



# GLOSSARY OF TERMS OFTEN USED IN MORTGAGE RELATED DOCUMENTS

Michigan Office of Financial and Insurance Regulation  
Updated 5/5/2008

## A

### Accepted Offer to Purchase

A sales contract signed by both a Homebuyer and a seller, specifying the terms and conditions under which real estate will be purchased.

### Adjustable Rate Mortgage (ARM)

A mortgage agreement where interest rate adjustments are made at regular intervals. When interest rates rise, so do the monthly payments on an ARM. Because the borrower takes some of the risk of rising interest rates, he or she receives a lower initial interest rate than he or she would get on a fixed-rate loans.

### Amortization

The method of accounting where the repayment of the principal and interest on a loan is spread over several years in monthly installments until the loan has been paid in full.

### Annual Percentage Rate (APR)

The real interest rate paid when all costs of the loan (such as closing and origination fees) are included.

### Appraisal

An evaluation made by an expert (licensed appraiser) as to the value of a property.

### Appraised Value

The value of a property determined from an appraisal.

### Assessed Value

The value that the government attaches to a property upon which it bases taxes. (See Property Taxes.)

### Asset

Everything owned by someone. This includes real property, automobiles, or other personal property, bank accounts, investments, etc.

### Assignment

A document which transfers ownership of a property from one party to another.

B

### Bankruptcy

A legal proceeding in which a court establishes that an individual is unable to repay debts.

## C

### Closing

The transaction where a property transfers from a seller to a buyer. At closing money transfer hands and all parties to the transaction are paid.

### Closing Costs

The amount of money needed to transfer property from one person to another. It includes initiation fees, attorney fees, credit report fees, insurance costs and filing charges. These fees are paid to the lender at closing.

## Closing Statement

Also known as the Settlement Statement, a closing statement is a document signed by the buyer and seller at the loan closing. It shows the original purchase price, fees paid, the buyer's loan amount, the repayment terms, and the amount of funds the seller will receive in the transaction.

## Co-Borrower

A person who shares the ownership of a property with the borrower. A co-borrower also shared the obligation to repay the loan to the lender.

## Collateral

An asset that a borrower uses to take out a loan. If the borrower does not repay the loan as promised, the lender may take the collateral from the borrower.

## Collection

Collections are past due debts such as unpaid medical, credit card, or utility (telephone, electric, or cable) bills that a creditor will attempt to collect from a borrower. Collections are shown on a borrower's credit report and often must be paid before other lenders can approve a borrower for a loan.

## Condominium (Condo)

A form of ownership of a property in which each unit, or condominium, is owned separately. Common areas, however, such as hallways, roofs, and yard areas surrounding the buildings, are owned jointly by the owners of all of the units.

## Cosigner

Someone who signs a Note with the primary borrower for a loan. The cosigner does not own the property with the primary borrower. Both the borrower and the cosigner are responsible for the loan. If the borrower does not repay the loan, then the cosigner will be required to pay.

## Conventional Loans

Conventional loans are mortgage loans secured by real estate rather than by a government agency such as FHA or VA.

## Creditor

Anyone to whom money is owed.

## Credit Report

A document that contains a complete history of a person's credit history. Any payments that were not made on time are listed, as are any open and closed collections, judgments, tax liens, or bankruptcies. Lenders will review borrowers' credit reports to help them determine whether or not they will approve additional loans/credit.

## Credit Score

A number usually disclosed on a borrower's credit report that shows the borrower's credit history and indicates the borrowers ability to repay debts.

## D

### Debt

An obligation to pay money to someone else.

### Debt Ratio

A calculation where lenders divide the borrowers monthly debt by the borrowers monthly gross income.

### Deed

A written document properly signed and delivered that transfers the rights of ownership of a property from the seller to the buyer. The document is recorded with the local Register of Deeds.

### Deed-in-Lieu of Foreclosure

The transfer of title (ownership) of a property, from a borrower who is delinquent on their loan back to their lender to satisfy the balance due on the delinquent loan. The transfer is made voluntarily so that the borrower can avoid foreclosure proceedings. Please check with your lender and a real estate attorney as to how this may affect your credit.

### Default

Failure to meet all of the terms of a financial obligation, for example, failing to make loan payments.

## **Delinquency**

A loan payment that has not been received by its due date.

## **Down Payment**

The difference between the sales price of a property and the amount of the loan. The buyer pays the down payment amount at the closing.

## **E**

### **Earnest Money**

A sum of money a potential buyer gives to the seller prior to the closing of the loan, often when the buyer submits an Offer to Purchase to the seller. That money is forfeited if the person who gave the money fails to honor the contract.

### **Equity**

The difference between what you owe on a property and the fair market value of that property.

### **Escrow**

Escrow is the holding of money or documents by a neutral third party prior to closing. It is also funds held by a lender for the purpose of paying property taxes and insurance as they become due, typically once each year.

## **F**

### **First Time Homebuyer**

Anyone who has not had an ownership interest in a real estate property for the last three years.

### **Fixed Interest Rate**

An interest rate that does not fluctuate throughout the life of a loan. Fixed rates typically have a repayment period of 15, 20 or 30 years. Monthly principal and interest payments do not change. Fixed rates are usually higher than rates that are offered under and ARM.

### **Foreclosure**

The Legal action where a lender takes the home and property from a borrower who failed to make timely payments on his or her loan.

## **G**

### **Good Faith Estimate**

A document the lender gives to the borrower shortly after the borrower has submitted an application for credit. That document shows the estimated costs of the loan to be paid at closing.

### **Gross Monthly Income**

Monthly income before any deductions.

## **H**

### **Home Inspection**

An inspection of a property performed by a trained expert (certified Home inspector). The Home inspector will provide a detailed list of any defects in the property, especially in the structure itself or mechanical systems (electrical, heating, etc.).

### **Home Warranty**

Insurance that covers the cost to repair or replace certain items within a home, such as the furnace, appliance or roof, for a specific period of time.

### **Homeowner's Insurance**

Insurance that will pay for the cost to repair damage to a Home. Damage from storms, fire and financial loss due to theft. Check your insurance policy to see what is covered since insurance policies vary.

### **Housing Ratio**

A calculation where lenders divide the monthly housing expense by the borrower's monthly gross income.

## **I**

### **Interest**

A charge for borrowing money.

## **L**

### **Late Charge**

A fee a borrower pays to a lender for having made their payment after the payment due date.

## Legal Description

A specific description of the location of a parcel of land that specifies the boundaries around the land.

## Liabilities

A borrower's debt or other financial obligations.

## Lien

A legal claim of an individual or lender on someone's property. Liens may be placed against a property as security for a loan (in the form of a mortgage) or a debt (in the form of a judgment).

## Loan Term

The period of time a borrower is given for the repayment of their loan. Usually the loan term is expressed in the form of the number of months the borrower will make payments.

## Loan-to-Value Ratio (LTV)

The division of the value of the appraised value of the property by the amount of the mortgage. The LTV is expressed as a percentage.

## M

### Mortgage

A mortgage is a loan to buy property. It is also a legal document which is recorded with the Register of Deeds as a lien against a property.

### Mortgagee

Lender. The holder of a mortgage.

### Mortgagor

Borrower. A person who mortgages their property for the purpose of obtaining a loan.

## P

### PITI (Principal, Interest, Taxes, and Insurance)

The abbreviation for Principal, Interest, Taxes, and Insurance. It represents the total mortgage loan payment that includes the monthly amount of principal and interest. It also includes the monthly amount that is set aside in the real estate tax and Homeowner's insurance escrows.

## Private Mortgage Insurance (PMI)

Insurance provided by a private company to protect the lender against losses that might be incurred if a loan defaults. It is required for any mortgage where the buyer's down payment is less than 20% of the purchase price. The cost of the insurance is factored into the borrower's payment and is sometimes referred to as mortgage insurance. It is easy to confuse (PMI) with other types of insurances associated with Homeownership. ***PMI is not mortgage life insurance***, which pays the borrower's mortgage off if he/she becomes disabled or dies.

## Principal

The outstanding balance of a loan not including interest.

## Property Taxes

Taxes paid to a city or township for properties/Homes owned. The amount of tax is based on the assessed value (established by a public tax assessor) of the property. The local government will use property taxes collected for government services, such as the public schools, snow and trash removal, etc.

## R

### Rate

See interest rate. It is usually expressed as an annual percentage.

### Rate Lock

Lenders will often lock the interest rate available at the time of application for use at closing even if the rate has increased between the time of application and the closing date.

### Real Estate Agent

A licensed professional who works on behalf of a seller or buyer of real estate.

### Realtor

A licensed professional who works on behalf of a seller or buyer of real estate.

## Recorded Documents

Documents which are entered into public record by the local government's (city or township) Register of Deeds. Lenders will have documents recorded to establish a lien or interest in a borrower's property.

## Refinance

Paying off a loan with proceeds from another loan. The act of replacing an old loan with a new loan. Borrowers will often refinance with a loan that has a lower interest rate and lower payments.

## Rescission

Borrowers' cancellation of a loan contract usually done within three business days after loan closing.

## Right of Redemption

The right of an owner to redeem property securing a loan to pay the mortgage on a property that is in foreclosure.

## S

## Second Mortgage

A mortgage lien which is recorded against a property as security for a loan and is taken out after a first mortgage loan.

## Servicing

The management of a loan, including collecting all payments and disbursing funds for the payment of the real estate taxes and Homeowner's insurance. The servicing company may or may not be the original lender that closed the mortgage loan.

## Settlement Fee

See Closing Costs. Lenders will sometimes pay an agent, attorney or title company to close the mortgage loan for them. The borrower is typically charged this fee. The settlement fee is sometimes referred to as the closing fee.

## Settlement Statement

See Closing Statement. A document signed by the buyer and seller at their loan closing. It is a detailed list of the original purchase price, fees paid or owed, the buyer's loan amount, and the

amount of funds the seller will receive in the transaction. The settlement statement is sometimes referred to as the closing statement or the HUD-1.

## Subordinate Loan or Financing

A mortgage lien which is recorded against a property as security for a loan and is taken out after a first mortgage loan.

## Survey

A measurement of land that is prepared by a registered land surveyor. The survey shows the location of the land, its boundaries and the location of any improvements and easements.

## T

## Tax Lien

A debt attached against a property for failing to pay taxes

## Tax Sale

The sale of property by the government after a period of nonpayment of taxes.

## Term

The period of time a borrower is given for the repayment of their loan. The term is expressed in the form of the number of months the borrower will make payments.

## Title

An instrument that establishes legal ownership of a property. Also see Deed.

## Title Company

Companies that specialize in establishing legal ownership of properties through a search of the title.

## Title Insurance

A contract bought at closing and by which the title insurance company indicates who has legal title of the property. The title company will also will pay the lender a specific amount of any loss caused by claims or disputes against the title of a property.

## **Title Search**

Title companies will search the public records to verify the legal ownership of a property. The search will identify liens and other claims against ownership of a property.

## **U**

### **Underwriting**

The process of evaluating a mortgage loan application. Mortgage lenders will evaluate the risk of the loan based on the borrower's credit history and ability to repay the loan, and also based on the quality of the property (the loan's collateral).

## **Z**

### **Zoning**

Local ordinances set by the city or township that establish any restrictions on properties, such as property use (for residential or commercial use) or building codes.