

## **DEFINITIONS**

### **Adjustable-Rate Mortgage (ARM)**

A mortgage loan with an interest rate that can change at any time, usually in response to the market or Treasury Bill rates. These types of loans usually start off with a lower interest rate comparable to a fixed-rate mortgage.

### **Amortize**

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.

### **Balloon Mortgage**

A mortgage loan with initially low interest payments, but that requires one large payment due upon maturity (for example, at the end of five or seven years).

BPO (broker price opinion)- broker's opinion as to the value of the property

### **Buy-down Mortgage**

A mortgage loan in which one party pays an initial lump sum in order to reduce the homeowner's monthly payments.

### **Collections**

The efforts a mortgage company takes to collect past due payments.

### **Convertible ARM**

An Adjustable-Rate Mortgage loan that can be converted into a fixed-rate mortgage during a certain time period.

### **Comparable sales, (comps)**

Similar home sale prices in the region used as a metric in the calculation of a home's appraised value.

### **Debt-to-Income (DTI)**

Debt-to-Income (DTI) is a calculation frequently used by mortgage companies when qualifying borrowers for a mortgage or a workout solution to resolve delinquency. It is calculated by comparing how much you pay on your mortgage(s) to your gross monthly income.

### **Deed**

A legal document under which ownership of a property is conveyed.

### **Deed-in-Lieu of Foreclosure**

The transfer of title from a homeowner to the mortgage company to satisfy the mortgage debt and avoid foreclosure; also called a "voluntary conveyance."

### **Deed-for-Lease™**

If your mortgage is owned by Fannie Mae, this option may allow you to lease your home after you have transferred the title to your property to the mortgage company (commonly called a Deed-in-Lieu of Foreclosure).

### **Default**

A borrower is in default when they fail to meet the terms of their loan agreement. Usually this is based

on failure to make payments on time.

**Deficiency Balance**

The difference between what a foreclosed home sold for and the remaining mortgage balance. The mortgage company may require you to pay the amount of the deficiency balance.

**Deferred Payments**

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 thirty or more days past due.

**Equity**

Ownership interest in a property. This is the difference between the home's market value and the outstanding balance of the mortgage loan (as well as any other liens on the property).

**Escrow**

An account (held by the mortgage company) where a homeowner pays money toward taxes and insurance of a home.

**Escrow Account**

The actual account where the escrow funds are held in trust.

**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.

**Fixed-Rate Mortgage**

A mortgage loan in which the interest rate remains the same for the life of the loan.

**Forbearance**

An agreement to temporarily suspend or reduce monthly mortgage payments for a specific period of time. The mortgage company will then postpone legal action when a homeowner is delinquent. A forbearance is usually granted when a homeowner makes satisfactory arrangements to bring the overdue mortgage payments up to date.

**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 mortgage company works with the homeowner to find a permanent solution to resolve an existing or impending loan delinquency.

**Hardship**

A hardship is the reason why a homeowner is having trouble making their mortgage payments, such as

job loss, medical emergency or illness, divorce, etc. A hardship may be short term (less than six months) or long term (more than six months). When contacting your mortgage company or a housing counselor for assistance, homeowners may be required to demonstrate/explain any hardship they are experiencing.

### **Hazard Insurance**

Insurance coverage that pays for the loss or damage on a person's home or property.

### **Home Affordable Foreclosure Alternatives Program (HAFA)**

The Home Affordable Foreclosure Alternatives Program is part of the government's Making Home Affordable Program, and provides foreclosure alternatives to homeowners who can no longer afford their mortgage payments. For more information about this program, please visit [MakingHomeAffordable.gov](http://MakingHomeAffordable.gov) or contact your mortgage company directly.

### **Home Affordable Modification Program (HAMP)**

The Home Affordable Modification Program is part of the government's Making Home Affordable Program, and provides homeowners an opportunity to modify their loan to more affordable monthly payments. For more information about this program, please visit [MakingHomeAffordable.gov](http://MakingHomeAffordable.gov) or contact your mortgage company directly.

### **Home Affordable Refinance Program (HARP)**

The Home Affordable Refinance Program is part of the government's Making Home Affordable Program, and provides homeowners an opportunity to refinance their loan to more affordable monthly payments – even if they have limited or no equity in their home. For more information about this program, please visit [MakingHomeAffordable.gov](http://MakingHomeAffordable.gov) or contact your mortgage company directly.

### **Home Equity Line of Credit**

A way of borrowing money against the equity or assets that the homeowner has in the home to pay for things such as home repairs, college education, or other personal uses.

### **Interest-Only Mortgage**

A mortgage where the homeowner pays only the interest on the loan for a specified amount of time.

### **Investment Property**

A property not considered to be a primary residence that is purchased by an investor in order to generate income, gain profit from reselling or to gain tax benefits.

### **Investor**

The owner of the loan on a property.

### **Loan-to-Value (LTV)**

Loan to value is a calculation frequently used by mortgage companies when qualifying borrowers for a mortgage. It is calculated by dividing the mortgage balance by the home's current market value.

### **Loss Mitigation**

When the homeowner and the mortgage company are working together to determine the appropriate option/workout solution to bring the mortgage current and avoid foreclosure.

### **Modification**

Any change to the terms of a mortgage loan, including changes to the interest rate, loan balance or loan term.

**Mortgage**

A legal document that pledges property to the mortgage company as security for the repayment of the loan. The term is also used to refer to the loan itself.

**Mortgage Company**

Mortgage companies may originate (i.e., your lender) as well as service the loan. The lender who originated your mortgage may or may not service your loan. When the mortgage company services your mortgage, they do the following: collect the homeowner's mortgage payments, pay taxes and insurance, generally manage your escrow accounts (i.e., they "service" your loan), and provide customer service and support.

**Mortgage Insurance**

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

**Refinance**

A new mortgage with new terms, interest rates and monthly payments. The new loan completely replaces the current mortgage and may lower your payment.

**Repayment Plan**

A homeowner promises to pay down past-due amounts on a mortgage over a specified time period while still making regular monthly payments.

**Short Sale (also called Pre-foreclosure)**

The process in which a mortgage company works with a delinquent homeowner to sell the house by a real estate agent prior to the foreclosure sale. The sale price is less than what is owed on the mortgage.

**Title**

The documented evidence that a person or organization has ownership of real property.

**Voluntary Conveyance**

The transfer of title from a homeowner to the mortgage company to satisfy the mortgage debt and avoid foreclosure; also called a "Deed-in-Lieu of Foreclosure."

**Workout**

Options to resolve or restructure a loan or prevent someone from going into foreclosure.