requiring very low or no downpayments and with generous requirements for qualification.

Z

Zoning

A local government authority's specifications for the use of property in certain areas.

Zoning Ordinances

The acts of an authorized local government establishing building codes, and setting forth regulations for property land usage.

A|B|C|D|E|F|G|H|I|J|K|L|M|N|O|P|Q|R|S|T|U|V|Z