



Fannie Mae®

Homebuying Glossary

Escrow? Title insurance? Earnest money? The homebuying process is full of terms like these that we don't use in everyday conversation. Use this glossary to get familiar with some of the most common words and phrases you'll hear on your journey to homeownership.

A

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.

Annual Percentage Rate (APR)

The APR includes the interest rate as well as other fees that will be included over the life of the loan (closing costs, fees, etc.) and shows your total annual cost of borrowing. As a result, the APR is higher than the simple interest of the mortgage. That's why it's always important when comparing lenders to look at the APRs quoted and not just the interest rate.

Appraiser

A person qualified by education, training, and experience to estimate the value of real and personal property.

Appreciation

An increase in value of property for any reason, except inflation.

B

Balloon Payment

A balloon payment is a larger-than-usual one-time payment at the end of the loan term. If you have a mortgage with a balloon payment, your payments may be lower in the years before the balloon payment comes due, but you could owe a big amount at the end of the loan.

Bankruptcy

A legal proceeding in federal court in which a debtor seeks to restructure his or her obligations to creditors pursuant to the Bankruptcy Code. This generally affects the borrower's personal liability for a mortgage debt, but not the lien securing the mortgage.

Bond

A type of debt, similar to an IOU. When you buy a bond, you're lending to the issuer, which may be a government, municipality, or corporation. The issuer promises to pay you a specified rate of interest during the life of the bond and to repay the principal—also known as the bond's face value or par value—when the bond “matures,” or comes due after a set period.

C

Certificate of Deposit (CD)

Savings tool with fixed maturity date and fixed interest rate.

Charge-off

To treat as a loss; to designate as an expense an amount originally recorded as an asset.

Closing Costs

Various fees required to conclude a real estate transaction.

Closing Date

In real estate, the delivery of a deed, financial adjustments, the signing of notes, and the disbursement of funds necessary to consummate a sale or loan transaction.

Collateral

An asset that secures a loan or other debt that a lender can take if you don't repay the money you borrow. For example, if you get a home loan, the bank's collateral is typically your house.

Commission Income

Commission Income refers to income that is paid contingent upon the conducting of a business transaction or the performance of a service.

Condo

A form of homeownership that combines individual ownership of a unit with shared ownership of common facilities. Each owner has a separate mortgage for his or her unit and is responsible for making the payments on the loan and paying associated real estate taxes. An elected board of directors is responsible for operations and management of the common facilities. Each owner pays a monthly recurring fee that cover their share of the cost to repair and maintain the common facilities.

Condo Fees

Amounts paid, usually monthly, by unit owners to meet daily operating costs as well as contributions to the required reserve fund. Condo fees are not included in your monthly mortgage payment and must be paid directly to the condo/homeowners association, usually through a professional management company. It is important to understand what is and is not included in the fees, as it varies from condo to condo.

Conventional Financing

In real estate, mortgage financing that is not insured or guaranteed by a government agency such as HUD/FHA, VA, or the Rural Housing Service.

Credit Bureau

An institution that for a fee provides historical credit records of individuals provided to them by creditors subscribing to their services.

Credit Report

A credit report is a statement that has information about your credit activity and current credit situation such as loan-paying history and the status of your credit accounts.

Credit Score

A credit score predicts how likely you are to pay back a loan on time. Companies use a mathematical formula—called a scoring model—to create your credit score from the information in your credit report. There are different scoring models, so you do not have just one credit score. Your scores depend on your credit history, the type of loan product, and even the day when it was calculated.

D

Debt-to-Income Ratio (DTI)

Your debt-to-income ratio is all your monthly debt payments divided by your gross monthly income.

Deed

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

Department of Veterans Affairs (VA)

The Department of Veterans Affairs runs programs benefiting veterans and members of their families. It offers education opportunities and rehabilitation services and provides compensation payments for disabilities or death related to military service, home loan guaranties, pensions, burials, and health care that includes the services of nursing homes, clinics, and medical centers.

Depreciation

A sum representing presumed loss in the value of a building or other real estate improvement, resulting from physical wear and economic obsolescence.

Discount Point

Amount payable to the lending institution by the borrower or seller to increase the lender's effective yield. It may represent a payment for services rendered in issuing a loan or additional interest to the lender payable in advance. One point is equal to 1 percent of the loan.

Down Payment

The amount of cash a borrower may need to pay in order to buy a piece of property; equal to the purchase price minus the amount of any mortgage loans used to finance the purchase.

E

Earnest Money

You typically will need to pay what's called "earnest money" which shows the seller you are serious about buying the home. Think of earnest money as a deposit you are providing the seller (usually around \$500 - \$1,000 or a certain percentage of the offer price) that will be applied to the purchase once the contract is finalized.

eClosing

An eClosing is the act of closing a mortgage loan electronically. This occurs through a secure digital environment where some or all of the closing documents are accessed and executed electronically. This can be a hybrid process in which certain key documents, such as the promissory note and security instrument, are printed to paper and wet-signed, while other documents are signed electronically. eClosings result in eMortgages only if the promissory note is signed electronically.

eMortgage

The term "eMortgage" generally refers to the use of electronic processes and signatures in the mortgage production process. Specifically, it refers to electronically signed closing documents paired with an original electronic promissory note (eNote) signed on an eClosing platform and registered with the MERS eRegistry® upon execution. The terms "electronic mortgage," "electronic mortgage loan," "eMortgage" and "eMortgage loan" have the same meaning.

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 or mortgage servicing company) whereby a homeowner pays money toward taxes and insurance of a home.

Escrow Account

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

F

Federal Housing Administration (FHA)

Provides mortgage insurance on loans made by FHA-approved lenders throughout the United States and its territories. FHA insures mortgages on single-family, multifamily and manufactured homes and hospitals. It is the largest insurer of mortgages in the world, insuring over 34 million properties since its inception in 1934.

Fixed-Rate Mortgage

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

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.

H

Hazard Insurance

Insurance coverage that pays for the loss or damage on a person's home or property (due to fire, natural disasters, etc.). This is usually added as a supplement to homeowners insurance.

Home Appraisal

A written estimate or opinion of a property's value prepared by a qualified appraiser.

Home Purchase Price

The final selling price of a home.

Homeowners Association (HOA) Fee

Amounts paid, usually monthly, by unit owners

to meet daily operating costs as well as contributions to the required reserve fund. HOA fees are not included in your monthly mortgage payment and must be paid directly to the homeowners association, usually through a professional management company. It is important to understand what is and is not included in the fees, as this varies from association to association.

Homeowners Insurance

Covers a home's structure and the personal belongings inside in the event of loss or theft; helps pay for repairs and replacement.

I

Interest Rate

A percentage of a sum borrowed that is charged by a lender or merchant for letting you use its money. A bank or credit union may also pay you an interest rate if you deposit money in certain types of accounts.

L

Lender

An organization or person who lends money with the expectation that it will be repaid, generally with interest.

Lien

A legal hold or claim of a creditor on the property of another as security for a debt. Liens are always against property, usually real property.

Loan Administration (Servicer)

A mortgage banking function that includes the receipt of payments, customer service, escrow administration, investor accounting, collections, and foreclosures. Also called "servicing."

M

Manufactured Home (MH)

A dwelling of at least 400 square feet and at least 12 feet wide, constructed to the “HUD Code” for manufactured housing, which is built on a permanent chassis, installed on a permanent foundation system, and titled as real estate.

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 Insurance (MI)

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% of the purchase price.

P

Planned Unit Development (PUD)

A single-family residence located in a community with association dues and other required monthly payments.

Pre-approval

Pre-approval is a bigger step than pre-qualification, but it is a better commitment from the lender. This involves completing a mortgage application and providing the lender with your income documentation and personal records. If you qualify for a mortgage, the lender will be able to provide the amount of financing and the potential interest rate (you might even be able to lock in the rate). You’ll be able to see an estimate of your monthly payment (before taxes and insurance because you haven’t found a property yet).

Pre-qualification

With pre-qualification the lender provides the mortgage amount for which you may qualify. Pre-qualifying can help give you an idea of your financing amount (and the process is usually quick and free), but you won’t know if you actually qualify for a mortgage until you get pre-approved.

Principal

The amount a person borrows from a lender (also referred to as “amount financed”).

Promissory Note

A legally binding document stating that the borrower promises to repay the lender for the full loan amount plus interest.

Property Taxes

The amount individuals pay to their local city/ municipality and sometimes county, based on the value of their property.

R

Revolving Charge Account

A Revolving Charge Account refers to a credit arrangement that requires the Borrower to make periodic payments but does not require full repayment by a specified point of time.

S

Secured Card

Credit card that typically requires a cash security deposit. The larger the security deposit, the higher the credit limit. Secured cards are often used to build credit history.

T

Title

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

Title Company

An agency that works with all parties involved in a real estate transaction to research and insure the title of the home you're buying, facilitate the loan closing, and ensure that the transfer of ownership is completed and recorded properly.

Title Insurance

Insurance through a title company to protect a property owner or lender from loss if title proves imperfect.

Title Search

A process whereby the title company retrieves and examines public records that document the history of a property to confirm its legal ownership.

Townhome

A townhouse, or townhome, is a house that has two or three levels and that is attached to a similar house by a shared wall.

U

Underwriting

In mortgage banking, the analysis of the risk involved in making a mortgage loan to determine whether the risk is acceptable to the lender. Underwriting involves the evaluation of the property as outlined in the appraisal report and of the borrower's ability and willingness to repay the loan.

Unsecured Credit Card

A credit card with no security deposit required.