



Loan Terminology Glossary

The terms and definitions that follow are meant to give simple, informal meaning for words and phrases you may see on our Web site that may not be familiar to you. The specific meaning of a term or phrase will depend on where and how it is used, because the relevant documents, including signed agreements, customer disclosures, internal Program policy manuals and industry usage, will control meaning in a particular context. The terms and definitions that follow have no binding effect for purposes of any contracts or other transactions with us. We will be happy to answer any specific questions you may have.

ACH: (see Automated Clearing House)

Amortization: Loan payments by equal periodic amounts calculated to pay off the debt at the end of a fixed period, including accrued interest on the outstanding balance.

Amortized Loan: A loan to be repaid, by a series of regular installments of principal and interest that are equal or nearly equal, without any special balloon payment prior to maturity.

Annual Percentage Rate (APR): A percentage rate that reflects the amount of interest earned or charged.

Automated Clearinghouse (ACH): An electronic funds transfer network that enables direct money transfers between participating bank accounts and lenders. This feature is available only to borrowers who are not currently on active payroll status.

Balloon Payment: An installment payment on a promissory note - usually the final one for discharging the debt - which is significantly larger than the other installment payments provided under the terms of the promissory note.

Beneficiary: The lender on the note secured by a deed of trust.

Borrower: An eligible person who will be primarily responsible for the repayment of a loan.

Close of Escrow: The meeting between the buyer, seller and lender (or their agents) where the property and funds legally change hands.

Community Property: Property acquired by husband and wife, or either, during marriage, when not acquired as the separate property of either.

Co-Borrower: Any individual who will assume responsibility on the loan, take a title interest in the property and intends to occupy the property as their primary residence.

Curtailment: An additional payment made to reduce the principal balance of a loan.

Date of Recordation: The date on which a deed of trust is officially entered on the books of the county recorder in the county in which the property is located.

Deed of Trust: A security instrument, used in place of a mortgage, conveying title in trust to a third party covering a particular piece of property. It is used to secure payment of a promissory note.

Default: Failure to fulfill a duty or promise as specified in the Promissory Note and/or Deed of Trust.

Deferred Payment Loan: A loan which allows the borrower to defer all the monthly principal and interest payments until the maturity date of the promissory note, at which time the outstanding principal loan balance and all accrued interest is due and payable.

Down Payment: The difference between the purchase price of real estate and the loan amount. The borrower is responsible for providing the funds for the down payment.

Equity: The difference between the fair market value of a property and the current indebtedness secured on the property.

Escrow: A situation in which a third party, acting as the agent for the buyer and the seller, carries out the instructions of both and assumes the responsibilities of handling all the paperwork and disbursement of funds at settlement or at closing.

Evidence of Insurance: Written documentation from a hazard insurance company that a homeowners' policy is in existence on a property. Typically, this is NOT an insurance policy, but a commitment from the insurance company to provide a policy for a specific property at a specific time and premium amount.

Hazard Insurance: A contract where an insurer, for a premium, undertakes to compensate the insured for loss on a specific property due to certain hazards. (See Homeowner's Insurance Policy).

Home Improvement: Repairs and/or additions made to better the status of the permanent structure of the primary residence.

Homeowners Association: An organization of homeowners residing within a particular development whose major purpose is to maintain and provide community facilities and services for the common enjoyment of the residents.

Homeowner's Insurance Policy: An insurance policy available to owners of private dwellings that covers the dwelling and contents in the case of fire, wind damage, theft, and, personal liability. The typical policy does not include flood or earthquake coverage.

HUD-1 Closing Statement: A financial disclosure giving an accounting of all funds received and disbursed at loan closing.

Impound: That portion of the mortgagor's monthly payments held by the lender to pay for property taxes or hazard insurance premiums as they become due.

Inspection Reports: Reports ordered by the borrower to assess the quality of the home. Typically, this includes a Termite Report and "whole house" inspection. Other reports that may be ordered include roof, foundation, geological, and, septic tank inspections.

Interest: Consideration in the form of money paid for the use of money, usually expressed as an annual percentage. Also, a right, share or title in property.

Interest-Only Payment Loan: A non-amortizing loan in which the lender receives interest during the term of the loan and principal is repaid in a lump sum at maturity.

IRS 1098 Mortgage Interest Statement: A statement provided by the lender to the borrower indicating the total amount of interest paid by the borrower for a given calendar year.

Joint Tenancy: Joint ownership by two or more persons giving each tenant equal interest and equal rights in the property, including the right of survivorship.

Lender's Escrow Instructions: Instructions produced by Lender for an escrow or title company detailing the documentation and procedures required before a loan is funded.

Loan-to-Value (LTV) Ratio: The ratio of the principal balance of a mortgage loan to the value of the securing property, as determined by the purchase price or Appraised Value, whichever is less.

Loan Underwriting: The analysis of risk and the decision whether to make a loan to a potential homebuyer based on credit, employment, assets, and other factors.

Mortgagee: A lender or creditor who holds a mortgage or Deed of Trust.

Mortgagor: A borrower who is obligated to pay on a mortgage or Deed of Trust.

Net Income: The monthly salary paid to a borrower after deducting any Federal and/or State payroll taxes.

Preliminary Disclosures: A generic term referring to a group of disclosure forms required by Federal law to be sent to a loan applicant. The forms include Truth-in-Lending, Estimate of Settlement Charges, Fair Lending Notice, and a California Credit Disclosure.

Preliminary Title Report: A title search by a title company prior to issuance of a title binder or commitment to insure, required during the processing of a loan.

Prepaid Interest: Mortgage interest that is paid from the date of the funding to the end of that calendar month.

Primary Residence: A dwelling where one actually lives and is considered as the legal residence for income tax purposes.

Principal: The amount of debt, exclusive of interest, remaining on a loan.

Principal and Interest to Income Ratio: The ratio, expressed as a percentage, which results when a borrower's proposed Principal and Interest payment expenses is divided by the gross monthly household income. Also known as P&I ratio. It should normally not exceed 30%-40% of gross monthly income.

Processing: The preparation of a mortgage loan application and supporting documents for consideration by a lender.

Quit Claim Deed: A deed relinquishing all, or a portion of, the interest, title, or claim in a property by a grantor.

Reconveyance: The transfer of the title of land from one person to the immediate preceding owner. This instrument of transfer is commonly used to transfer the legal title from the trustee to the trustor after a deed of trust has been paid in full.

Refinancing: The process of paying off an existing loan and establishing a new loan.

Renovation: The restoration of the primary residence. Generally, this includes repairs, improvements and additions to the permanent structure of the primary residence.

Rights of Rescission: The right to cancel a contract and restore the parties to the same position they held before the contract was entered into. For a refinance transaction, a borrower has three working days from the signing of the loan documents to cancel the loan without penalties. The right to rescind does not apply to purchase transactions.

Servicing: The collection of payments and management of operational procedures related to a mortgage loan.

Subordination Agreement: An agreement by the holder of an encumbrance against real property to permit that claim to take an inferior position to other encumbrances against the property.

Tenants in Common: Joint ownership by two or more persons giving each tenant an interest and rights in a property, these interests need not be equal in quantity or duration.

Title: The evidence of the right to or ownership in property.

Title Insurance: A policy, usually issued by a Title Insurance company, which insures a homebuyer and the lender against errors in the title search. The cost of the owner's policy is usually a percentage of the sales price and the lender's policy is a percentage of the loan amount.

Trustee: One who holds legal title to a property for the benefit of another, or for the purpose of securing performance of an obligation.