



BALTIMORE HOUSING

Office of Homeownership
417 E. Fayette Street, Suite 1125
Baltimore, MD 21202
410-396-3124
www.baltimorehousing.org

Homeownership Glossary of Terms

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 living expenses - Expenses you can change, such as costs of groceries, utilities, telephone.

Adjustable rate mortgage loan (ARM) - Mortgage loans with interest rates that go up and down. The rate is usually based on indexes tied to the nation's economy.

Amortization - The process of paying off a loan by a schedule of payments over a fixed time period.

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 cost of a borrower's credit as a yearly rate. Defined by the federal Truth in Lending Act, it includes finance charges as well as the contractual interest rate.

Appraisal - An estimate of a property's fair market value by a licensed professional. Lenders take the appraisal into account when deciding whether or not to make loans.

Appreciation - An increase in the value of a house due to changes in market conditions or other causes.

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

Asset - Something of value that you own. An asset could be a car, a retirement fund, stocks or bonds, or even a valuable piece of furniture.

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 the buyer.

Bankruptcy - When a person is declared by a court to be unable to pay her or his debts, that person is in bankruptcy. That person must then turn over any money or properties to a trustee, a person whom the court appoints, for management.

Billing cycle - The date a bill is sent out and the payment due. Some bills are sent out on the first of the month, some on the fifteenth, some on other dates.

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

Building permit - A written permit that must be purchased from the local government by anyone doing remodeling or rehabbing work on a property.

Buyer's agent - A real estate agent who works for the buyer of a house, not the seller.

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

Capital gains tax - A tax owed for selling something at a price that is more than the price the owner bought it for.



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Capital loss - What a homeowner has if he sells his home for less money than he paid for it.

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

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

Closing - The meeting during which all the papers are signed (the loan is "closed") and the house keys are turned over to the new homebuyer. Also called "settlement".

Closing costs - Money paid by borrowers and sellers to close a mortgage loan. This normally includes origination fees, points, title insurance, survey and attorneys' fees, and prepaid items such as insurance and taxes. Also called "settlement costs".

Collateral or security - Property that backs up a loan. If the borrower does not pay back the loan as agreed, the lender can take the collateral. A house is collateral for a mortgage loan. A house gives security to a mortgage loan.

Collection agencies - Private businesses, hired by creditors, that try to get borrowers to make payments that are overdue.

Commission - The fee a real estate agent is paid for helping to sell a house. Usually it is based on the purchase price of the home.

Commitment letter - A formal offer by a lender stating the terms under which it agrees to loan money to a homebuyer.

Community Development Block Grant Program (CDBG) - Provides eligible metropolitan cities, urban counties (called "entitlement communities"), and state governments for rural areas with annual direct grants that they can use to revitalize neighborhoods, expand affordable housing and economic opportunities, and/or improve community facilities and services, principally to benefit low- and moderate-income persons.

Community Home Buyer's Program - An alternative financing option that allows households of modest means to qualify for mortgages using nontraditional credit histories, 33 percent housing-to-income and 38 percent debt-to-income ratios, and the waiver of the usual two payment cash reserve at closing.

Community home improvement mortgage loan - An alternative financing option that allows low- and moderate-income homebuyers to obtain 95 percent financing for the purchase and improvement of a home in need of modest repairs.

Community land trust mortgage loan - An alternative financing option that enables low- and moderate-income homebuyers to purchase housing that has been improved by a nonprofit Community Land Trust, and to lease the land on which the property stands.

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.

Consumer credit counseling services - Nonprofit local agencies that provide credit counseling services to people for free or a small fee.

Consumer credit counselor - A counselor who helps people develop and stick to a plan for getting out of debt.



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Contingency - An item in a real estate sales contract stating that the contract is good only in certain cases—for instance, only if the buyer obtains financing at a certain rate or only if the seller replaces the shingles on the roof. The contingencies must be written in the contract.

Conventional mortgage - Any mortgage that is not insured or guaranteed by the federal government.

Conversion provision - A feature of an adjustable-rate mortgage loan that allows the borrower to change to a fixed-rate loan, with an interest rate and monthly payment that stay the same.

Convertible ARM - An adjustable-rate mortgage that can be converted to a fixed-rate mortgage under specified 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.

Co-signer - A person who signs loan documents, such as a mortgage note with another person. The co-signer is responsible for making payments, if the borrower does not.

Counter-offer - If a seller does not like a buyer's offer, the seller can reject the offer and can make a new offer.

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

Credit bureau - Also called "credit reporting agency". A company that keeps track of people's debts and how they repay them. The three main credit bureaus are TRW, Equifax, and Trans Union.

Credit history - The record of a person's payment of debt, over years' time. That record is kept by three national credit bureaus that send it to businesses, lenders, and creditors, as well as to credit-holders upon request.

Credit rating - A credit bureau's ranking of the way a person has repaid her debts. A lender uses a loan applicant's credit rating to decide whether or not to make the loan.

Credit report - A report of an individual's credit history prepared by a credit bureau and used by a lender in determining an applicant's creditworthiness.

Credit union - A cooperative financial institution that is owned and controlled by its members. It offers savings, checking accounts and other financial services.

Creditor - Any person or company that lends money (extends credit).

Creditworthy - A person with good credit, whom a lender judges will repay a loan, is creditworthy.

Daily interest - The amount of interest the borrower pays the lender calculated on a daily basis. It equals the annual interest rate divided by 360 or 365 and multiplied by the amount of the loan. Also called "per diem interest".

Debt management plan - A bill payment plan for a borrower in a credit emergency. The plan is agreed to by the borrower and creditors.

Debt-to-income ratio - Percentages lenders use to decide whether a loan applicant can afford to make payments on a certain mortgage loan. Lenders may allow first-time homebuyers to use 33% of monthly income for housing costs, and a total of 38% for housing costs and all other debt.



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Deduct - To subtract an amount from income that is being taxed. Homeowners can deduct interest they pay on their mortgage loans, points they pay at settlement, home improvements, and related items.

Deed - The legal document conveying title to a property.

Deed of trust - A document used in some localities in place of a mortgage agreement. The deed of trust places the title to the subject property into trust for the lender during the term of the loan.

Default - The failure of a borrower to make payments on a loan or in some other way fail to fulfill the terms of a note, mortgage, or loan agreement.

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 property; the opposite of "appreciation."

Direct deposit - A method of payment where money is electronically deposited into a bank account by the paying organization, such as an employer.

Discount points - See Points.

Discretionary spending - Spending on optional or nonessential goods or services, as opposed to essential items (e.g., food, clothing and shelter).

Down payment - Money the borrower has to pay "up front," (usually 5% to 20% of the amount of a loan.)

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 - Money a person puts down to show that he/she is serious about buying a certain house. Also called "good-faith deposit."

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

Equal Credit Opportunity Act - A federal law that says creditors cannot discriminate against borrowers because of race, color, religion, national origin, sex, marital status, age, and receipt of public assistance.

Equity - Equity is the difference between the house's market value and the amount the homeowner owes on the mortgage loan.

Equity loan - A loan based on the borrower's equity in his or her home. The equity is used as collateral.

Escrow - Funds held in a separate bank account for a specific purpose. Lenders often hold a borrower's money in escrow and then pay the borrower's property taxes and insurance when they come due.

Estate sale - A sale held to sell the property of someone who has died. Sometimes houses are sold at estate sales.

Fair Credit Billing Act - A federal law that gives a borrower the right to question credit card bills from companies other than banks. The law lays out a process for a borrower to follow if a credit card bill is wrong, or appears to be wrong.



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Fair Credit Reporting Act - A federal law that protects a borrower's right to know what is in her or his credit report and the right to correct errors. The law lays out a process for disputing a credit report.

Fair Debt Collection Practices Act - A federal law that protects consumers from abuse or threats from collection agencies trying to get overdue payments.

Fair Housing Act - A federal law that states what housing and real estate practices are discriminatory. The law also states in what ways those practices are to be avoided.

Fair market value - The amount an appraiser decides a house is worth. The appraiser compares the house with similar houses that have sold recently in the same area. The physical condition of the house also affects its fair market value.

Federal Deposit Insurance Corporation (FDIC) - The FDIC insures deposits in the nation's more than 10,000 banks and savings associations. It promotes the safety and soundness of these institutions by identifying, monitoring and addressing risks to which they are exposed.

Federal Home Loan Bank System (FHLB) - Through its 12 District Banks, the FHLB makes advances to its 6,884 member financial institutions, which in turn lend the funds for home mortgages and community development. Also see AHP.

Federal Housing Finance Board (FHFB) - The FHFB regulates the Federal Home Loan Bank System.

Federal Reserve System - The System's duties fall into four general areas: conducting the nation's monetary policy; supervising and regulating banking institutions; maintaining the stability of the financial system; and providing certain financial services to the U.S. government, the public, financial institutions, and foreign official institutions.

Fee simple - In this type of homeownership, the house and the land it sits on are owned by one person (or family).

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

Finance - To supply money for a purchase. A lender can finance homeownership with a mortgage loan.

Financing - Money that a financial company lends to a buyer for making a purchase, such as home financing.

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

Fixed expenses or fixed payments - Expenses or payments that usually stay the same from month to month, such as rent, a car loan, a student loan, insurance, or child support.

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.

Foreclose - The process of the lender taking a property when the borrower has defaulted on the loan. The lender then sells the property to recoup its loss on the unpaid loan.



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Good faith estimate - A lender is required to give an estimate of a borrower's closing costs to the borrower within three business days of the loan application.

Graduated payment - A mortgage loan with monthly payments that start at a lower amount and then increase slowly over the next several years. The monthly payments then stay the same at the higher amount.

Gross income - The total amount of money that a person receives, before taxes and other deductions. This income may include funds from a job or jobs; interest or dividends; alimony; disability payments; or public assistance.

Hazard insurance - Insurance that compensates for a loss on a specific property due to damages caused by fire, vandalism, theft, storm damage and certain other natural disasters.

HOME - Funds from the Department of Housing and Urban Development to local governments and states for new construction, rehabilitation, acquisition of standard housing, assistance to homebuyers, and tenant-based rental assistance.

Home inspector - A licensed professional who looks at all parts of a house and evaluates its condition.

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.

Housing expense ratio - The percentage of a person's gross monthly income that it takes to pay a mortgage loan payment plus interest, property taxes, and insurance. Lenders use this ratio to decide whether or not to make mortgage loans.

Improvement - Anything done to a house that increases its value, such as adding a sun porch or modernizing a kitchen.

Inspection - When a house is remodeled or rehabbed, it must be inspected by an inspector from the local government to be sure all work is done properly.

Installment debt - Debts or accounts that are paid off in monthly payments, or installments, such as credit card accounts.

Interest - A charge that a borrower pays to a lender to borrow money. Usually it is a percentage of the amount of the loan.

Interest rate cap - A provision of an ARM limiting how much interest rates may increase per adjustment period. See also Lifetime cap.

Investment - An item, such as a house, on which money is spent in the hope of getting money or other benefits back in return.

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

Judgment - A decision given by a judge or court that says a person has to pay another person a certain amount of money.

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



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Lease-purchase mortgage loan - An alternative financing option that allows low- and moderate-income home buyers to lease a home from a nonprofit organization with an option to buy, and with each month's rent payments consisting of PITI payments on the first mortgage, plus an extra amount that is earmarked for a savings account in which money for a down payment accumulates.

Liability insurance - Insurance a contractor buys to protect herself and the person who hires her in case someone is hurt or damage is caused during the work she performs on a house.

Lien - A legal claim on a property that must be paid before a property can be sold.

Lifetime cap - A provision of an ARM that limits the total increase in interest rates over the life of the loan.

Listing agent - A real estate agent who lists a house for sale. The listing agent represents the seller of the house.

Listings - A computerized pool of information, shared by real estate agents that list houses for sale. Also called Multiple Listing Service or MLS.

Loan commitment - See Commitment letter.

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

Loan to value ratio (LTV) - The loan balance on a house compared to the appraised value of a house. In making a mortgage loan, a lender uses the LTV to show that a house is worth more than the loan amount. This is important because, if the homeowner does not make payments on the mortgage loan, the bank gets the house in return, as payment.

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.

Maturity - The date when an agreement or obligation runs out.

Monthly housing costs - The total of a homeowner's mortgage loan payment and expenses for utilities, general home repair, and upkeep.

Mortgage agreement - A document signed by a borrower and a lender giving the lender the right to take the borrower's house if the borrower does not repay the loan.

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

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.



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

Mortgagee - The lender in a mortgage agreement.

Mortgagor - The borrower in a mortgage agreement.

Negative amortization - Payment terms under which the borrower's monthly payments do not cover the interest due, resulting in loan balance increases.

No Documentation Loan - A loan for which no loan documentation, including tax information, proof income, or credit reports is required.

Nontraditional credit history - A record of credit performance shown with receipts, bills and check stubs from payments to landlords, utility companies, child-care providers, and others. A method for loan applicants who do not have a credit history from, for example, car-loan or credit card payments.

Note - A document on which a borrower promises to repay a loan. Also called "promissory note."

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

Offer - A purchase proposal to the seller of a house, telling the amount a certain buyer would pay for the house and other conditions that would have to be met before the proposed house sale.

Office of the Comptroller of the Currency - Charters, regulates and supervises national banks to ensure a safe, sound and competitive banking system that supports the citizens, communities and economy of the U.S.

Office of Thrift Supervision (OTS) - OTS regulates and supervises the nation's thrift industry. OTS' mission is to ensure the safety and soundness of thrift institutions and to support their role as home mortgage lenders and providers of other community credit and financial services.

Origination - The process that a lender goes through to get complete and correct information about a loan applicant's income and credit.

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

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

Payment cap - A provision of some ARMs limiting how much a borrower's payments may increase regardless of how much the interest rate increases; may result in negative amortization.

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

Planned unit development - A housing development in which common areas, such as parks or building lobbies, are owned and kept up by a residents' association, while individuals own their own housing units.

Point or points - A one-time charge the lender adds to a mortgage loan. A point is 1% of the mortgage loan amount.

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



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

Principal - The outstanding balance of a loan, not counting interest or any other charges.

Private mortgage insurance (PMI) - Insurance provided by nongovernmental insurers that protect lenders against loss if a borrower defaults.

Probate sale - A sale held to sell property, including houses, of a person who has died.

Property inspection - The examination of a house by a licensed inspector to see if its structure is sound and if its mechanical systems, such as plumbing and heating, are working.

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.

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

Radon - A radioactive gas found in some homes that in sufficient concentrations could cause health problems.

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 Settlement Procedures Act - A consumer protection law that requires lenders to give borrowers advance notice of closing costs.

References - Names and phone numbers of previous customers of a contractor. It is a good idea to call a contractor's references before hiring him, to make sure he has done good work in the past.

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

Rehab - Short for "rehabilitation." To rebuild an existing house or building to make the space more livable or usable and more valuable.

Remodeling - To rebuild and improve a house or building, often changing its "model" or layout or adding rooms.

Rent with option to buy - See Lease-Purchase Mortgage Loan.

Repossess - To take back a property, such as a car, when the borrower or owner does not make payments due on the property. Done by a lender or seller.

Rural Development (RD) - Formerly the Farmers Home Administration, RD is part of the U. S. Department of Agriculture. It administers grant and loan programs to promote and support housing and essential community facilities development in rural communities.

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 - See collateral.

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



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Semi-detached house - A house that is attached to another property, such as a duplex or townhouse.

Settlement attorney - A lawyer who organizes the closing on a house sale, by preparing necessary papers, paying fees, and conducting the settlement meeting between seller and buyer.

Settlement costs - See closing costs.

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

Settlement - See Closing.

Specifications - A detailed description of the size, shape, materials, and other details of a building or remodeling project.

Subcontractor - A contractor that another contractor hires. For instance, if you hire a contractor to remodel your kitchen, he might hire a plumber as a subcontractor to add new pipes for a dishwasher.

Subsidized second mortgage - An alternative financing option for low- and moderate-income households that also includes a down payment and a first mortgage, with funds for the second mortgage provided by city, county, or state housing agencies, foundations, or nonprofit corporations. Payment on the second mortgage is often deferred, carries no or low interest rates, and part of the debt may be forgiven for each year the family remains in the home.

Survey - A measurement of land by a registered surveyor.

Survey Map - A drawing or map showing a property's boundaries, any places the property may have been improved or changed, rights of way, and other physical features.

Surveyor - A professional who checks the boundaries of a property.

Tax assessor - A government employee who determines a property value for tax purposes.

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 length of time in which a loan is to be repaid. A 30-year mortgage loan has a 30-year term.

Terms - All conditions placed on a loan, including the interest rate, any finance charges, and the length of the loan.

Three/two (3/2) option - An alternative financing plan that enables households whose earnings are no more than 115 percent of the median income in their regional area to make a 3 percent down payment with their own funds, coupled with a 2 percent gift from a relative or a 2 percent grant or unsecured loan from a nonprofit or state or local government program.

Title - Proof of ownership of a property. A clean title is one that shows no liens against it.

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



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Title insurance - Insurance that compensates the insured a specific amount for any loss caused by defects of title to real estate.

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

Total monthly debt - The total amount of credit card, car loan, and other debt payments a person must pay each month. Used to figure out debt-to-income ratios.

Total monthly income - The amount of money that comes into a household every month from a job or jobs, interest or dividends, alimony, disability payments, and public assistance. A lender uses the total monthly income figure to decide how much house payment a loan applicant can afford. Also called "gross monthly income."

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

Truth in Lending Act - A federal law that requires lenders to provide complete and correct information, in writing, about how much a borrower owes, when payments are due and how much they are, and what interest rates and other charges are.

U.S. Department of Housing and Urban Development (HUD) - A federal government agency responsible for managing many of the nation's housing programs and for protecting rights of homebuyers, homeowners, sellers, and renters.

U.S. Department of Veterans Affairs (VA) - A federal government agency responsible for programs for former members of the armed services.

Underwriting - The process of analyzing a borrower's finances and credit in order to decide whether or not to make a loan. The underwriter is the person who has authority to approve a loan.

Unsecured credit - Any credit that is not secured by property (such as a house). A credit card is unsecured credit, while a mortgage loan is secured.

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

Verification - The process of making sure or verifying that all of a borrower's loan application information is accurate.

Warranty - A guarantee by a seller or manufacturer that a product is what it is claimed to be, that it is in working order, and, in some cases, that the seller or maker will repair the product.

Wiring diagram - A diagram of the electrical wiring in a house, showing where all the circuits and plugs are.

Zoning - A county or city law stating the types of use to which properties can be put in specific areas.