

Confused as you apply for a loan or mortgage?

Try using the New York State Consumer Protections Board's (CPB) guide to commonly used financial lending terms!

TIPS on FINANCIAL TERMS for HOMEOWNERSHIP

Adjustable Rate Mortgage (ARM)

A mortgage loan with an interest rate that changes periodically during the life of the mortgage. These changes are based on the rise and fall in interest rates as determined by the lender. Usually, ARMs have a limit on how high the interest rate may increase.

Amortization

Repayment of a mortgage loan through monthly installments of principal and interest; the monthly payment amount is established on a timetable that allows the lender to own their home at the end of a certain time frame (for example, 15 or 30 years.)

Annual Percentage Rate (APR)

Calculated by using a customary method, the APR illustrates the cost of a loan; conveyed as a yearly interest rate, including the interest, points, mortgage insurance, and any other fees related to the loan.

Appraisal

A written estimation or opinion of a real property's market value. An appraisal is usually prepared by a qualified appraiser.

Assessed Value

The established worth designated on real property to determine the rate of taxation by a government entity.

Assignment of Mortgage

A document authenticating the transfer of liability and ownership of a mortgage from one individual to another.

Assumable Mortgage

A mortgage loan that can be assumed by the buyer from the seller when a home is sold. The individual assuming the mortgage becomes financially responsible for the existing mortgage. However, the seller remains secondarily liable until discharged by the lender (bank) from such commitment.

Balloon Payment Mortgage

A mortgage that typically offers low rates for an initial short period of time (usually 5, 7 or 10) years; after that time frame ends, the entire balance is due in full or must be refinanced by the borrower. The balloon payment is usually quite large.

Broker

An individual or entity working as an agent for a borrower or buyer in real estate transactions such as a mortgage broker or real estate broker. (See Mortgage Broker and/or Real Estate Broker).

Borrower

The individual who has been approved for a loan and is liable for repaying the full amount of the loan including any related fees.

Collateral

Anything that a bank recognizes as security against the debtor's loan. If the debtor does not repay the loan, the bank is then permitted to keep the collateral. Collateral is often in the form of real estate, (e.g., a home).

Chain of Title

A document certifying the history and past ownership or transfer of title of a parcel of land or real property.

Closing

The date and time when the sale of real property is actually finalized and all the paperwork is signed. At the closing, the transfer of title occurs, the borrower signs the mortgage documents and the new owner pays all closing costs. This practice is commonly referred to as “settlement.”

Closing Costs

Certain fees paid by a buyer that are not included in the sale price of the real property. Such costs usually cover the transfer of title to the real property, loan origination fee, attorney’s fees, title examination and insurance.

Cosigner

A person, who is not the borrower, agreeing to sign documentation to become equally responsible for a loan so that the actual borrower can be approved.

Credit Report

A document that chronicles all past and present debts of an individual and the timeliness of their repayments which is used to determine credit worthiness of a consumer. The three largest credit bureaus keeping track of consumers’ credit records are Equifax, Experian and TransUnion.

Debt-to-Income Ratio

The percentage of an individual’s monthly income necessary to fulfill debt commitments such as mortgage payments. As a general rule, your monthly mortgage payment, including interest, taxes and insurance, should not be more than 28 percent of your gross monthly income. Your entire monthly debt responsibility should not be more than 36 percent of your gross income.

Deed

The legal document that officially transfers title/ownership of real property.

Deed of Trust or Mortgage

The document retained by the mortgage lender to assure a borrower's agreement to repay the note. The document also authorizes the lender to foreclose on the real property if the borrower does not repay the loan according to the agreed terms.

Default

Failure of a borrower to make timely payments on a mortgage loan or meet the terms of such loan.

Down Payment

The amount of cash a buyer initially puts toward the purchase of the real property which is not included in the mortgage loan.

Equity

The difference between the market price of the real property and the total debt still owed on such property.

Escrow

Funds that are placed in a special account to cover the expenses of the real property on a monthly basis, such as taxes or insurance. Additionally, prior to closing, an escrow account may be utilized to hold money needed for the closing.

Fixed Rate Mortgage

A mortgage loan with an interest rate that remains the same during the entire term of the loan.

Foreclosure

The forced sale of real property when the borrower goes into default on the loan or mortgage. Earnings from the sale of the real property are then applied to fulfill any outstanding mortgage loan(s).

Home Inspection

The structural and overall examination of real property to make the prospective buyer aware of the condition of the property in question prior to purchase.

Homeowner's Insurance

A policy that shields against liability, hazards, structural defects of the house, coverage for loss of owner's personal belongings and, in some cases, any additional living expenses if an owner is temporarily unable to remain in the home because of a fire or other insured disaster.

Loan

Money borrowed that is commonly repaid with interest.

Mortgage

An official document that secures real property (such as your home) to a lender (such as the bank) as collateral for the repayment of the loan. The term mortgage is also used to refer to the actual loan.

Mortgage Banker

An entity specializing in loan origination and then selling such loans to secondary lenders or other investors. The Banking Department is the primary regulator for New York State-licensed and stated-chartered financial entities, including roughly 300 domestic banks; many foreign agencies, branches and representative offices; savings institutions and trust companies and other financial institutions operating in New York including mortgage bankers and licensed lenders, among others. For a list of supervised and/or licensed mortgage bankers visit

<http://www.banking.state.ny.us/supinst.htm>.

Mortgage Broker

Intermediaries who can deal with a number of lenders to obtain your loan. Mortgage brokers can make inquiries to a number of lenders on your behalf in order to obtain the best loan terms for a consumer. Brokers charge fees based on the amount borrowed. Mortgage brokers must be registered with the New York State Banking Department in order to do business in New York State. Visit www.banking.state.ny.us/simbroke.htm to see a full list of registered Mortgage Brokers.

Preapproval

A practice by which a lender assesses the financial standing of a prospective borrower, such as the credit history, verification of income and assets to determine whether the potential buyer would qualify for a loan or mortgage. A pre-approved letter strengthens a buyer's status when bidding on a home because it shows the seller that the buyer is eligible to borrow a certain amount of money when applying for a mortgage or loan.

Predatory Lending

Unscrupulous lending by an individual or an organization that involves at least one of the following tactics: making high-cost loans based on the assets of the borrower rather than on the borrower's ability to repay the debt; suggesting a borrower refinance a loan repeatedly in order to charge high points and fees each time the loan is refinanced ("loan flipping"); engaging in fraud or deception to hide the actual cost of the loan commitment (e.g. terms and fees) from an unsuspecting or unsophisticated borrower.

Private Mortgage Insurance (PMI)

Insurance that protects lenders from financial loss in case a borrower defaults on their mortgage.

Real Estate Broker/Salesperson

A real estate broker is responsible for the supervision and conduct of a real estate brokerage business. He or she applies for and holds the license on behalf of the brokerage. This person is known as the "representative broker." A real estate salesperson works for and is supervised by the representative broker. The salesperson acts as the representative broker's agent. All listings, although perhaps negotiated by a salesperson, are accepted by the representative broker. Both professions must be licensed and/or registered by the New York State Department of State (DOS). You can check to see if your real estate broker or salesperson is licensed by checking the DOS's website at http://appsext8.dos.state.ny.us/lcns_public/chk_load.

Subprime Lending

Lending provided to individuals who do not qualify for "prime" rates, those lower rates given to borrowers with exceptional credit histories. Subprime lending involving unscrupulous tactics is considered predatory.

Truth-in-Lending Disclosure

A document required by law which provides information relating to the actual costs associated with a loan, such as interest rate and charges.

Variable Rate

A variable rate loan agreement, the opposite of a fixed rate agreement, has an interest rate that may change over the term of the loan. The rate is often tied to an index reflecting changes in market rates of interest. A fluctuation in the rate triggers changes in either the payments or the length of the life of the loan. Caps are often placed on how high the interest rate or the payments can rise.

In the production of this guide, the CPB acknowledges the use of resource materials from the following sources: The Federal Reserve Bank, U.S. Department of Housing and Urban Development (HUD), Office of the New York State Attorney General, and the New York State Departments of State and Banking.