

The Massachusetts Homeownership Collaborative

HOMEBUYER COUNSELING CURRICULUM

GLOSSARY

Acceleration Clause. A provision in a mortgage that gives the lender the right to demand payment of the entire outstanding balance if a monthly payment is missed.

Adjustable Rate Mortgage (ARM). A mortgage whose interest rate changes over time based on a pre-determined economic 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.

Amortization Schedule. A timetable for payment of a mortgage showing the amount of each payment applied to interest and principal and the remaining balance.

Annual Percentage Rate (APR). The total yearly cost of a mortgage stated as a percentage of the loan amount, including the base interest rate, primary mortgage insurance, and loan origination fees (points).

Application. A form which the lender uses to collect information about a prospective borrower and the property being used as collateral.

Appraisal. An evaluation of the property to determine its value for purposes of the mortgage loan. An appraisal is concerned chiefly with market value – what the home would sell for in the marketplace.

Appreciation. An increase in the value of your property.

Assessed Value. The valuation placed upon property by a public tax assessor for purposes of taxation.

Assumable Mortgage. A mortgage that can be taken over (“assumed” by the buyer) when a home is sold.

Balance. Amount of loan remaining to be paid; sometimes known as the “outstanding balance.”

Basis Point. 1/100th of one percent.

Binder. A preliminary agreement, secured by the payment of earnest money, under which a buyer offers to purchase real estate.

Building Code. Local or state building regulations which govern the design, construction and materials used in the construction of a building.

Buyer's Broker. A broker who represents the buyer in a fiduciary capacity.

Buyer's Market. A situation in which the supply of properties available exceeds demand. As a result, sellers are forced to lower their prices to attract buyers.

Cap. A provision of an ARM limiting how much the interest rate or mortgage payments may increase or decrease in any single adjustment or over the life of the loan. See also **Lifetime Cap.**

Cash Reserve. A requirement of some lenders that buyers have sufficient cash remaining after closing to make the first two mortgage payments.

Certificate of Title. Like a car title, this is the paper that signifies ownership of a home.

Clear Title. A title that is free of liens and legal questions as to ownership of the property.

Closing. The occasion when a sale is finalized; the buyer signs the mortgage and closing costs are paid. Also called "settlement."

Closing Costs. Sometimes called settlement costs. Costs in addition to the price of the home, including mortgage service charges, title search and insurance, and transfer of ownership charges.

Closing Day. The date on which the title for property passes from the seller to the buyer and/or the date on which the borrower signs the mortgage.

Collateral. Something of worth which serves as security for a loan.

Commitment Letter. A formal offer by a lender stating the terms under which it agrees to loan money to a borrower.

Condominium. Individual ownership of one unit (in a multi-unit dwelling), and an undivided interest in the common area and facilities that serve the entire multi-unit project.

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 can be converted to a fixed-rate mortgage under specific conditions.

Cooperative. A form of common property ownership in which the residents of an apartment building do not own their own units, but rather own shares in the corporation that owns the property.

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

Credit. Based on trust that goods and services received now will be paid for in the future.

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 credit worthiness.

Credit Union. A cooperative association which extends savings opportunities and credit to its members.

Creditworthiness. Ability to obtain and repay debts.

Deed. A legal document that transfers ownership of property from one person to another.

Default. Failure to make mortgage payments on a timely basis or to comply with other conditions of a mortgage.

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

Deposit. Cash paid to the seller when a formal sales contract is signed.

Depreciation. A decline in the value of a home as a result of time, changes in the housing market, wear and tear, adverse changes in the neighborhood and its patterns, or for any other reason.

Disclosure Statement. Statement giving all the terms and conditions of the credit transaction.

Down Payment. An initial payment on a home, usually a specific percentage of the home purchase price, that is required of a borrower at the time of loan closing.

Due-on-Sale Clause. A provision in a mortgage allowing the lender to demand repayment in full if the borrower sells the property securing the mortgage.

Earnest Money. The deposit money given to the seller by the potential buyer to show that he/she is serious about buying the home. If the deal goes through, the earnest money

is usually applied against the down payment. If the deal does not go through, it may be forfeited.

Easement Rights. A right of way granted to a person or company authorizing access to or over the owner's land. Electric companies often have easement rights across your property.

Equal Credit Opportunity Act (ECOA). A federal law that prohibits lenders from denying mortgages on the basis of the borrower's race, color, religion, national origin, handicap, age, sex, marital status, or receipt of income from public assistance programs.

Equity. The difference between the market value of the home and the amount of money you still owe on it.

Equity Loan. A loan based on the borrower's equity in his/her home.

Escrow. The holding of documents and money by a neutral third party prior to closing; also an account held by the lender into which a homeowners pays money for taxes and insurance.

Escrow Funds. Money, or papers representing transactions, which are given to a third party to hold until all conditions in a contract are fulfilled.

Fair Credit Reporting Act. A consumer protection law that sets up procedures for correcting mistakes on one's credit record.

FHA Loan. A mortgage that is insured by the Federal Housing Administration.

FHLMC. Federal Home Loan Mortgage Corporation. A quasi-public corporation that purchases loans through the secondary market. Also referred to as Freddie Mac.

FNMA. Federal National Mortgage Association. A quasi-public corporation that purchases loans through the secondary mortgage market. Also referred to as Fannie Mae.

Finance Charge. Amount charged for the use of credit services.

First Mortgage. The mortgage that has first claim 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 required for properties in federally designated flood areas.

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

Foreclosure. The process by which a mortgaged property may be sold by the mortgage lender when the homeowner fails to pay the monthly mortgage payment. The mortgage is considered “in default.”

Hazard Insurance. Insurance to protect the homeowner and the lender against physical damage to a property from fire, wind, vandalism, or other hazards.

Homeowner’s Association Fee. A term related to a condominium association’s collection of money from the owners of each condominium. In determining whether you can afford the property, the lender will calculate the homeowner’s association fee as part of your housing-to-income ratio. The fee pays for common expenses including insurance, maintenance, trash removal and reserve for future major expenditures.

Homeowner’s Insurance. An insurance policy that combines liability coverage and hazard insurance.

Homeowner’s Warranty. A type of insurance that covers repairs to specified parts of a house for a specific period of time.

Home Mortgage Loan. A loan to buy a home.

Interest. The fee charged for borrowing money.

Interest Rate Cap. A provision of an ARM limiting how much interest rates may increase per adjustment period. Also see **Lifetime Cap.**

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

Late Charge. The penalty a borrower must pay when a payment is made after the due date.

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

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

Line of Credit. Dollar amount a lender makes available to a borrower.

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

Loan-to-Value Ratio (LTV). The relationship between the amount of a mortgage and the total value of the property.

Lock-In. A written agreement guaranteeing the homebuyer a specified interest rate provided the loan is closed within a set period of time. The lock-in also usually specifies the number of points to be paid at closing.

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

Mortgage. A legal document that pledges a property to the lender as security for payment of a debt.

Mortgage Company. A company that originates mortgages exclusively for resale in the secondary market.

Mortgage Broker. A company that matches borrowers with lenders.

Mortgage Commitment. The written notice from the bank or other lender saying that it will advance you the mortgage funds in a specified amount to enable you to buy the home.

Mortgage Insurance. See **Private Mortgage Insurance.**

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

Mortgagee. The bank or lender who loans the money to the mortgagor.

Mortgagor. The homeowner who is obligated to repay a mortgage loan on a purchased property.

Notice of Default. A formal written notice to a borrower that a default has occurred and that legal action may be taken.

Offer to Purchase Real Estate. A promise by a buyer to enter into an agreement to purchase real estate provided certain terms and condition are met by the seller of the real estate.

Origination Fee. A fee or charge for the work involved in the preparation and processing of a proposed mortgage loan. This is stated as a percentage of the mortgage amount, or points, and is usually paid at closing.

Owner Financing. A purchase in which the seller provides all or part of the financing.

PITI. Stands for principal, interest, taxes and insurance – the components of a monthly mortgage payment.

Points. A one-time charge by the lender to increase the yield of the loan. A point is one percent of the amount of the mortgage.

Prepaid Expenses. The initial deposit at time of closing for taxes, hazard insurance, and the subsequent monthly deposits made to the lender for that purpose. Expenses may also include an interest amount.

Prepayment Penalty. A fee charged to a borrower who pays off a loan before it is due.

Pre-approval. Guarantees in writing a mortgage loan and is based on actual verification of employment history, credit report, etc.

Pre-qualification. The process of determining how much money a prospective homebuyer will be eligible to borrow before a loan is applied for.

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

Private Mortgage Insurance (PMI). Insurance provided by non-government insurers that protects lenders against loss if a borrower defaults.

Purchase and Sale Agreement (P&S). A written contract signed by the buyer and seller stating the terms and conditions under which a property will be sold.

Qualifying Ratios. Guidelines applied by lenders to determine how large a loan to grant a homebuyer.

Rate Lock. See **Lock-In**.

Real Estate Agent. A person licensed to negotiate and transact the sale of real estate on behalf of an owner or seller.

Real Estate Settlement Procedures Act (RESPA). A consumer protection law that requires lenders to give borrowers advance notice of closing costs.

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

Repairs and Maintenance. The costs incurred in replacing damaged items or maintaining household systems to prevent damage.

Second Mortgage. A mortgage that has rights that are subordinate to the rights of the first mortgage holder.

Secondary Mortgage Market. The buying and selling of existing mortgages.

Security. Something of value pledged to assure loan payment and subject to seizure upon default.

Seller's Market. An economic situation that favors the seller because the demand for property exceeds the supply.

Settlement. See **Closing**.

Settlement Sheet. The computation of costs payable at closing which determines the seller's net proceeds and the buyer's new payment.

Special Assessment. A tax for a specific purpose such as providing paved streets or new sewers. People whose property abut the improved streets or tie into the new sewer system must pay the tax. Condominium owners may also be assessed for major repairs done in the common areas of their building.

Survey. A drawing showing the legal boundaries of a property.

Tenancy by Entirety. A type of joint ownership of property available only to a husband and wife.

Tenancy in Common. A type of joint ownership in a property without right of survivorship.

Title. The evidence of a person's legal right to possession of property, normally in the form of a deed.

Title Company. A company that specializes in insuring title to property.

Title Insurance. Special insurance which protects lenders against loss of their interest in property due to unforeseen occurrences that have already occurred that might be traced to legal flaws in previous ownership (e.g. forged deed). An owner can protect his interest by purchasing separate coverage.

Title Search. A check of the title records to ensure that the seller is the legal owner of the property and that there are no liens or other claims outstanding.

Truth-in-Lending. 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.

VA Loan. A loan that is guaranteed by the Veterans Administration.