Charting Your Course to Home Ownership

Glossary: Terms Home Buyers and Home Owners Need to Know

203(b). FHA (Federal Housing Administration) Program, which provides mortgage insurance to protect lenders from default; used to finance the purchase of new or existing one- to four-family housing; characterized by low down payment, flexible qualifying guidelines, limited fees and a limit on maximum loan amount.

203(k). This FHA (Federal Housing Administration) mortgage insurance program enables home buyers to finance both the purchase of a house and the cost of its rehabilitation through a single mortgage loan.

A

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

Actual Cash Value. In the event of a covered loss, you will be paid the current replacement cost minus depreciation. (This generally includes the estimated normal wear-and-tear on the item). The total amount paid is subject to the terms of your particular policy, including applicable deductible and coverage limits.

Additional Living Expenses Coverage. Pays the reasonable increase in living expenses necessary to maintain your normal standard of living when a direct physical loss occurs, making your residence premises uninhabitable for a specific time stated in the policy. This includes payments for the additional costs of a place to stay, food and other increased living expenses.

Adjustable-rate Mortgage (ARM). A mortgage whose interest rate changes over time based on an index; sometimes called a variable rate mortgage.

Adverse action. A refusal to grant credit in the amount or on the terms requested in an application.

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Alternative mortgages. These aim to keep monthly payments low in the early years of the loan for first time and low income buyers. Downside is that they encourage the purchase of expensive homes, more than that which could be bought with conventional loan.

Amortization. The gradual repayment of a mortgage by installments.

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 loan stated as a percentage. An APR can include the base interest rate, mortgage insurance, origination fees and some other related fees. See your lender for a more complete explanation of what fees are used to calculate your APR.

Application. A request for an extension of credit. Usually a printed form on which the lender collects credit, income and debt information about a prospective borrower, plus facts about the property being used to secure the loan. A fee may be charged at the time of application.

Appraisal. A professional opinion of the value of a property.

Appraiser. A qualified individual who uses his or her experience and knowledge to prepare the appraisal estimate.

Appreciation. An increase in the value of a property caused by changes in market conditions or other factors.

Assessed value. The value assigned to a property by a public tax assessor for purposes of taxation.

Assessor. A government official who is responsible for determining the value of a property for the purpose of taxation. Complete list of assessors for Louisiana can be found at http://louisianaassessors.org/Assessors/Assessors.htm

Asset. An asset is anything owned by a person or organization having monetary value.

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

Assumption. The transfer of the seller's existing mortgage to buyer.

B

Back-end ratio. Compares the total of all monthly debt payments with gross monthly income; not to exceed 33 to 41%.

Balloon-payment mortgage. Loan with fixed monthly payments based on a 30-year schedule BUT the entire loan comes due at the end of a set period, usually 5, 7 or 10 years. At that time you must refinance or sell home to pay off loan.

Binder. A preliminary agreement to purchase real estate, secured by the payment of earnest money.

Borrower. The person sometimes referred to as the mortgager, who obtains a mortgage loan.

Broker. A mortgage broker helps a prospective borrower shop around for the best rate and terms in obtaining mortgage financing.

Budget. A detailed record of all income earned and spent during a specific period of time.

Building code. Based on agreed-upon safety standards within a specific area, a building code is a regulation that determines the design, construction and materials used in building.

C

Cap. A provision of an ARM limiting how much the interest rate or mortgage payments may increase.

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. A document provided by a qualified source (such as a title company) that shows the property legally belongs to the current owner; before the title is transferred at closing. It should be clear and free of all liens or other claims.

Claim. A formal notice to an insurance company requesting it to make payment according to the terms of the policy.

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 note and mortgage, and closing costs are paid. Also called "settlement."

Closing or settlement costs. Expenses (over and above the price of the property) incurred by buyers and sellers in transferring ownership of a property. They include but are not limited to lawyer's fees, title search and insurance, survey charges and fees to record the deed, mortgage and other documents.

Commitment letter. A formal offer by a lender stating the terms under which it agrees to lend money to a home buyer.

Community Home Buyer's Program. An alternative financing option that allows households of modest means to qualify for mortgage loans using nontraditional credit histories, flexible qualifying ratios and the waiver of the usual cash reserves at closing. Offered by nonprofit Community Development and Housing Organizations.

Condominium. A form of property ownership in which the homeowner holds title to an individual dwelling unit plus an interest in common areas of a multi-unit project.

Construction mortgage. This is a loan taken out to finance the construction of a home and is meant to be short-term, to be paid off when the home construction is completed and certificate of occupancy issued. They are not standardized, so there is variability in features. Things most have in common: interest-only payments during construction; variable interest rates; priced at some amount above a short-term interest rate; six months to a year in length; traditional mortgage needed to pay off construction loan; thus, process entails two mortgage applications with associated fees and two closings.

Construction-to-permanent loans. This type of loan program combines a construction loan for building a home, with an automatic traditional (fixed-rate or adjustable-rate) mortgage to finance the home upon its completion. It has the advantage of a single closing.

Contents. Personal property, such as your furniture, appliances, clothes, jewelry and bikes.

Contingency clause. 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. Generally, fixed-rate, fixed-term, fixed-payment mortgage loan.

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.

Counter offer. An offer made by the lender to grant credit other than in the amount or terms requested by the applicant. Also, an offer made by a seller to sell the property for an amount or terms different from those offered in the buyer's purchase agreement.

Credit history. History of any individual's debt payment; lenders use this information to gauge a potential borrower's ability to repay a loan.

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 creditworthiness.

Credit score. A number representing the possibility a borrower may default; it is based upon credit history and is used to determine ability to qualify for a mortgage loan.

D

Debt-To-Income ratio (DTI). DTI is the ratio of monthly debt payments to monthly gross income. Lenders use DTI ratio to determine whether a borrower's income qualifies him or her for a mortgage.

Deceptive practices and fraud. Disclosures may be skipped or fees financed without your knowledge. Some lenders may actually forge loan documents and signatures.

Deductible. The portion of a covered loss that you agree to pay before the insurance company becomes responsible for payment under the policy. A larger deductible usually means a lower premium. For example, if the covered claim is $1,000 and your deductible is $250, you pay $250 and your insurance company will pay $750.

Deed. The legal document conveying title to a property.

Deed-in-lieu. To avoid foreclosure ("in-lieu" of foreclosure), a deed is given to the lender to fulfill the obligation to repay the debt; this process doesn't allow the borrower to remain in the house but helps to avoid the costs, time and effort associated with foreclosure.

Deed of trust. The document used in some states instead of a mortgage; title is conveyed to a trustee rather than to the borrower.

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 property; the opposite of "appreciation."

Discount points. See Points.

Downpayment. The part of the purchase price which the buyer pays in cash and generally does not finance with a mortgage.

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.

E

Earnest money. A deposit made to show that a prospective buyer is serious about buying the house. It is usually held in escrow until closing and becomes part of the down payment if the offer is accepted. It is returned if the offer is rejected or forfeited if the buyer pulls out of the deal.

Easement. A right of way giving persons other than the owner access to or over a property.

Energy Efficient Mortgage (EEM). An FHA program that helps home buyers save money on utility bills by enabling them to finance the cost of adding energy efficiency features to a new or existing home as part of the home purchase.

Endorsement. A written form attached to a policy that adds to or changes the policy's original terms

Energy tax credits. Tax credits that the federal government gives for specific changes, additions or energy conserving features in a home. Depending on the situation, they can be given to home owner or builder. They are amount and time limited.

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

Equity. The difference between the market value of a property and the home owner's outstanding mortgage balance. If your home is worth $100,000 and you owe $65,000, you are said to have 35% equity in your home.

Equity loan. A loan secured by the borrower's equity in his or her home.

Escrow account. Designed to protect the lender, this account collects 1/12th of the yearly taxes, insurance and PMI (if required) monthly and holds it to pay the bills that are due once a year.

Escrow. The holding of documents and money by a neutral third party before closing; also, an account held by the lender in which a home owner pays money for taxes and insurance.

Exclusion. A situation not covered by the insurance policy. Some exclusions in a standard policy may be purchased as an endorsement if you pay higher premiums.

F

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

Fair Housing Act. A law that prohibits discrimination in all facets of the home buying process on the basis of race, color, national origin, religion, gender, familial status or disability.

Fair Market Value. The hypothetical price that a willing buyer and seller will agree upon when they are acting freely, carefully and with complete knowledge of the situation.

Fannie Mae. Federal National Mortgage Association (FNMA); a federally chartered enterprise owned by private stockholders that purchases residential mortgages and converts them into securities for sale to investors; by purchasing mortgages, Fannie Mae supplies funds that lenders may loan to potential home buyers.

FHA loan. A mortgage that is insured by the Federal Housing Administration; established in 1934 to advance home ownership opportunities for all Americans; assists home buyers by providing mortgage insurance to lenders to cover most losses that may occur when a borrower defaults; this encourages lenders to make loans to borrowers who might not qualify for conventional mortgages.

Finance Charge. The finance charge is the dollar amount the credit will cost you.

First mortgage. The mortgage that has first claim in the event of default.

Fixed-rate mortgage. A mortgage loan program in which the interest rate does not change during the entire term of the loan.

Flipping. A tactic used by predatory lenders in which a loan is repeatedly refinanced within a short time period, with new costs and fees added each time. The balance and fees are rolled into a new loan. This loan extends the term, has much higher monthly payments and an increased loan balance. This makes repayment nearly impossible.

Floater/Rider. Additional coverage for items such as jewelry or antiques not otherwise included in a homeowner's insurance policy (a personal property endorsement).

Flood insurance. Insurance, for properties in federally designated flood areas, which provides coverage for damages caused by rising flood waters. Standard home owner's insurance does not cover flood damage.

Forbearance. The lender's postponement of foreclosure or other action to allow the borrower time to make overdue payments.

Foreclosure. The enforcement of a lien which allows a mortgaged property to be sold when the loan is in default.

Four Cs of credit. To decide if you are a good credit risk, a lender looks at four things, called the 4Cs of credit– Capital, Capacity, Credit history and Collateral. The amount of cash is your capital; your ability to earn enough to cover the mortgage payments and other living expenses is capacity; your history of handling previous debts is your credit history; and the new home will be collateral or extra security for your loan.

Freddie Mac. Federal Home Loan Mortgage Corporation (FHLM); a federally chartered corporation that purchases residential mortgages, securitizes them and sells them to investors; this provides lenders with funds for new home buyers.

Front-end ratio. Compares the total annual PITI expenditures with the applicant's gross annual income, this ratio assesses the borrower's ability to repay the mortgage; 25-to 29% desired.

G

Ginnie Mae. Government National Mortgage Association (GNMA); a government-owned corporation overseen by the U.S. Department of Housing and Urban Development; Ginnie Mae pools FHA-insured and VA-guaranteed loans to back securities for private investment; as with Fannie Mae and Freddie Mac, the investment income provides funding that may then be lent to eligible borrowers by lenders.

Good Faith Estimate. An estimate of all closing fees including prepaid and escrow items as well as lender chargers; must be given to the borrower's within 3 days after submission of a loan application.

Government Mortgage. A government mortgage is insured by HUD through the Federal Housing Administration (FHA) or guaranteed by the Department of Veteran's Affairs or the Rural Housing Service.

H

Hazard insurance. Insurance to protect the home owner and the lender against physical damage to a property from fire, wind, vandalism or other listed hazards. It does not generally cover flood hazards.

Heirship property. Undivided ownership interest of heirs; generally not recorded; no probate performed; without a clear title; and passed down the generations.

Home inspector. A professional hired to inspect the home for structural and systemic problems. It is in buyer's best interest to hire their own inspector.

Home Inspection. An examination of the structure and mechanical systems to determine a home's safety; makes the potential home buyer aware of any repairs that may be needed.

Homeowners insurance. An insurance policy that combines liability coverage and hazard insurance.

Housing Counseling Agency. Provides counseling and assistance to individuals on a variety of issues, including loan default, fair housing and home buying.

Home warranty. A type of insurance that covers repairs to specified parts of a house for a specific period of time.

HUD-1 Settlement. A HUD settlement statement is a summary of all the costs paid by the buyer and seller in a mortgage transaction.

HVAC. Heating, Ventilation and Air Conditioning is a home's heating and cooling system.

I

Index. The index is a base interest rate used to calculate the interest rate that will be charged on a variable-rate loan. The rate you will pay on a variable rate loan is usually a set percentage above the base rate or the index.

Inflation. The number of dollars in circulation exceeds the amount of goods and services available for purchase; inflation results in a decrease in the dollar's value.

Interest. The fee, or compensation, charged by the lender for borrowing money.

Interest-only mortgages. Mortgage where borrower pays only the loan interest in monthly payments for a fixed term, then either refinances the principal, pays it off or starts a higher monthly payment with the principal payments added in.

Interest rate cap. A provision of an Adjustable Rate Mortgage (ARM) limiting how much interest rate may increase per adjustment period. See also Lifetime cap.

Insurance. Protection against a specific loss over a period of time that is secured by the payment of a regularly scheduled premium.

J

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

Jumbo mortgages. Large mortgages, in excess of $417,000, which exceed conventional loans limits and have higher interest rates than conforming mortgages that are provided by banks, insurance companies, and other large investors.

Judgment. A legal decision; when requiring debt repayment, a judgment may include a property lien that secures the credit's claim by providing a collateral source.

L

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

Lender. The entity or person sometimes referred to as the mortgagee, who offers the mortgage loan.

Liability Protection. This typically provides coverage if you, as an insured person, are legally obligated to pay damages due to bodily injury of others or for damage to their property arising out of a covered loss. For example, you're playing catch with your friends, you throw the ball and it inadvertently crashes through your neighbors' window and breaks something. The property damage you accidentally caused may be covered here.

Lien. A legal claim on a property for payments of some debt that may have to be paid when the property is sold.

Lifetime cap. A provision of an Adjustable Rate Mortgage (ARM) that limits the total increase in interest rates over the life of the loan.

Loan. Money borrowed that is usually repaid with interest.

Loan commitment. See Commitment letter.

Loan Fraud. Purposely giving incorrect information on a loan application to be better qualify for a loan; may result in civil liability or criminal penalties.

Loan servicing. The collection of mortgage payments from borrowers and related responsibilities of a loan servicer. The loan service may be but is not always provided by the lender.

Loan term. The length of time needed to pay off a loan, as set in contract. The longer the term, the more interest will be paid over life of loan.

Loan-to-value ratio (LTV). The total loan amount divided by the value of the house. It determines the size of down payment needed from the buyer.

Lock-in. A written agreement guaranteeing the home buyer a specific interest rate provided the loan closes within a set period. The lock-in also usually specifies the number of points to be paid at closing.

Loss Mitigation. A process to avoid foreclosure; the lender tries to help a borrower who has been unable to make loan payments and is in danger of defaulting on his or her loan.

M

Margin. The set percentage the lender adds to the index rate to determine the interest rate of an Adjustable Rate Mortgage (ARM).

Monthly payment or costs. Payment towards principal and interest. In addition, it may contain Principal Mortgage Insurance, home owner's insurance, property taxes, warranty insurance, etc.

Mortgage. A legal document that pledges a property (usually the home itself) to the lender as security for payment of a debt.

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

Mortgage broker. A company that, for a fee, matches borrowers with lenders.

Mortgage insurance. See Private mortgage insurance.

Mortgage insurance premium (MIP). The fee paid by a borrower to FHA or a private insurer for mortgage insurance.

Mortgage Modification. A loss mitigation option that allows a borrower to refinance and/or extend the term of the mortgage loan and thus reduce the monthly payments.

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

Mortgage review board. A voluntary board consisting of an equal number of lenders and community representatives who review residential mortgage loans denied by participating lenders when the applicants believe the denial was based on the location of the property.

Mortgagee. The lender in a mortgage agreement.

Mortgagor. The borrower in a mortgage agreement

Mortgage Insurance Premium (MIP). Required on FHA conventional loans when downpayment less than 20%. It does not drop off; it is collected for life of loan.

N

Named storm deductible. Many insurance companies set a separate deductible for homeowner policies that apply to named storms such as hurricanes. This deductible reflects a percentage of a property's value — often from 2 to 5 percent. That could mean a deductible of up to $5,000 for a $100,000 policy.

Negative amortization. Payment terms under which the borrower's monthly payments do not cover the interest due; as a result, the balance due is added to the loan balance, making it rise – thus "negative amortization."

Nontraditional Mortgages. These products are more complex than traditional fixed-rate or adjustable-rate mortgages. They present greater risk of negative amortization and payment shock. Typically referred to as alternative or exotic, these products take many different forms. They include interest-only mortgages, payment-option Adjustable Rate Mortgages (ARM), low-doc, loans, piggybacks (simultaneous second lien loans – loans that cover the down payment) and 40 or 50 year mortgages. Although these products may provide flexibility for some, for others they may simply lead to increased future payment obligations and possibly financial disaster.

Note. The borrower's legally binding written promise to repay a debt to a lender on a specified date.

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

O

Offer. Indication by a potential buyer of a willingness to purchase a home at a specific price; generally put forth in writing.

On-line mortgage calculators. On-line sites containing calculators where consumers can determine rates, payments and terms on available mortgage loans based on their financial and credit situation.

Option ARM. This product typically offers the borrower three different monthly payment options: 1) payments of principal and interest, 2) interest-only payments or 3) minimum monthly payments ("teaser" payment options that are less than interest-only payments). Choosing minimum monthly payments (MMPs) means the unpaid interest is added to your principal loan amount. To ensure that the loan is repaid within the agreed-upon time, these loans "recast" after a set number of years (usually 3 to 5) or when negative amortization drives the loan amount to a certain level above the original loan amount. Monthly payments increase so that the loan fully amortizes.

Origination. The process of preparing, submitting and evaluating a loan application; generally includes a credit check, verification of employment and a property appraisal.

Origination fee. A fee paid to a lender for processing a loan application; it is stated as a percentage of the mortgage amount.

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

P

Packing and padding costs and fees. Excessive closing costs, inflated appraisal costs, extra recording fees; many lenders include expensive and often unnecessary single-premium credit insurance as a condition to a loan added to the terms of the agreement.

Partial Claim. A loss mitigation option offered by the FHA that allows a borrower, with help from a lender, to get an interest-free loan from HUD to bring their mortgage payments up to date.

Payment cap. A provision of some Adjustable Rate Mortgages (ARM) limit how much a borrower's payments may increase regardless of how much the interest rate increases; may result in negative amortization.

Payment Shock. Payment shock is a large and sudden increase in monthly payments. It occurs primarily in interest-only products and option adjustable-rate mortgages.

Piggyback mortgages. Also called two-tiered home loans; designed to avoid paying PMI on loans with less than a 20% down payment. They work this way: Borrower gets two home loans -- a primary mortgage for 80% of the purchase price and a higher-rate secondary mortgage (the piggyback loan) for the rest of the borrowed amount. In some cases the combined monthly payment is less than one mortgage and Principal Mortgage Insurance.

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

PMI. Private Mortgage Insurance payments are required by lender when down payment is less than 20%.

Points. A one-time charge by the lender to increase or decrease the stated interest rate on a loan. To decrease the interest rate, the borrower "pays" points; to increase the interest rate, the borrower "receives" points. All interest rate/point combinations are virtual financial equivalents (1% is generally known as one point).

Pre-approved loan. Guarantee that lender will lend stated amount, provided house is appraised for loan amount.

Predatory loans. High cost loans with exorbitant rates and fees, above what is needed to compensate for risk. These companies use unscrupulous practices to pressure consumers into agreeing to unfavorable terms. They are designed to prey on consumers.

Pre-foreclosure sale. Allows a defaulting borrower to sell the mortgage property to satisfy the loan and avoid foreclosure.

Premium. An amount on a regular schedule by a policyholder that maintains insurance coverage.

Prepayment. Payment of the mortgage loan before the schedule due date; may be subject to a prepayment penalty.

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

Prequalification. The process of determining how much money a prospective home buyer will be eligible to borrow. It does not mean the loan is approved.

Prime loans. These are reserved for borrowers with the best credit ratings and for the lowest-risk loans, are often called "A" loans.

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

Private mortgage insurance (PMI). Insurance provided by a nongovernmental insurer that protects lenders against loss if a borrower defaults. Usually required on all loans with an loan-to-value (LTV) of more than 80%.

Property taxes. Taxes paid to local and state governments, generally ranging from 1 to 4% of the value of the home. Due once a year and generally escrowed in by the mortgage company.

Protection for Other Structures. Protects an insured's structures that are separated from the dwelling by a clear space. Protects structures like a detached garage, storage unit, fence, gazebo (exceptions: renters and condominium policy)

Purchase and sale 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 applied by lenders to determine how large a loan to grant a home buyer.

R

Rate lock. See Lock-in.

Real estate agent. A person licensed to negotiate and transact the sale of real estate on behalf of the owner.

Real estate broker. The broker has a financial, legal and moral responsibility to the seller.

Real Estate Settlement Procedures Act (RESPA). A federal law that requires a good-faith estimate of closing costs and other disclosures to be given on certain first

Real Property. Includes land and anything permanently attached to the land (buildings, fences, etc.).

Reduced Documentation Loan. Commonly referred to as a low-doc or no-doc loan, this is a loan for which the lender sets reduced or minimal standards for documenting the borrower's income and assets. For example, the borrower may state that her income is a certain amount, and the lender will accept that statement with little or no documentation. Low-doc loans may charge a higher interest rate than traditional products.

Refinancing. The process of paying off one loan with the proceeds from a new loan secured by the same property. This is most often done to get better interest rates offered by the new loan.

Rehabilitation Mortgage. See 203(K) Replacement Cost Coverage. In the event of a covered loss, you may be reimbursed for the cost you incur to replace many of your damaged contents with similar property, brand new. The total amount you'd be reimbursed is subject to the terms and conditions of your particular policy, including applicable deductible and coverage limits.

Reset mortgages. ARMs reset interest rate at completion of initial low interest period, as set by loan.

RESPA. Real Estate Settlement Procedures Act; a law protecting consumers from abuses during the residential real estate purchase and loan process by requiring lenders to disclose all settlement costs, practices and relationships.

Reverse mortgage. The payment stream is reversed; instead of making monthly payments to a lender, it makes payments to you. Enables older home owners (62+) to convert part of the equity in their homes into tax-free income without having to sell the home, give up title or take on a new monthly mortgage payment. There are downsides.

Rider. Refer to floater.

Right of rescission. Federal law that allows consumers who refinance first mortgages and who borrow money secured by certain second mortgages to cancel their contract and receive a refund of all fees. This cancellation must take place within three business days following the closing or following the delivery of the required information and rescission forms and disclosures, whichever occurs last.

S

Second mortgage. A mortgage that has rights that are subordinate to the rights of the first mortgage. As such, these loans are often less secure and may demand a slightly higher interest rate.

Secondary mortgage market. A market composed of investors who purchase residential mortgages originated by lenders. Fannie Mae and Freddie Mac are the biggest secondary market investors in the United States; they offer programs for low-income and first-time home buyers.

Seller take-back. An agreement in which the owner of a property provides financing, often in combination with an assumed mortgage.

Settlement. See closing.

Settlement sheet. The computation of costs payable at closing that determines the seller's net proceeds and the buyer's net payment.

Short sale. This occurs when a lender agrees to let a homeowner sell home for less than mortgage owed on it. Possible last step prior to bankruptcy.

Subprime loans. These loans have higher interest rates than conventional or "prime" loans. Designed to serve the needs of borrowers who cannot qualify for prime loans because of past and present credit problems, thus offering higher risk to lender.

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

Sweat Equity. Using labor to build or improve a property as part of the down payment.

T

Taxes. A tax is a financial charge imposed by a government authority upon persons or property to pay for government services.

Teaser rate. Low interest rate lenders use to lure buyers.

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.

Term. The time to the maturity of a loan, expressed in months or years.

Title. A legal document establishing the right of ownership.

Title 1. An FHA-insured loan that allows a borrower to make nonluxury improvements (like renovations or repairs) to their home; Title 1 loans less than $7,500 don't require a property lien.

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

Title insurance. Insurance to protect the lender (lender's policy) or the buyer (buyer's policy) against loss arising from disputes over ownership of a property.

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.

Transfer tax. State or local tax payable when title passes from one owner to another.

Truth-in-lending (TIL) disclosure. This document reflects the terms of the legal obligation between you and the lender. The lender is required to deliver or mail the TIL disclosure within three business days after receiving or preparing your loan.

Truth-in-lending. Federal law that requires lenders to provide borrowers with full disclosure of the true costs of a loan and easy to understand information about the annual percentage rate and terms of the loan.

U

Underwriting. The process of evaluating a loan application to determine the risk involved for the lender.

U.S.D.A. Rural Development. Agency that offers government-guaranteed rural housing loans through private lenders in rural areas; loans have low or no down payment requirements and low interest rates based on income level

V

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

Variable-Rate Loan. A variable-rate loan has an interest rate that might change during any period of the loan as written in the contract (loan agreement). Variable-rate mortgages are often referred to as adjustable-rate mortgages (ARMs).