

## ***Glossary of Terms***

**Acknowledgment** - A declaration by a notary, certifying, by way of personal knowledge or written identification, the identity of the signer.

**ALTA - American Land Title Association.** An organization of title companies which has standardized forms and coverage on a national basis.

**Amortized/Amortization** - Amortization refers to the principal portion of the loan payment. A fully amortized loan will be completely paid off at the end of the term.

**APR** - Annual Percentage Rate. A measure of the cost of credit, expressed as a yearly rate.

**ARM** - Adjustable Rate Mortgage. A mortgage loan where the interest rate is not fixed for the entire term of the loan, but changes during the life of the loan in line with movements in an index rate.

**Assumption** - Assumption occurs when the buyer of a property takes on the debt of the seller without obtaining new financing. This must be approved by the lender and be allowed by the note which was originally signed by the seller.

**Back End** - This refers to the debt-to-income ratio calculated using principal, interest, taxes, insurance and consumer credit obligations divided by gross monthly income. It is expressed as a percentage.

**BK/Bankruptcy** - A reorganization or discharge of debts. Could also be referred to as Chapter 7, 11 or 13.

**Balloon** - A large payment due at the end of a loan when the term of the loan is less than the amortization term. Equal to the remaining principal balance plus any interest and charges due.

**Beneficiary** - The entity funding the loan. This is the entity to which the loan is owed.

**Buy-down** - The seller pays an amount to the lender so that the lender can give you a lower interest rate and lower payments, usually for an early period in an ARM. The opposite may occur and is referred to as a buy-up.

**Cap** - The highest rate that an adjustable rate mortgage may reach. It can be expressed as the actual rate or as the amount of change allowed above the start rate. For example, a 7.99 % start rate with a 6% rate change cap would have a maximum interest rate cap of 13.99%.

**Cash Out** - Any funds being paid directly to the borrower.

**Certificate of Occupancy** - A certificate issued by local city government to a builder, stating that the building is in proper condition to be occupied.

**Certified Copy** - A true copy, attested to be true by the officer holding the original. It should have a stamp and signature stating that it is a true copy.

**Closing Costs** - Any costs being charged to facilitate granting of the credit request.

**Community Property** - Property owned in common by a husband and wife, which was not acquired as separate property. A classification of property peculiar to certain states. In community property states, assets may be owned in part by a spouse even if their name does not appear on the title.

**Comp. / Comparable** - A property with the same basic characteristics as the property you are attempting to find the value of. It should have been sold recently and be as similar as possible.

**Condominium** - A property owned as a group, with rights to occupy specific units of the structure. The property is governed by an overseeing board.

**Consumer Credit** - Credit owed by the individual, not secured by real estate.

**Conventional Loan** - A loan, which was not underwritten by HUD, the SBA, or the FHA.

**Conversion Clause** - A provision in some ARMS that allows you to change the ARM to a fixed-rate loan at some point during the term.

**Derog** - This is short for derogatory and refers to negative credit items.

**Derog Letter** - A letter written by the borrower giving an explanation for any derogatory credit.

**Discharge** - Following a completed bankruptcy proceeding, discharged debts are no longer owed or collectable. For a chapter 7 bankruptcy we will require having a copy of the Discharge of Debts document in order to proceed with the loan.

**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.

**Dismissal** - If a bankruptcy is dropped without being completed, a Bankruptcy Dismissal document will be needed to proceed with the loan. The dismissal can be prompted by either the court or the debtor.

**DR/Debt Ratio** - The customer's monthly obligations divided by their monthly gross income. See also Back End and Front End.

**Easements** - An interest in property, owned by another, that entitles the holder to a specific limited use or privilege, such as the right to cross or to build adjoining structures on the property.

**Escrow** - A financially disinterested third party used to hold funds, documents and title delivery deeds until all contingencies of a transaction have been fulfilled.

**Escrow Instructions** - Instructions to the escrow agent giving the parameters and contingencies involved in the transaction and agreed upon by both parties.

**Fee Simple** - The most common form of ownership where the vestee owns both the land and the structures.

**Free and Clear** - This means the property is completely paid for and has no liens attached.

**Front End** - This refers to the debt to income ratio calculation using only principal, interest, tax and insurance divided by gross monthly income. It is expressed as a percentage. See also D. R.

**Functional Obsolescence** - A detraction from the property value due to the design or material being less functional than the norm.

**Grant Deed** - A Grant Deed is the most common form of title transfer deed. A Grant Deed contains warranties against prior conveyances or encumbrances.

**Hazard Insurance** - This refers to the normal fire insurance policy. Unless specifically stated, it would not cover earthquake, riot, or flood damage.

**Homestead** - The dwelling (house and contiguous land) of the head of the family. Some states grant statutory exemptions, protecting homestead property (usually to a set maximum amount) against the rights of the creditors. Property tax exemptions are also available in some states.

**Impound Account** - Account held by the lender for payment of property tax, hazard insurance and flood insurance. The borrower contributes monthly to the escrow account.

**Index** - The index is the measure of interest rate changes that the lender used to decide how much the interest rate on an ARM will change over time.

**Interest Bearing** - A form of interest calculation where the loan is charged at a daily or monthly rate (1/365 or 1/12 of the annual interest rate) on the current outstanding balance. This contrasts with the Rule of 7/8ths and compound interest calculations.

**Joint Tenants** - A form of holding title where the owners have 100% rights of survivorship unless redirected by a will.

**Jurat** - A notarial act, made in a Notary's presence, whereby a voluntary signature and oath of affirmation are made vouching for the truthfulness of a signed document.

**Leasehold Estate** - A kind of real estate ownership where the lessor does not hold title to the property, but has use of the property subject to the terms of the lease.

**Legal Description** - A method of geographically locating a piece of parcel of land, which is acceptable in a court of law.

**LIBOR - London InterBank Offered Rate.** LIBOR is the base interest rate paid on deposits between banks in the Eurodollar market. A Eurodollar is a dollar that has been deposited in a bank in a country where the currency is not the dollar. The Eurodollar market has existed for about 40 years. The five international banks on which the LIBOR is based are: Bank of Tokyo, B of A, Barclays, Deutsche Bank, & Swiss Bank.

**Loan Risk** - The rate category assigned to the loan which estimates the probable risk of delinquency and loss in the future.

**Margin** - The number of percentage points the lender adds to the index rate to calculate the ARM interest rate at each adjustment.

**Negative Amortization** - Amortization means that monthly payments are large enough to pay the interest and reduce the principal on a mortgage. 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, a borrower may owe more than was owed at the beginning of the loan.

**Non-Owner Occupied** - A property not used as a residence by the owner of the property.

**Notary Public** - A person, designated by the state, who can certify the identity of a person when signing various documents.

**Note** - Short for promissory note. This document gives the parameters of the loan and legally obligates the borrower to pay back the debt.

**Obligations** - Any debt, or recurring payment the borrower is obligated to pay, except for mortgage payments.

**Owner Occupied** - Designation given to property used as the owner's residence.

**P and I** - Principal and Interest. This refers to the principal and interest portions of the monthly mortgage payment.

**P & L / Profit and Loss** - A statement of a businesses gross income, cost of goods, operating costs and net profit or loss.

**Piggy Back Loan** - Financing obtained, subordinate to the first mortgage, to facilitate closing the first mortgage. Also known as a Secondary Financing.

**P.I.T.I.** - Principal, interest, taxes and insurance. The complete monthly cost associated with a property.

**Points** - A point is equal to one percent of the principal amount of a mortgage.

**Power of Attorney** - An authority by which one person enables another to act on his or her behalf. Power of attorney can be limited to specific areas or be general in some cases.

**Prelim/Preliminary Title Report** - The title report generated at the beginning of the application process. It tells the mortgage company what liens are on the property and gives advice as to what will need to be done to gain a clear title prior to recording our trust deed.

**Prepaid Interest Charge** - The portion of interest, collected at loan closing, which covers the time period between funding and the beginning of the first 30 day period covered by the first payment. For example, if the loan closed on the 2/15, the first payment due on 4/1 would pay interest from 3/1 to 4/1. The prepaid interest would cover the period from 2/15 to 2/28.

**P.U.D. - Planned Unit Development.** Property owned as a group, where individuals own the specific piece of land and structure they occupy, but also have a divided interest in a common area. The development will be governed by a board.

**Purchase Agreement** - The agreement made between the buyer and seller of a property, containing the purchase price and contingencies of the sale.

**Quit Claim** - A deed operating as a release; intended to pass any title, interest or claim which the grantor may have in the property, but not containing any warranty of a valid interest or title in the grantor.

**Recon/Reconveyance** - A release of lien filed with the county recorder by the trustee.

**Request for Reconveyance** - Verification given by the beneficiary to the trustee that the conditions of the lien have been fulfilled and request that the lien be canceled.

**RESPA - Real Estate Settlement Procedures Act.** This is sometimes used as a generic term to describe the early disclosure package sent to borrowers, however, not all items in the early disclosure package relate to RESPA.

**Secondary Financing** - Financing obtained, subordinate to the first mortgage, to facilitate closing the first mortgage. Also known as a "piggyback" loan.

**S.I./Statement of Information** - The form the customer fills out for the title company giving further identification of the customer. This allows the title company to eliminate debts and liens owed by people with similar names.

**Submission** - This refers to a complete loan application package submitted for approval to the underwriters.

**Subordinate** - Ordinarily, liens are given chronological precedence when a liquidation of a property occurs. If a lien holder agrees to accept a lien position after that of a later recorded lien, a subordination agreement must be recorded stating that.

**Subordination Agreement** - The agreement detailing the contingencies of subordination, filed with the county recorder.

**Substitution of Trustee** - A document, filed by the beneficiary, which changes the trustee on a particular trust deed.

**Surety Bond** - A bond which ensures against harm to a party (usually the lender or owner) by a lien still attached to the property. This is usually used when the original deed was lost or the beneficiary cannot be located.

**Trust Deed** - The Trust Deed attaches the note as a lien on the property. This is the document which conveys the ability to collect from the proceeds of the property.

**Tenants in Common** - A percentage interest in a property by two or more individuals without rights of survivorship.

**Title Insurance** - The insurance policy insuring the lender and/or the buyer that the liens are as stated in the title report. Any claim arising from a lien other than that disclosed is payable by the title insurance company.

**Zoning** - The division of a city or county by legislative regulations into areas (zones) specifying the uses allowable for the real property in these areas.