



Glossary

ADJUSTABLE-RATE MORTGAGE (ARM)

The interest rate on an ARM loan changes at specific times over the life of the loan based on changes in an independent index tied to lender borrowing costs. Some ARM loans put a cap on payment changes, which can result in negative amortization. Interest rate changes can also be capped.

AMORTIZATION

A loan is repaid in equal installments calculated over the term or life of the loan. In the early years, most of the loan payment is applied to the interest while in the latter years, most of it is applied to the principal.

ANNUAL ESCROW STATEMENT

Each year, the servicer will forward members an itemized statement showing the payments collected over the prior 12 months and how they were applied to principal, interest, taxes and insurance. The statement should also disclose when the tax and insurance payments were made.

ANNUAL PERCENTAGE RATE (APR)

The total cost of a loan calculated annually. APRs make it easier to compare loan products with different rate and point combinations.

APPRAISAL

Appraisals estimate the market value of a home based on comparisons with similar properties. Unlike a home inspection, the appraisal does not produce a detailed assessment of the property's systems or structure.

APPRECIATION

The value of a property may increase, or appreciate, over time. Two factors that influence the value of a home are the economic health of the region and how well the property is maintained.

ASSUMPTION

Under an assumption, an individual takes over the existing mortgage of a property with the approval of the servicer. However, not all mortgage products may be assumed.

AUTOMATED UNDERWRITING

A computer-based approach to underwriting that enables a credit union to process a loan application more quickly, efficiently and objectively — and use more sophisticated measures of risk.

BIWEEKLY

For most loans, payments are made on a monthly basis. With biweekly mortgages, payments are made every other week. By making 26 biweekly payments annually (the equivalent of 13 monthly payments a year), the member can pay off the loan quicker.

CLOSING

At the closing or settlement, ownership of the property is legally transferred from the seller to the buyer.

CLOSING COSTS

The costs paid at closing by the buyer and seller. These costs are itemized on a Closing Disclosure form. Closing costs may range from 3% to 10% of the home’s sale price.

CLOSING DISCLOSURE (CD)

Credit unions are required to provide members the CD at least three business days before the scheduled closing. Replacing the three disclosures previously required before October 2015 — the Good Faith Disclosure, the HUD-1 Settlement and the Truth in Lending disclosure — the CD summarizes the details of a member’s loan. Members have the opportunity to check the specifics and resolve any discrepancies during the three days before closing.

COMMUNITY PROPERTY

Property acquired by husband, wife or both during marriage, which gives each spouse an interest in the property whether or not each appears on the title.

CONDOMINIUM

A type of property ownership in which the owner holds the title to an individual living unit and shares ownership of common areas.

CONTINGENCY

A condition on the sales contract that must be met to make the contract legally binding. Typical contingencies include securing financing or conducting an appraisal.

CONVENTIONAL MORTGAGE

If a mortgage loan is not insured or guaranteed by the federal government, it is considered to be a conventional loan.

CO-OP

Co-ops or co-operatives are a type of property ownership in which each co-op owner holds a share in the corporation that owns the entire building.

CREDIT SCORE

A statistical method of measuring an individual's credit management. It predicts the relative likelihood that the individual will repay a mortgage or other forms of debt. Most credit unions use the credit score formula developed by Fair Isaac Corporation, known as the FICO® score.

DEED-IN-LIEU OF FORECLOSURE

The servicer agrees to accept the deed to a property in case of a loan default. This option is typically considered only after all others have been explored.

DEPRECIATION

The value of a property may decrease, or depreciate, over time. Two factors that influence the value of a home are the economic health of the region and how well the property is maintained.

DISCOUNT POINTS

One discount point is 1% of the loan amount. These points represent interest paid up front to the credit union rather than over the life of the loan. Typically, the higher the interest rate, the lower the discount points and vice versa.

DISCRETIONARY EXPENSE

Non-essential expenses such as entertainment or luxury items that a consumer can control more easily than essential costs like a car payment or utility bill.

DOWN PAYMENT

The portion of the sales price paid in cash. Down payments typically range around 3–5% for first-time homebuyers.

EARNEST MONEY

A portion of the down payment that is placed in escrow with the real estate agent when the sales contract is accepted. The earnest money deposit indicates the buyer's firm intention to purchase the property in question. If the contract is accepted by the seller, these funds will be used toward the purchaser's down payment and closing costs.

EQUITY

The difference between the value of the property and the amount owed on the mortgage. Equity increases over time as the mortgage is paid down and when the property increases in value.

ESCROW ACCOUNTS

On a monthly basis, credit unions typically collect one-twelfth of the annual payments due on property taxes and hazard and mortgage insurance premiums. These monthly payments are placed in an escrow account, from which the credit union pays tax and premium payments annually when they are due.

FIXED-RATE LOAN

An interest rate that will not change throughout the life of the loan.

FORBEARANCE

Under the terms of a formal, written agreement between the member and the servicer, the member's mortgage payments are reduced or suspended for a specific period of time. At the end of the period, the member is required to resume regular monthly payments, plus an additional sum to make up for the past-due amount.

FORECLOSURE

The legal process by which a credit union sells a property because the loan is in default.

FOUR Cs

In traditional underwriting, the credit union examines the applicant's collateral, capacity, credit and capital to determine whether to grant the loan.

GOVERNMENT MORTGAGES

Mortgage loans that are insured or guaranteed by the federal government.

GROSS MONTHLY INCOME

The amount an individual earns before taxes and other deductions.

HVAC

A home's heating, ventilation and air-conditioning systems.

HOME ENERGY AUDIT

A review and assessment of a home's energy usage and recommendations of measures that can make it more energy efficient.

HOME ENERGY RATING SYSTEM (HERS)

An audit examining the energy performance of a home's heating, cooling and hot-water systems in comparison with a "standard" home. The results of the study can be used to identify steps to conserve energy in the home.

HOME EQUITY LOAN

Loans secured by a home that can be used for a broad variety of purposes — to consolidate loans, pay college tuition or take a vacation. The interest on a home equity loan or lines of credit may be tax-deductible. Please consult your tax advisor for details. Members should carefully review the terms and affordability of such loans because in the end the home is at stake.

HOME INSPECTION

Conducted by a certified inspector, this includes a detailed review of the home's systems and structure. The inspection report itemizes the condition of each item inspected and makes recommendations for addressing any deficiencies. This inspection is typically not required by credit unions, but is strongly recommended for buyers.

HOME WARRANTY

Home warranties generally cover repairs to specified parts of a home, such as major appliances or the plumbing, electrical, heating and air-conditioning systems.

HOUSING EXPENSE RATIO

In traditional mortgage underwriting, the housing expense ratio is used as a guideline to calculate how large the monthly housing expense payments should be based on gross monthly income. For example, if a mortgage product has a housing expense ratio of 33%, the member's monthly housing expenses should not exceed 33% of his or her gross monthly income.

JOINT TENANCY

A form of ownership under which owners have equal interest in the property and may sell their interest to whomever they choose. When one owner dies, the surviving owner(s) automatically inherit that share.

LOAN ESTIMATE (LE)

Credit unions must provide an LE to members within three days of receiving a loan application. The LE summarizes the key loan information, including estimated interest rate, monthly payments, total closing costs and estimated taxes and insurance. The LE should also explain whether the loan carries any prepayment penalty or negative amortization features. The LE is a standard form designed to help members better understand the loan terms and allow them to compare different terms from multiple lenders.

LOAN MODIFICATION

With a loan modification, the servicer changes one or more of the terms of the loan to help the member bring a defaulted amount current. This option is generally used with borrowers whose financial problems are expected to be long-term.

LOAN OFFICER

Unlike a mortgage broker who has relationships with dozens of lenders, a loan officer works for only one lender. The loan officer should work with an applicant to make the best match between the applicant's financial situation and the lender's loan products.

LOAN TO VALUE (LTV)

The LTV ratio is calculated by dividing the unpaid loan balance by the current value of the property.

**MANUFACTURED
(CHASSIS-BUILT) HOME**

A factory-built home on a permanent frame with a removable transportation system, delivered and permanently attached to a site-built foundation.

**MORTGAGE OR DEED
OF TRUST**

The mortgage or Deed of Trust is the recorded evidence of the promise to repay the loan. If the loan is not repaid as promised, the credit union may take over the property.

MORTGAGE BROKER

A mortgage broker acts as the intermediary between a member and the credit union. Brokers must specify up front exactly how they are being paid for their services.

MORTGAGE INSURANCE

Mortgage insurance reimburses the credit union or investor for losses incurred during a foreclosure. The member pays the monthly mortgage insurance premium.

**MULTIPLE LISTING
SERVICE**

A listing of properties for sale maintained by local members of the National Association of Realtors®.

**NEGATIVE
AMORTIZATION**

Negative amortization may occur on adjustable-rate mortgage loans with payment caps. If the cap is reached, the difference between what the member is paying and what he or she would pay without the cap is added to the loan balance — resulting in negative amortization.

NON-TRADITIONAL CREDIT

An applicant with limited or no history with credit cards, car loans or student debt, but may be able to document a good payment record from other sources, including rent, utilities, cell phones or other accounts.

NOTE

A document signed by the member at closing as a formal promise to repay the mortgage loan according to the specified terms.

ORIGINATION POINT

Credit unions may charge origination points to offset the administrative costs of processing and underwriting the loan. Each point is 1% of the loan amount.

PANELIZED HOME

Pre-built walls, floors and roof elements in small panel form are assembled at the site and attached to a foundation.

PITI

An industry terms for the four elements of a mortgage payment — Principal, Interest, Taxes and Insurance.

PRE-CUT HOME

Lumber is cut to specific lengths at the factory and then the home is constructed by workmen at the permanent site.

PREDATORY LENDERS

There is no single, clear-cut definition of predatory lending. Basically, a lender exhibits predatory behavior when placing its interests above the interests of the borrower. For example, approving a loan the predatory lender knows or believes the borrower cannot afford.

PREFORECLOSURE SALE

Also called a “short sale.” Under this arrangement, the servicer agrees to accept the proceeds from the sale of a home even though the amount is less than owed.

PREPAYMENT PENALTY

Some loans allow the lender to impose a penalty when a borrower pays off the loan more quickly than the prescribed schedule.

PREPAYS

The credit union may collect certain expenses at closing in advance of when they are due. This can include monies for insurance and/or property taxes.

RATE LOCK-IN

A written agreement under which the credit union will lock in or guarantee an interest rate/point combination for a period of time after taking the loan application.

REFINANCE

To pay off one or more existing mortgage loans with funds received from a new mortgage on the same property. This is usually done to reduce the interest rate, the mortgage payment or to draw out cash from the home’s equity.

REVERSE MORTGAGE

A mortgage in which a homeowner (age 62 or older) borrows money against the home’s equity in the form of periodic payments according to a selected schedule. The amount owed is typically repaid when the home is sold or it passes into an estate. Neither the senior nor the estate can be required to pay more than the home’s value. The member remains responsible for property taxes, homeowners insurance and other non-mortgage home expenses.

SECOND MORTGAGE

A type of mortgage loan that is subordinated to the first mortgage. In other words, the second mortgage lender stands in line behind the holder of the first mortgage in the event of a foreclosure.

SERVICING

Collection of loan payments and performance of other mortgage-related services, including interactions with the members, which may be performed by the credit union or by a servicing company authorized to perform these tasks.

SOLE OWNERSHIP

Title to the property is held in one person’s name only.

SURVEY

A drawing or map of the property’s precise boundaries including easements, rights of way and other physical features.

TENANCY BY ENTIRETY

With this type of title for married couples, a surviving spouse automatically inherits the property following the death of the other spouse.

TENANCY IN COMMON

If the title to the property is held using this option and one owner dies, that ownership may go to his or her heirs rather than to the surviving owner(s).

TERM	The maximum period of time over which the mortgage is repaid.
TITLE	A legal document evidencing the legal ownership of a property.
TITLE INSURANCE	A policy protecting against loss resulting from disputes over ownership of the property. The member is required to buy a policy for the credit union and should also buy a policy to protect his or her own interests as well.
TOTAL DEBT RATIO	In traditional mortgage underwriting, this calculation determines how large the monthly payments on housing expenses and other debts (student and car loans, credit card debt, etc.) should be, based on gross monthly income. For example, if a mortgage product has a total debt ratio of 38%, the borrower's housing expenses plus other debts should not exceed 38% of his or her gross monthly income.
TOWNHOUSE	A type of condominium in which one owns an individual living unit and shares ownership of the common areas.
TRANSFER OF SERVICING	At any point, the credit union or servicer collecting the mortgage payments may transfer that responsibility to another servicer. The basic terms of the mortgage will remain unchanged and members typically have a 60-day grace period in case their payments are sent to the wrong place.