GLOSSARY | COMMONLY USED REAL ESTATE TERMS

Adjustable-Rate Mortgage (ARM): a mortgage loan with an interest rate that is subject to change and is not fixed at the same level for the life of the loan. These types of loans usually start off with a lower interest rate but can subject the homeowner to payment uncertainty when the rate adjusts.

Amortization: the process of paying off a debt by making regular installment payments over a set period of time, at the end of which the loan balance is zero.

Appraisal: a written estimate of a property's current market value prepared by a professional appraiser.

Appraiser: a professional with knowledge of real estate markets and skilled in the practice of appraisal, a written estimate of a property's current market value. When a property is appraised in connection with a loan, the appraiser is selected by the lender, but the appraisal fee is usually paid by the homeowner.

Balloon Mortgage: a mortgage loan that requires a large payment due upon maturity (for example, at the end of ten years).

Chapter 13 Bankruptcy: this type of bankruptcy sets a payment plan between the homeowner and the creditor monitored by the bankruptcy court. The homeowner can keep the property, but must make payments according to the court's terms within a three to five year period.

Chapter 7 Bankruptcy: a bankruptcy that requires assets be liquidated in exchange for the cancellation of debt.

Closing: when selling a house, the process of transferring ownership from the seller to the buyer, the disbursement of funds from the buyer and the lender to the seller, and the signing of all the documents associated with the sale and the loan. On a refinance, there is no transfer of ownership, but the closing includes repayment of the old lender.

Co-Homeowners: one or more persons who have signed a loan note, and are equally responsible for repaying the loan.

Collections: the efforts a lender takes to collect past due payments.

Convertible ARM: is an Adjustable Rate Mortgage loan that can be converted into a fixed-rate mortgage during a certain time period.

Creditor: A person or entity that is owed money by another person or entity.

Debt-to-income: a comparison or ratio of gross income to housing and other expenses or debts the homeowner owes.

Deed: a document that legally transfers ownership of property from one person to another. The deed is recorded on public record with the property description and the owner's signature. Also known as the title.

Deed-in-lieu of foreclosure: the process by which a homeowner may voluntarily transfer the deed to a home to the servicer when payments cannot be made.

Deferred Payments: loan payments that are authorized to be postponed as part of a workout process to avoid foreclosure.

Delinquency: failure to make a payment when it is due. A loan is generally considered delinquent when it is 30 or more days past due.

Equity: an owner's financial interest in a property which is calculated by subtracting the amount still owed on the mortgage loan(s) from the current market value of the property.

Escrow Account: a separate account into which a portion of each monthly mortgage payment is placed; an escrow account provides the funds needed for such expenses as property taxes, homeowners insurance, mortgage insurance, etc.

Escrow Analysis: a periodic review of escrow accounts to make sure that there are sufficient funds to pay the taxes and insurance on a home when they are due.

First mortgage: a mortgage that has a first-priority claim against the property in the event the homeowner defaults on the loan.

Fixed-Rate Mortgage: a mortgage loan with a fixed interest rate that remains the same for the life of the loan.

Forbearance: a temporary period of time during which a regular monthly mortgage payment is reduced or suspended

Foreclosure: the legal process by which a property may be sold and the proceeds of the sale applied to the mortgage debt. A foreclosure occurs when the loan becomes delinquent because payments have not been made or when the homeowner is in default for a reason other than the failure to make timely mortgage payments.

Foreclosure Prevention: steps by which the servicer works with the homeowner to find a permanent solution to resolve an existing or impending loan delinquency.

Government-Sponsored Enterprises (GSEs): private corporations created by the U.S. Government to reduce borrowing costs. They are chartered by the U.S. Government but are not considered to be direct obligations. For example, Fannie Mae and Freddie Mac are GSEs.

HAFA Short Sale: when the homeowner sells the property for less than the full amount due on the mortgage. When a homeowner qualifies for the HAFA Short Sale, the servicer approves the Short Sale terms prior to listing the home and then accepts the payoff in full satisfaction of the mortgage.

Hazard Insurance: insurance that is generally required under mortgage contracts to pay for loss or damage to a person's home or property.

Home Affordable Foreclosure Alternatives Program (HAFA): a program that provides opportunities for homeowners who can no longer afford to stay in their home but want to avoid foreclosure to transition to more affordable housing through a short sale or deed-in-lieu of foreclosure.

Home Affordable Modification Program (HAMP): a program that provides eligible homeowners the opportunity to modify their mortgages to make them more affordable.

Home Affordable Refinance Program (HARP): a program that provides homeowners with loans owned or guaranteed by Fannie Mae or Freddie Mac an opportunity to refinance into more affordable monthly payments.

Home Affordable Unemployment Program (UP): a program that provides homeowners a temporary forbearance, which is a temporary period of time during which a regular monthly mortgage payment is reduced or suspended.

Home Equity Line of Credit (HELOC): a way of borrowing money against the equity in one's home to pay for things such as home repairs, college education, or other personal uses.
Housing expense: the sum of a homeowner's mortgage payment, hazard insurance, property taxes, and homeowner association fees.

Interest-Only Mortgage: a mortgage where the homeowner pays only the interest and none of the outstanding principal balance on a loan for a specified amount of time.

Investment Property: a property not considered to be a primary residence that is purchased in order to generate income, profit from appreciation, or to take advantage of certain tax benefits.

Lender-Placed Insurance: insurance placed on a home or property by a lender to protect their interest in the collateral which secures the loan.

Lien: the lender's right to claim the homeowner's property in the event the homeowner defaults. If there is more than one lien, the claim of the lender holding the first lien will be satisfied before the claim of the lender holding the second lien, which in turn will be satisfied before the claim of a lender holding a third lien, etc.

Loan-to-Value (LTV) Ratio: in real estate lending, the outstanding principal amount of the loan divided by the appraised value of the property underlying the loan.

Monthly Gross Income: the total income of all homeowners who sign a mortgage before any taxes or other deductions are made.

Mortgage: a legal document that pledges property to a lender as security for the repayment of a loan. The term is also used to refer to the loan itself.

Mortgage Insurance (MI): insurance that protects lenders against losses caused by a rhomeowner's default on a mortgage loan. MI typically is required if the homeowner's down payment is less than 20% of the purchase price.

Mortgage Modification: a change in the terms of a loan, usually the interest rate and/or term, in response to the homeowner's inability to make the payments under the existing contract.

Mortgage Payment: the amount of money paid on a monthly basis for principal, interest, property taxes, hazard insurance and homeowner's association fees, if applicable.

Mortgage Payment Guideline: the calculation within HAMP that helps determine a homeowners eligibility. It is calculated as 31% of the homeowner's current monthly gross income. If the monthly mortgage payment is above this amount, a homeowner may be eligible for HAMP.

Negative Equity: the condition of owing more on the property than the property is worth.

PITIA: Shorthand for principal, interest, taxes and insurance, which are the components of the housing expense.

Pre-foreclosure: sale when the servicer allows the homeowner to list and sell the mortgaged property with the understanding that the net proceeds from the sale may be less than the total amount due on the first mortgage. Also referred to as a "short sale."

Primary or Principal Residence: the property in which the homeowner will live most of the time, as distinct from a second home or an investor property that will be rented.

Private-Label Mortgages: loans that are not owned or guaranteed by Fannie Mae, Freddie Mac, Ginnie Mae, or another Federal agency.

Refinance: the process of replacing an existing mortgage with a new one by paying off the existing debt with a new loan under different terms.

Repayment Plan: a process where a homeowner promises to pay down past due amounts on a mortgage while continuing to make regular monthly payments on a property.

Second Lien Modification Program (2MP): program that provides homeowners a way to modify their second mortgages to make them more affordable when their first mortgage is modified under the HAMP.

Second Mortgage: a loan with a second-priority claim against a property in the event that the homeowner defaults. The lender who holds the second mortgage gets paid only after the lender holding the first mortgage is paid.

Servicer: a firm that works on behalf of the lender in support of a mortgage, including collecting mortgage payments, ensuring payment of taxes and insurance, managing escrow accounts, managing communications with the homeowner, and loss mitigation or foreclosure when necessary.

Servicing transfer: when one servicer is replaced by another.

Short Sale: when the servicer allows the homeowner to list and sell the mortgaged property with the understanding that the net proceeds from the sale may be less than the total amount due on the first mortgage.

Term: the period of time assigned as the lifespan of any investment.

Title: the documented evidence that a person or organization has ownership of real property.

Trial Period or Trial Period Plan: HAMP requires homeowners to enter into a trial period plan before receiving a permanent HAMP modification. During this period, homeowners must submit all required trial period payments. The trial period is at minimum, a three or four month period to see if the new reduced payment is sustainable, while providing relief and preventing any possible foreclosure sales from occurring. During the trial period, the terms and conditions of the original loan remain unchanged and only after all trial payments are made on time and all documents are submitted and verified can the loan be permanently modified.

Trust: a relationship in which one person holds title to property, subject to an obligation to keep or use the property for the benefit of another.

Underwriting: process of examining all the data about a homeowner's property and income documentation to determine whether the mortgage modification should be issued. The person who does this is called an underwriter.

Unpaid Principal Balance (UPB): amount of a loan that is due to the lender. This does not include additional charges, such as interest.

Weighted Average Life: average number of years for which each dollar of unpaid principal on a loan or mortgage remains outstanding.

Work Out: a way to resolve or restructure a loan to prevent a homeowner from going into foreclosure through a loan modification, forbearance or short sale.

This list is originally found at www.makinghomeaffordable.gov