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Key Mortgage and Foreclosure Terms

While working with your mortgage lender or servicer you may be hearing terms or phrases you may not understand. It is important to familiarize yourself with this language so you can make informed decisions about your home loan and finances.

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.

Advance (Home Saver Advance):

A monetary advance to cure a delinquent loan.

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 seven years).

Buy-down Mortgage:

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

Collections:

The efforts a lender takes to collect past-due payments.

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Convertible ARM:

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

Deed:

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

Deed-in-Lieu:

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

Deferred Payments:

Payments that are authorized to be postponed as part of a workout process to avoid foreclosure.

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Delinquency:

Failure to make a payment when it is due. A loan is generally considered delinquent when it is 30 or more days past due.

Equity:

Ownership interest in a project after liabilities are deducted, also referred to as your assets.

Escrow:

A lender-held account 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.

FHA Loan:

A federal assistance mortgage loan in the United States insured by the Federal Housing Administration. The loan may be issued by federally qualified lenders.

Fixed-Rate Mortgage:

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

Forbearance:

The lender's postponement of legal action when a borrower is delinquent. It is usually granted when a borrower makes satisfactory arrangements to bring the overdue mortgage payments up to date.

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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 borrower is in default for a

Foreclosure Prevention:

Steps by which the servicer works with the borrower to find a permanent solution to resolve an existing or impending loan delinquency.

Hazard Insurance:

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

Home Equity Line of Credit:

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

Interest-Only Mortgage:

A mortgage where the borrower 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.

Lender Placed Insurance:

Insurance placed on a home or property by a lender to protect their interest on collateral which secures the loan.

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 a lender as security for the repayment of the loan. The term is also used to refer to the loan itself.

Mortgage Insurance:

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

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Pre-foreclosure:

The process in which a servicer works with a delinquent borrower to sell the house by a real estate agent prior to the foreclosure sale.

Refinance:

Paying off an existing loan (such as a balloon mortgage) with a newer, usually lower rate loan.

Repayment Plan:

A borrower promises to pay down past-due amounts on a mortgage while still making regular monthly payments.

Servicer:

A firm that performs functions in support of a mortgage that include collecting mortgage payments, paying the borrower's taxes and insurance and generally managing borrower escrow accounts.

Short-Sale:

The process in which a servicer works with a delinquent borrower to sell the house by a real estate agent prior to the foreclosure sale.

Title:

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

VA Loan:

A VA loan is a mortgage loan in the United States guaranteed by the U.S. Department of Veterans Affairs. The loan may be issued by qualified lenders.

Voluntary Conveyance:

The transfer of title from a borrower to the lender to satisfy the mortgage debt and avoid fore closure; also called a "Deed-in-Lieu."

Work Out:

A way to resolve or restructure a loan or prevent someone from going into foreclosure through a loan modification, forbearance or short sale.