

# Getting Through Tough Financial Times

## Glossary Terms

### **Adjustable rate mortgage (ARM)**

A mortgage loan where the interest rate on the note is periodically adjusted based on a variety of indices.

### **Automatic stay**

An injunction that stops lawsuits, foreclosure, garnishments and all collection activity against the debtor the moment a bankruptcy petition is filed.

### **Balloon mortgage**

A mortgage which does not fully amortize over the term of the note, thus leaving a balance due at the maturity of the loan. The final payment is called a balloon payment because of its large size.

### **Borrower**

The one who gets a loan.

### **Cancellation of debt**

When property is foreclosed on your debts that you are personally liable for - (recourse debt) you must report as ordinary income the amount by which the canceled debt is more than fair market value of the property.

### **Cash for Keys**

To encourage tenants to leave quickly and save court costs with eviction, banks offer tenants a cash payout in exchange for their rapid departure.

Cash-out mortgage refinancing transaction in which the new mortgage amount is greater than the existing mortgage amount, plus loan settlement costs. The purpose of a cash-out refinance is to extract equity from the borrower's home. A cash-out refinance is an alternative to a home equity loan.

Cash-out refinances are a popular way for borrowers to access the equity in their homes to pay down consumer debt or make additional purchases. Borrowers need to make a risk-based assessment of whether extracting equity from a home is economical. Borrowers also need to be aware that refinancing a mortgage has costs, including the fact that the lender may charge a higher interest rate on a cash-out refinance than a rate-and-term refinance.

### **Deed in lieu of foreclosure**

A deed in lieu of foreclosure is a real estate transaction in which the owner is behind on the payments, and relinquishes all ownership rights to the mortgage lender. The lender, in many cases, forgives the outstanding debt. In essence, the owner hands the keys to the lender and walks away.

## **Deed of trust**

A legal agreement that allows the lender to ask a title or escrow company to begin foreclosure proceedings on a property if the borrower stops paying the loan.

## **Deficiency**

This occurs if the foreclosure sale does not pay off the loan. The homeowner owes the shortfall of the loan.

## **Delinquent payment**

When a payment is 30 days or more past due. This is not the same as a late payment, which is one received beyond the grace period granted by the lender. If a mortgage payment due on the first of the month is received on the 20th, for example, it is late and will incur a late charge, but it is not delinquent and will not appear as such on the credit report.

## **Equity**

The value of a homeowner's unencumbered interest in real estate. Equity is the difference between the home's fair market value and the unpaid principal balance of the mortgage and any liens. Equity increases as the mortgage is paid down and as the property appreciates in value.

## **Equity skimming**

The term "equity skimming" has sometimes referred to subprime lending refinance practices that charge excessive fees thereby "skimming the equity" out of the home. The practice more often describes foreclosure rescue scams.

## **Fixed-rate mortgage**

A mortgage loan where the interest rate on the note remains the same through the term of the loan, as opposed to loans where the interest rate may adjust or "float."

## **Forbearance**

Delaying foreclosure, usually because the borrower has arranged to pay the amount in arrears.

## **Foreclosure**

The legal process by which a homeowner in default on a mortgage is deprived of interest in the property. This usually involves a forced sale of the property at public auction with the proceeds of the sale being applied to the mortgage debt.

Gain or Loss is realized when property is sold or exchanged. A gain is the amount you realize from a sale or exchange of property that is more than its adjusted basis. A loss is the adjusted basis of the property that is more than the amount you realize.

## **HUD-approved housing counselor**

Department of Housing and Urban Development (HUD) funds housing counseling agencies throughout the country who can give you advice on reverse mortgages.

## **Interest rate**

The amount charged per year on a personal or home loan. The rate varies according to the type of loan. Or, the percentage of interest paid for money in deposit accounts, without regard to compounding, shown as an annual figure.

## **Interest only mortgage**

An advance of money in which the installments pay only the interest that accumulates on the loan balance. The loan balance does not decrease with the payments. Usually the interest-only payments last for a limited period,

after which payments rise and the borrower begins paying principal in addition to interest.

## **Judicial foreclosure**

A court judgment ordering that a property be sold to repay a debt.

## **Late payment**

A sum a borrower sends to a lender that is received past the date when it was due.

## **Late payment fee**

Charge imposed on a debtor for not paying on time

## **Loan to Value Ratio (LVR)**

The percentage of the home's price that is paid for by a mortgage. On a \$100,000 house, if the buyer makes a \$20,000 down payment and borrows \$80,000, the mortgage is 80 percent of the price of the house. Therefore, the loan-to-value ratio is 80. When refinancing a mortgage, the loan-to-value ratio is computed using the appraised value of the home, not the sale price.

## **Loss mitigation**

This is used to describe a third party helping a homeowner, a division within a bank that mitigates the loss of the bank, or a firm that handles the process of negotiation between a homeowner and the homeowner's lender. Loss mitigation works to negotiate mortgage terms for the homeowner that will prevent foreclosure.

## **Mortgage loan**

A debt that is secured by a lien on debtor's property and may be taken by the creditor in case of nonpayment by the debtor. A common example is a mortgage loan.

## **Monthly payment**

The dollar amount due each month agreed upon in the financing agreement.

## **Notice of default**

A step in the foreclosure process in which the lender formally tells a court that the borrower is in arrears.

## **Payoff amounts**

The homeowner has the right to obtain a written statement of the amount necessary to pay off the mortgage loan. The mortgage company must provide the homeowner in writing and includes the homeowner information, property address and mortgage account or loan number.

## **Pre-Approved**

A letter from a lender that says the borrower's credit, bank references and employment have been verified. The letter is not binding on the lender because it is subject to other conditions such as an appraisal of the property.

## **Predatory lending**

Any of a number of fraudulent, deceptive, discriminatory, or unfavorable lending practices. Many of these practices are illegal, while others are legal but not in the best interest of the borrowers.

## **Real Estate Owned (REO)**

A property that goes back to the mortgage company/bank after an unsuccessful foreclosure auction.

## **Recourse debt**

The homeowner is personally liable for the debt.

## **Redemption**

The homeowner has the right to sell their house, refinance or pay off the loan during the redemption period.

## **Reinstatement**

The homeowner has the right to bring the mortgage current within 90 days after the homeowner receive summons.

## **Repossession**

When the lender/seller takes back the property when the buyer/borrower due to default.

## **Restructured loan**

A mortgage in which basic terms -- such as interest rate, term and monthly payment -- have been changed to prevent foreclosure.

## **Second mortgage**

A loan using a home's equity as collateral and which is subordinate to the original mortgage (i.e., the first mortgage has priority before all others). Also see home equity.

## **Short sale**

A short sale, in real estate terms, is a sale of a house in which the sale price is less than what the owner still owes on the mortgage. It is a procedure agreed to by lenders, who would often rather take a small loss than go through the lengthy and costly foreclosure process.

## **Surplus**

The homeowners has the right to petition the court for any excess money that results from a foreclosure sale of the home.

## **Workout plan**

A mortgage in which basic terms -- such as interest rate, term and monthly payment -- have been changed to prevent foreclosure.

