**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 a credit report that shows lenders how likely an individual is to repay debt.

Creditor
Any person or company to whom money is owed.
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.

**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.

**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.
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.

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.

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.
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.

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.

Origination Fee
Fees charged by lenders for processing loans.
Glossary

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 government’s 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.

Qualifier 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 your 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.