VABASSO MORTGAGE

Mortgage Glossary

A plain-English reference to
316 mortgage terms
Definitions · Examples · Context

Edition 1.0 · Last reviewed July 2026

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Mortgage Glossary Reference Guide

A plain-English reference to 316 mortgage terms — what each one means, where you may see it, and why it matters.

Version 1.0 · Published July 30, 2026 · Last reviewed July 30, 2026
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Read online: https://vabasso.com/resources/mortgage-glossary

In short

The Vabasso Mortgage Glossary Reference Guide defines 316 mortgage terms in plain English. Each entry gives a one-sentence definition, a longer explanation, why the term matters to a borrower, where the term typically appears in mortgage documents, a realistic example, and a common misunderstanding. The searchable online version lives at /resources/mortgage-glossary and each term has its own permanent page.

Key takeaways

- Mortgage language is not intentionally confusing — it is legal, regulatory, and investor language layered on top of each other over decades.
- Most terms fall into a small number of buckets: what you borrow, what you pay, what you prove, what the property is worth, and what happens at closing.
- The same word can mean slightly different things depending on the loan program, the investor, and the state, so context matters more than memorization.
- Understanding a handful of high-leverage terms — LTV, DTI, escrow, points, and the Closing Disclosure — explains most of what happens in a transaction.
- This reference is educational. It does not represent loan approval, a commitment to lend, or legal or tax advice.

Who this reference is for

- First-time buyers reading a Loan Estimate or Closing Disclosure for the first time
- Repeat buyers who want a refresher before a new transaction
- Homeowners weighing a refinance, HELOC, or home equity loan
- Self-employed borrowers navigating income documentation language
- Investors comparing DSCR, cash-flow, and portfolio financing terminology
- Real estate agents, attorneys, and financial planners who want a shared vocabulary with clients

Table of contents

Letter index

01

How to use this reference

This reference exists in two forms. The online glossary at /resources/mortgage-glossary is searchable, filterable by category, and navigable by letter — every term also has its own permanent page you can bookmark or share. The downloadable PDF is the same content arranged for printing and offline reading, with an A–Z index and a category index.

You do not need to read it end to end. Most people arrive because a specific word appeared in a document and did not explain itself. Search the term, read the one-sentence definition, then read the 'where you may see it' line to understand which stage of the process you are in.

If a definition still does not land, use the Ask Vabasso AI prompts on any term page. They are pre-written to ask for a simpler explanation, a payment-impact explanation, or a comparison against a related term.

02

Why mortgage language matters

Mortgage documents are written to satisfy federal disclosure rules, investor guidelines, state real estate law, and title insurance requirements simultaneously. Precision is the point, and plain speech is often the casualty.

The practical cost of not understanding the language is not embarrassment — it is money and time. A borrower who does not understand what a rate lock expiration means can lose a rate. A borrower who does not understand escrow can be surprised by a payment change in year two. A borrower who does not understand seasoning requirements can plan a cash-out refinance that is not yet available.

The goal of this reference is not to make you fluent. It is to make you confident enough to ask the next question.

03

How the glossary is organized

Every term is assigned to one of 12 categories so you can browse by the part of the process you are in rather than by alphabet. The counts below reflect the current edition.

Terms by category

Category	Terms
Mortgage Basics	49
Loan Programs	36
Credit and Qualification	47
Homebuying	28
Refinancing	7
Home Equity	12

Category	Terms
Investment Property	21
Construction and Renovation	11
Closing and Settlement	34
Ownership and Real Estate	30
Mortgage Markets and Rates	29
Insurance and Property Costs	12

04

What each entry contains

Every glossary entry follows the same structure so you always know where to look.

The anatomy of a term

- Direct definition — one sentence you could read aloud to someone else
- Plain-English explanation — the longer version, with the nuance the one-liner had to drop
- Why it matters — the practical consequence for a borrower
- Where you may see it — the document, stage, or conversation where the term shows up
- Example — a realistic, illustrative scenario
- Common misunderstanding — the assumption that causes the most trouble
- Related terms, programs, calculators, and guides — where to go next

05

The terms worth learning first

If you only learn a handful of terms before your first conversation with a loan officer, learn these. They appear in nearly every transaction and they drive most of the decisions.

High-leverage mortgage vocabulary

Term	What it controls
Loan-to-value (LTV)	How much you borrow relative to value — drives pricing, mortgage insurance, and program eligibility
Debt-to-income (DTI)	How much of your monthly income is already committed — often the binding qualification constraint
Credit score	Pricing tier and program access, alongside the underlying credit history
Escrow	Whether taxes and insurance are collected monthly, and why a payment can change after closing

Term	What it controls
Discount points	Whether you are paying upfront to lower the rate, and how long it takes to break even
Rate lock	Whether your quoted rate survives to closing, and what happens if the file runs long
Loan Estimate and Closing Disclosure	The two standardized documents that let you compare offers and verify final numbers
Reserves	Post-closing liquidity a lender wants to see, often the quiet reason a file stalls

> These are starting points, not a qualification standard. Requirements vary by program, investor, property, and borrower profile.

06

Terms that sound alike but are not

A large share of borrower confusion comes from pairs of terms that sound interchangeable and are not. Learning the difference between these pairs eliminates most of the misunderstandings we see.

Commonly confused pairs

Pair	The distinction
Pre-qualification vs. pre-approval	One is an informal estimate based on stated information; the other involves documentation and underwriting review
Interest rate vs. APR	The rate drives your payment; the APR expresses rate plus certain financing costs as an annualized figure for comparison
Prequalified rate quote vs. rate lock	A quote is indicative; a lock is a commitment for a defined period, subject to conditions
Appraised value vs. market value	An appraisal is one licensed opinion supporting a lending decision; market value is what a buyer and seller agree to
Escrow (closing) vs. escrow (impound)	One is the neutral third party handling the transaction; the other is the monthly account for taxes and insurance
Home equity loan vs. HELOC	A lump sum at a fixed structure versus a revolving line with a draw period
Cash-out refinance vs. second mortgage	Replacing the existing loan versus adding a new lien behind it
Mortgage insurance vs. homeowners insurance	One protects the lender against default; the other protects the property and the owner
Points vs. origination fee	Points buy down the rate; origination compensates for making the loan
Underwriting conditions vs. denial	Conditions are requests for more information; a denial is a decision

07

Where terms show up in your documents

Mortgage vocabulary is stage-specific. A term that dominates one week is irrelevant the next. This map tells you which words to expect and when.

Vocabulary by stage

Stage	Language you will encounter
Shopping	Pre-qualification, pre-approval, rate quote, points, APR, program eligibility
Application	1003 / Uniform Residential Loan Application, disclosures, credit authorization, intent to proceed
Loan Estimate	Loan terms, projected payments, costs at closing, comparisons, APR, TIP
Processing	Verification of employment, asset documentation, letters of explanation, title commitment
Underwriting	Conditions, DTI, LTV, reserves, appraisal review, conditional approval, clear to close
Closing	Closing Disclosure, settlement statement, cash to close, wire instructions, funding, recording
Servicing	Escrow analysis, payment change notice, transfer of servicing, payoff statement

08

Written to be read by people and by machines

Every definition opens with a self-contained sentence that answers the question directly, without requiring the surrounding paragraph. That structure serves two audiences at once: a person skimming for an answer, and an AI assistant or search engine extracting a snippet.

Each term also carries structured data — DefinedTerm markup inside a DefinedTermSet — so the relationships between terms are machine-readable rather than implied by page layout.

09

What this reference is not

It is not a rulebook. Guidelines change, investors differ, and states impose their own requirements. A definition explains what a word means, not whether a specific loan will be approved.

It is not legal or tax advice. Several terms in this glossary have precise legal meanings that vary by jurisdiction; when a decision turns on one of them, talk to a licensed attorney or tax professional.

It is not a substitute for your own documents. When the glossary and your Loan Estimate disagree about a number, your Loan Estimate is the document that governs your transaction.

10

Where to go from here

If you are early: run the Mortgage Readiness Assessment to see which terms actually apply to your situation before learning all of them.

If you are comparing programs: use the Mortgage Pathway to narrow the field, then read the definitions for the programs it surfaces.

If you are mid-transaction: keep the online glossary open in a tab and search terms as they appear in the documents you are sent.

The A–Z glossary

316 terms, defined in plain English. Each entry gives the definition, why it matters, where you may see it, an illustrative example, and a common misunderstanding where one exists.

A

Abstract of Title

Closing and Settlement

A written history of a property's ownership, transfers, and any legal claims against it.

An abstract of title is a summary of every recorded document that has ever affected a property — sales, mortgages, liens, easements, and court actions. Title professionals rely on it to confirm the seller can actually convey clean ownership.

WHY IT MATTERS

Buyers need to know a property has no hidden claims that could threaten their ownership after closing.

WHERE YOU MAY SEE IT

Title commitment · Closing Disclosure · Purchase contract

EXAMPLE

Before your closing, the title company reviews the abstract and discovers an old mechanic's lien that must be cleared before the deed can transfer.

COMMON MISUNDERSTANDING

An abstract of title is not itself insurance — it's a historical summary; title insurance is the separate policy that protects against claims it may have missed.

See also: chain of title, title search, title insurance, deed

Acceleration Clause

Mortgage Basics

A loan provision that lets the lender demand the full balance immediately if you default.

The acceleration clause is written into the mortgage note. If you break certain terms — most commonly by missing payments or transferring the property without permission — the lender can call the entire remaining balance due instead of continuing the monthly schedule.

WHY IT MATTERS

It turns a manageable delinquency into a demand for the full payoff, which is why staying current on payments matters so much.

WHERE YOU MAY SEE IT

Mortgage note · Underwriting conditions · Servicer notices

EXAMPLE

After several missed payments, the servicer sends a notice accelerating the loan and starting the foreclosure process.

COMMON MISUNDERSTANDING

It does not mean your rate speeds up or increases — it means the lender can demand the entire remaining balance at once.

See also: default, foreclosure, mortgage note, delinquency

Adjustable-Rate Mortgage (ARM) (ARM)

Loan Programs

A mortgage with an interest rate that can change on a set schedule after an initial fixed period.

An ARM starts with a lower rate that stays fixed for a period — often 5, 7, or 10 years — then adjusts periodically based on an index plus a margin. Caps limit how much the rate can move per adjustment and over the life of the loan.

WHY IT MATTERS

The lower start rate can save money if you plan to move or refinance before the fixed period ends, but payments can rise later.

WHERE YOU MAY SEE IT

Loan Estimate · Closing Disclosure · Mortgage statement

EXAMPLE

A 7/6 ARM at 6.00% might stay fixed for seven years, then adjust every six months to the index plus a 2.75% margin, subject to a lifetime cap of 5%.

COMMON MISUNDERSTANDING

An ARM's rate isn't fixed forever after the intro period, and it doesn't always rise — it moves with an index and can go down too, within its caps.

See also: index arm, margin arm, arm cap, initial rate period, adjustment period, fixed rate mortgage

Adjustment Period

Mortgage Markets and Rates

How often an ARM's interest rate can change after its initial fixed period.

On an adjustable-rate mortgage, the adjustment period is the interval between rate resets — commonly every six months or every year. It's the second number in labels like 5/6 or 7/1.

WHY IT MATTERS

Shorter adjustment periods mean your rate — and payment — can move more frequently, which affects payment stability.

WHERE YOU MAY SEE IT

Mortgage note · Loan Estimate · ARM disclosure

EXAMPLE

A 7/6 ARM has a seven-year fixed period, then the rate can adjust every six months.

COMMON MISUNDERSTANDING

It doesn't describe how long your rate is fixed at the start — that's the initial rate period; this is how often it can change afterward.

See also: adjustable rate mortgage, arm cap, initial rate period, index arm

Affordability

Homebuying

The purchase price and monthly payment a borrower can reasonably manage given income, debts, and program limits.

Affordability isn't just what a lender will approve — it's what fits your income, existing debts, savings, and lifestyle after taxes, insurance, and maintenance.

WHY IT MATTERS

Approvals are ceilings, not targets. Stretching to the maximum can leave little room for emergencies, retirement, or life changes.

WHERE YOU MAY SEE IT

Pre-approval letter · Loan Estimate · Household budget

EXAMPLE

A household earning $10,000/month with $500 in other debts might qualify for a $500,000 loan but choose a $400,000 home to keep total housing under 30% of income.

COMMON MISUNDERSTANDING

The amount a lender approves you for is not the same as what's comfortably affordable for your household.

See also: debt to income ratio, housing ratio, piti, gross monthly income, pre approval

Amortization

Mortgage Basics

The gradual repayment of a loan through scheduled payments that cover both interest and principal.

In an amortized mortgage, each monthly payment is split between interest owed for the month and principal that reduces the balance. Early payments are mostly interest; later ones are mostly principal.

WHY IT MATTERS

Understanding amortization shows why extra principal payments early in the loan reduce total interest so dramatically.

WHERE YOU MAY SEE IT

Amortization schedule · Closing Disclosure · Mortgage statement

EXAMPLE

On a 30-year, $400,000 loan at 6.5%, the first month's payment is about $2,528 — of which roughly $2,167 is interest and only $361 pays down the balance.

COMMON MISUNDERSTANDING

Amortization doesn't mean equal amounts of principal and interest each month — the mix shifts over time even though the total payment stays the same.

See also: amortization schedule, principal, interest, fixed rate mortgage, term loan

Amortization Schedule

Mortgage Basics

A table showing every scheduled payment on a loan, broken into principal, interest, and remaining balance.

The amortization schedule lists each payment for the life of the loan, showing how much reduces principal, how much pays interest, and what the balance will be after each payment.

WHY IT MATTERS

It's the clearest picture of how much interest you'll pay and how equity builds over time.

WHERE YOU MAY SEE IT

Loan documents · Servicer online portal · Mortgage statement

EXAMPLE

An amortization schedule shows that after 60 monthly payments on a 30-year, $400,000 loan at 6.5%, roughly $25,000 has been paid toward principal — the rest went to interest.

COMMON MISUNDERSTANDING

The schedule shows the original scheduled path only — extra payments or refinancing will change the actual payoff timeline.

See also: amortization, principal, interest, extra payment

Annual Percentage Rate (APR) (APR)

Mortgage Markets and Rates

The total yearly cost of a loan as a percentage, including the interest rate and certain loan fees.

APR is designed to make loan offers comparable on a common yardstick. It rolls the note rate together with items like origination fees, discount points, and mortgage insurance into a single annualized number.

WHY IT MATTERS

APR helps you see past a headline rate to the true cost of borrowing, especially when lenders quote fees differently.

WHERE YOU MAY SEE IT

Loan Estimate · Closing Disclosure · Truth in Lending disclosure

EXAMPLE

Lender A offers 6.25% with $6,000 in fees; Lender B offers 6.35% with $1,500 in fees. Lender A's APR may end up higher even though its note rate is lower.

COMMON MISUNDERSTANDING

APR is not the interest rate you pay on your balance each month — it's a broader cost figure used mainly for comparing offers.

See also: interest rate, discount points, origination fee, loan estimate, closing costs

Appraisal

Homebuying

An independent, licensed opinion of a property's market value used by the lender.

An appraiser inspects the property, compares it to recent sales of similar homes, and produces a written report estimating fair market value. Lenders use it to make sure they aren't lending more than the collateral is worth.

WHY IT MATTERS

A low appraisal can force renegotiation, a larger down payment, or a canceled contract.

WHERE YOU MAY SEE IT

Appraisal report · Purchase contract · Underwriting conditions

EXAMPLE

You're under contract at $500,000, but the appraisal comes back at $485,000. You and the seller renegotiate or you cover the $15,000 gap in cash.

COMMON MISUNDERSTANDING

An appraisal is not a home inspection — it doesn't evaluate the condition of systems like plumbing or electrical in detail.

See also: appraisal contingency, comparable sales, loan to value, market value

Appraisal Contingency

Homebuying

A contract clause that lets a buyer back out or renegotiate if the appraisal comes in below the contract price.

This contingency protects the buyer from paying more than the property appraises for. If the appraisal is low, the buyer can renegotiate, bring extra cash, or walk away with their earnest money.

WHY IT MATTERS

Without it, a low appraisal can leave you stuck paying more than a lender will finance.

WHERE YOU MAY SEE IT

Purchase contract · Appraisal report

EXAMPLE

Home is under contract at $600,000; appraisal returns $575,000. Under the contingency, the buyer requests a price reduction or exits the deal.

COMMON MISUNDERSTANDING

This contingency doesn't guarantee the seller will lower the price — it only gives the buyer options if the appraisal comes in low.

See also: appraisal, contingency, earnest money, purchase agreement

Appraisal Gap

Homebuying

An appraisal gap is the difference between a home's contract price and its lower appraised value, which a lender typically won't finance.

When an appraisal comes in below the agreed purchase price, that shortfall is called the appraisal gap. Lenders generally base loan amounts on the lower of the sale price or appraised value, so the buyer, seller, or both must find a way to bridge the difference for the deal to move forward as originally written.

WHY IT MATTERS

In competitive markets, buyers may need extra cash or a renegotiated price to keep the transaction alive, so understanding this risk before bidding matters.

WHERE YOU MAY SEE IT

Purchase agreement · Appraisal report · Loan Estimate

EXAMPLE

For illustration, a home is under contract for $410,000 but appraises at $395,000; the buyer may need to cover the $15,000 gap out of pocket or renegotiate with the seller.

COMMON MISUNDERSTANDING

An appraisal gap is not the same as an appraisal contingency waiver, though buyers sometimes combine gap coverage with waived contingencies to strengthen an offer.

See also: appraisal, loan to value, purchase agreement, contingency

Appraisal Management Company (AMC)

Homebuying

An Appraisal Management Company is a third-party firm that lenders use to order and oversee independent property appraisals.

An AMC acts as a go-between for lenders and appraisers, assigning appraisal orders to licensed appraisers and managing quality control. This structure is designed to keep appraisers independent from loan officers and sales staff, helping ensure the valuation isn't influenced by anyone with a financial stake in the transaction.

WHY IT MATTERS

Because the AMC selects the appraiser rather than the lender directly, borrowers can generally expect an arm's-length valuation, though the process can add time and fees to the file.

WHERE YOU MAY SEE IT

Loan Estimate · Appraisal invoice · Closing Disclosure

EXAMPLE

For illustration, after a borrower locks a rate, the lender submits the order to an AMC, which then assigns a local appraiser to inspect the property.

COMMON MISUNDERSTANDING

An AMC is not the appraiser itself and does not determine the property's value; it manages the assignment and process only.

See also: appraisal, underwriting, loan estimate

Appreciation

Ownership and Real Estate

An increase in a property's value over time.

Appreciation is the rise in what a home is worth compared with what you paid. It comes from market conditions, neighborhood changes, and improvements you make.

WHY IT MATTERS

Appreciation, combined with principal paydown, builds home equity — a major source of household wealth.

WHERE YOU MAY SEE IT

Appraisal report · Comparable sales · Tax assessment notice

EXAMPLE

You buy at $400,000 and the home is worth $460,000 five years later — that's $60,000 of appreciation before any principal payments.

COMMON MISUNDERSTANDING

Appreciation is not guaranteed or constant — home values can also stay flat or decline for periods of time.

See also: equity, market value, depreciation, home equity

ARM Cap

Loan Programs

The maximum amount an adjustable-rate mortgage's interest rate can change at each adjustment and over the life of the loan.

ARM caps come in three parts: an initial cap on the first adjustment, a periodic cap on later adjustments, and a lifetime cap on total change from the starting rate.

WHY IT MATTERS

Caps limit worst-case payment shock when the rate resets.

WHERE YOU MAY SEE IT

Mortgage note · ARM disclosure · Loan Estimate

EXAMPLE

A 5/6 ARM with 2/1/5 caps starting at 6.00% could adjust as much as 2% at first reset, up to 1% at each later reset, but never more than 5% above the start rate.

COMMON MISUNDERSTANDING

Caps don't prevent your payment from ever changing — they only limit how much and how fast the rate can move at each adjustment.

See also: adjustable rate mortgage, adjustment period, index arm, margin arm, payment shock

Assessed Value

Ownership and Real Estate

The value assigned to a property by a local government for property-tax purposes.

Assessed value is set by the county or municipality and is often different from market value. It's the number your property tax bill is calculated from.

WHY IT MATTERS

It drives your annual property taxes and can be appealed if it seems too high.

WHERE YOU MAY SEE IT

Tax assessment notice · Property tax bill · County records

EXAMPLE

Your home might have a market value of $500,000 but an assessed value of $420,000 that produces a $6,300 tax bill at a 1.5% rate.

COMMON MISUNDERSTANDING

Assessed value is not the same as market value or what your home would sell for — it's a separate figure used only for taxation.

See also: property taxes, market value, homestead exemption

Asset

Mortgage Basics

An asset is anything of monetary value a borrower owns, such as bank funds, investments, or property, that a lender may consider during underwriting.

Assets include checking and savings balances, retirement accounts, stocks, bonds, and other property with cash value. Lenders review asset documentation to help confirm a borrower can cover the down payment, closing costs, and often ongoing reserves after closing.

WHY IT MATTERS

Documented assets can support a loan application even when other qualifying factors are more modest, and requirements vary by lender and loan program.

WHERE YOU MAY SEE IT

Loan application · Bank statements · Underwriting file

EXAMPLE

For illustration, a borrower lists a checking account, a brokerage account, and a portion of a 401(k) as assets available for closing and reserves.

COMMON MISUNDERSTANDING

An asset is not the same as income; assets reflect what you own, while income reflects ongoing cash flow.

See also: reserves, gift funds, underwriting

Asset Depletion

Loan Programs

A qualifying method that treats a portion of your liquid assets as income for loan approval.

Asset-depletion programs let borrowers use eligible savings and investment balances to demonstrate ability to repay, dividing those assets over a defined period to create a monthly income figure.

WHY IT MATTERS

It opens the door for retirees, high-net-worth borrowers, and others whose wealth exceeds their reported income.

WHERE YOU MAY SEE IT

Underwriting conditions · Bank and brokerage statements · Loan program guidelines

EXAMPLE

A borrower with $1.5M in eligible assets might, under a lender's formula, show enough calculated monthly income to qualify without W-2 wages.

COMMON MISUNDERSTANDING

Asset depletion doesn't mean the lender takes your assets — it's a formula that converts eligible balances into a qualifying income figure.

See also: asset qualifier, no ratio loan, non qm loan, assets, reserves

Asset Qualifier

Loan Programs

A loan program that qualifies borrowers on assets alone, without requiring income documentation.

Asset-qualifier loans look at eligible liquid assets to demonstrate the borrower has the capacity to repay. Formulas vary by lender, but reserves generally must significantly exceed the total loan amount.

WHY IT MATTERS

It's a strong option for high-net-worth or retired borrowers whose income doesn't fit traditional guidelines.

WHERE YOU MAY SEE IT

Underwriting conditions · Bank and brokerage statements · Loan program guidelines

EXAMPLE

A retired borrower with $3M in brokerage assets may qualify for a $1M loan under an asset-qualifier program without producing tax returns.

COMMON MISUNDERSTANDING

It doesn't mean any amount of savings qualifies you — lenders typically require reserves well above the loan amount under specific formulas.

See also: asset depletion, no ratio loan, non qm loan, reserves

Assets

Credit and Qualification

Everything you own that has monetary value — cash, investments, retirement accounts, real estate, and vehicles.

In mortgage underwriting, assets are documented via bank and brokerage statements to show you have funds for down payment, closing costs, and reserves.

WHY IT MATTERS

Strong assets support approval, compensate for other risk factors, and demonstrate staying power after closing.

WHERE YOU MAY SEE IT

Bank statements · Loan application · Underwriting conditions

EXAMPLE

You need $60,000 for down payment and closing. The lender wants to see those funds sourced and seasoned in your accounts for at least two months.

COMMON MISUNDERSTANDING

Not all assets count equally in underwriting — some, like unverified cash or certain retirement funds, may require documentation or discounting.

See also: reserves, gift funds, asset depletion, asset qualifier

Assumable Mortgage

Loan Programs

A loan a qualified buyer can take over from the seller, keeping the original rate and terms.

Certain government loans — most notably VA and FHA — can be assumed by an approved buyer. The buyer inherits the balance and interest rate, which can be valuable if current rates are much higher.

WHY IT MATTERS

In a high-rate environment, an assumable low-rate mortgage can be a compelling selling point.

WHERE YOU MAY SEE IT

Mortgage note · Purchase contract · Loan servicer approval

EXAMPLE

A seller has a 3.25% VA loan with $280,000 remaining. An eligible buyer assumes it while paying the seller cash for the equity difference.

COMMON MISUNDERSTANDING

Assumption is not automatic — the new buyer must still qualify with the lender before taking over the loan.

See also: va loan, fha loan, loan servicer

Automated Underwriting System (AUS) (AUS)

Credit and Qualification

Software that evaluates a mortgage application against program guidelines and returns a preliminary decision.

An AUS pulls credit, applies program rules, and delivers a recommendation like Approve/Eligible along with a list of documentation the underwriter must verify. Fannie Mae's DU and Freddie Mac's LP are the most common systems.

WHY IT MATTERS

AUS findings shape what you'll need to document and how flexible the file can be on things like DTI, reserves, and appraisal type.

WHERE YOU MAY SEE IT

Underwriting conditions · Pre-approval letter · Loan application

EXAMPLE

Your file receives a DU Approve/Eligible with reduced reserve requirements, streamlining underwriting.

COMMON MISUNDERSTANDING

An AUS approval is not a final loan approval — it's a preliminary recommendation that still requires document verification.

See also: underwriting, underwriter, debt to income ratio, reserves

Available Credit

Credit and Qualification

Available credit is the unused portion of a credit line, calculated by subtracting the current balance from the total credit limit.

Available credit shows how much more a borrower could charge on a revolving account, such as a credit card or HELOC, before reaching the limit. It's tracked on credit reports and statements and changes as balances and payments fluctuate.

WHY IT MATTERS

Available credit affects credit utilization, a factor that can influence credit scores and, in turn, mortgage qualification.

WHERE YOU MAY SEE IT

Credit report · Credit card statement · HELOC statement

EXAMPLE

For illustration, a card with a $10,000 limit and a $2,000 balance has $8,000 in available credit.

COMMON MISUNDERSTANDING

Available credit is not the same as a cash asset; it represents borrowing capacity, not funds already owned.

See also: credit limit, credit inquiry, credit score

B

Balloon Mortgage

Loan Programs

A loan with small early payments and a single large lump-sum payment due at the end.

Balloon loans amortize over a longer schedule (like 30 years) but come due much sooner (like 5 or 7 years). At maturity, the entire remaining balance is owed in one payment.

WHY IT MATTERS

They can lower monthly costs, but you must be prepared to refinance, sell, or pay off the balance when the balloon matures.

WHERE YOU MAY SEE IT

Mortgage note · Loan Estimate · Amortization schedule

EXAMPLE

A 7-year balloon amortized over 30 years may look like a 30-year loan month-to-month — but you owe roughly $370,000 at the end of year seven.

COMMON MISUNDERSTANDING

A balloon loan is not fully paid off through its regular monthly payments — a large lump sum remains due at maturity.

See also: amortization, refinance, fixed rate mortgage, portfolio loan

Bank Statement Loan

Loan Programs

A mortgage that qualifies self-employed borrowers based on business or personal bank deposits instead of tax returns.

Lenders average 12 or 24 months of bank deposits and apply an expense factor to estimate qualifying income. It's a common alternative for owners whose tax returns understate cash flow.

WHY IT MATTERS

It gives self-employed borrowers a path to financing without the tax-return math that often disqualifies them.

WHERE YOU MAY SEE IT

Bank statements · Underwriting conditions · Loan program guidelines

EXAMPLE

A contractor deposits $50,000/month into a business account. After a 50% expense factor, the lender treats $25,000 as qualifying income.

COMMON MISUNDERSTANDING

It doesn't mean total deposits equal qualifying income — lenders apply an expense factor that reduces the figure used.

See also: asset depletion, asset qualifier, non qm loan, no ratio loan

Basis Point

Mortgage Markets and Rates

One one-hundredth of a percent — 0.01% — used to describe changes in interest rates and yields.

Financial professionals talk in basis points to avoid confusion. Twenty-five basis points equals a quarter of a percentage point.

WHY IT MATTERS

Small basis-point moves on a large loan add up: 25 basis points on $500,000 for 30 years can mean tens of thousands of dollars of interest.

WHERE YOU MAY SEE IT

Rate sheets · Loan Estimate · Market commentary

EXAMPLE

If rates fall from 6.75% to 6.50%, that's a 25-basis-point drop.

COMMON MISUNDERSTANDING

A basis point is not the same as a percentage point — 100 basis points equal one percentage point.

See also: interest rate, discount points, annual percentage rate

Beneficiary

Ownership and Real Estate

A beneficiary is the lender or note holder who receives repayment under a deed of trust, or a person designated to receive property or proceeds.

In mortgage documents that use a deed of trust structure, the beneficiary is the lender protected by the trust arrangement, while a trustee holds title as security. Outside of mortgage paperwork, the term also describes a person named to inherit assets or life insurance proceeds.

WHY IT MATTERS

Understanding who the beneficiary is under your loan documents helps clarify who has legal rights if the loan goes unpaid.

WHERE YOU MAY SEE IT

Deed of trust · Mortgage note · Title documents

EXAMPLE

For illustration, on a deed of trust the lender is named as beneficiary, while a title company may serve as trustee.

COMMON MISUNDERSTANDING

A beneficiary is not automatically the borrower; in a deed of trust, the beneficiary is generally the lender, not the homeowner.

See also: deed, mortgage note, lien, chain of title

Biweekly Payment

Mortgage Basics

Paying half your monthly mortgage every two weeks, which produces 13 full payments per year instead of 12.

There are 26 biweekly periods in a year, so a true biweekly schedule results in one extra full payment annually. That extra payment goes to principal.

WHY IT MATTERS

It quietly shortens the loan term and reduces total interest without dramatically changing your budget.

WHERE YOU MAY SEE IT

Servicer payment options · Mortgage statement · Amortization schedule

EXAMPLE

A 30-year, $400,000 loan at 6.5% paid biweekly can pay off roughly 4–5 years sooner than the standard schedule.

COMMON MISUNDERSTANDING

Paying 'every two weeks' isn't automatically the same as a true biweekly plan — some informal setups just split the payment without producing the extra annual payment.

See also: extra payment, amortization, principal

Borrower

Mortgage Basics

A borrower is the individual or entity who takes out a loan and is legally responsible for repaying it under the note's terms.

The borrower signs the mortgage note promising to repay the loan and is the primary party evaluated during underwriting for income, credit, and assets. A loan may have one borrower or multiple co-borrowers who share responsibility.

WHY IT MATTERS

Being named as a borrower carries legal repayment obligation, which is different from simply being on the property title.

WHERE YOU MAY SEE IT

Loan application · Mortgage note · Closing Disclosure

EXAMPLE

For illustration, a married couple applying together may both be listed as borrowers, making each responsible for the full debt.

COMMON MISUNDERSTANDING

A borrower is not automatically the same as everyone on the property title; title and loan obligation can differ.

See also: co borrower, co signer, mortgage note, underwriting

Bridge Loan

Homebuying

A short-term loan that provides funds to buy a new home before your current one sells.

Bridge loans are typically 6–12 months, secured by the departing home's equity. They give buyers cash for the new purchase and are paid off when the old home closes.

WHY IT MATTERS

It lets you make a non-contingent offer or move on your own timeline instead of waiting for the sale to close.

WHERE YOU MAY SEE IT

Loan application · Purchase contract · Underwriting conditions

EXAMPLE

You use a bridge loan to pull $150,000 in equity from your current home to cover the down payment on a new one; the bridge is repaid at the old home's closing.

COMMON MISUNDERSTANDING

A bridge loan is not a long-term financing solution — it's meant to be repaid quickly, usually from the sale of another property.

See also: equity, home equity, heloc, cash out refinance

Broker

Mortgage Basics

A mortgage broker is a licensed professional who connects borrowers with lenders and helps compare loan options across multiple sources.

Brokers don't fund loans themselves; instead, they submit a borrower's application to one or more wholesale lenders and help navigate program options, rates, and terms. Compensation structures vary and are disclosed as part of the loan process.

WHY IT MATTERS

Working with a broker can widen access to loan programs, though it's worth understanding how the broker is compensated and which lenders they work with.

WHERE YOU MAY SEE IT

Loan Estimate · Broker disclosure · Closing Disclosure

EXAMPLE

For illustration, a broker submits a borrower's file to three wholesale lenders and presents the options that come back.

COMMON MISUNDERSTANDING

A broker is not the same as a direct lender; a broker arranges financing but does not typically underwrite or fund the loan with its own capital.

See also: loan officer, underwriting, loan estimate

Builder Approval

Construction and Renovation

Builder approval is a lender's review and acceptance of a homebuilder's qualifications before financing new construction.

Before approving a construction loan, lenders often vet the builder's licensing, financial standing, experience, and track record on similar projects. This review is separate from approving the borrower and helps the lender gauge the risk of the project being completed as planned.

WHY IT MATTERS

A builder that isn't approved can delay or derail financing, so confirming builder eligibility early avoids surprises later in the process.

WHERE YOU MAY SEE IT

Construction loan application · Builder questionnaire · Underwriting file

EXAMPLE

For illustration, a lender requests the builder's license, insurance certificates, and references before finalizing a construction loan.

COMMON MISUNDERSTANDING

Builder approval is not a guarantee of construction quality; it primarily reflects the lender's risk review, not a warranty.

See also: appraisal, underwriting

Builder's Risk Insurance

Construction and Renovation

Property insurance that protects a home under construction from damage during the build.

Builder's risk coverage protects the structure, materials, and equipment on the job site from fire, wind, theft, and other perils. It's typically required by construction lenders.

WHY IT MATTERS

A partially built home isn't covered by a standard homeowners policy — this fills the gap until construction is complete.

WHERE YOU MAY SEE IT

Construction loan conditions · Insurance policy · Underwriting conditions

EXAMPLE

A storm damages framing before drywall is installed; the builder's risk policy pays to rebuild those elements.

COMMON MISUNDERSTANDING

It's not the same as homeowners insurance — a standard homeowners policy typically doesn't cover a home mid-construction.

See also: construction loan, construction draw, certificate of occupancy, homeowners insurance

Buydown

Mortgage Markets and Rates

Paying upfront to reduce the interest rate for the first few years — or the entire life — of a loan.

A permanent buydown lowers the note rate for the life of the loan (discount points). A temporary buydown lowers the effective rate for the first 1–3 years, then steps up. Sellers, builders, or borrowers can fund one.

WHY IT MATTERS

It reduces early payments and can be a powerful negotiating tool in a slow market.

WHERE YOU MAY SEE IT

Loan Estimate · Closing Disclosure · Purchase contract

EXAMPLE

A 2-1 buydown on a 7% loan means you pay as if the rate were 5% in year one and 6% in year two before settling at 7%.

COMMON MISUNDERSTANDING

A temporary buydown doesn't lower your actual note rate — it subsidizes your payment for a set period before it reverts to the full rate.

See also: discount points, interest rate, seller concessions

Buyer's Agent

Homebuying

A licensed real estate agent who represents the buyer's interests in a home purchase.

The buyer's agent helps you find properties, negotiate offers, coordinate inspections, and navigate the contract to closing. Compensation is agreed to in writing between agent and buyer.

WHY IT MATTERS

A skilled agent can save you money on price, spot problems, and keep the transaction on schedule.

WHERE YOU MAY SEE IT

Buyer representation agreement · Purchase contract · Closing documents

EXAMPLE

Your buyer's agent identifies three homes that match your criteria, writes offers, negotiates a $10,000 repair credit, and coordinates closing.

COMMON MISUNDERSTANDING

A buyer's agent's compensation is not automatically paid by the seller — terms are set in a written agreement between agent and buyer.

See also: purchase agreement, closing, earnest money

C

Capitalization Rate (Cap Rate) (Cap Rate)

Investment Property

A property valuation metric equal to net operating income divided by property value, shown as a percentage.

Cap rate expresses an unlevered yield: what an investor would earn per year if they bought the property in cash. Higher cap rates suggest higher return and, often, higher risk.

WHY IT MATTERS

It's a fast way to compare income properties on an apples-to-apples basis before financing.

WHERE YOU MAY SEE IT

Investment property analysis · Appraisal report · Loan program guidelines

EXAMPLE

A property with $60,000 in NOI priced at $1,000,000 has a 6.0% cap rate.

COMMON MISUNDERSTANDING

Cap rate doesn't account for financing costs — it reflects an unlevered return as if the property were purchased entirely in cash.

See also: net operating income, cash on cash return, debt service coverage ratio, gross rent multiplier, vacancy rate

Cash Flow

Investment Property

The net income a rental property generates after operating expenses and debt service.

Positive cash flow means rent covers all expenses — including the mortgage — with cash left over. Negative cash flow means you're feeding the property each month.

WHY IT MATTERS

It measures a property's ability to sustain itself and grow your portfolio.

WHERE YOU MAY SEE IT

Rent roll · Property income statement · Underwriting conditions

EXAMPLE

Rent is $3,000; expenses are $900; mortgage is $1,700 — monthly cash flow is $400.

COMMON MISUNDERSTANDING

Positive cash flow doesn't guarantee profitability overall — it doesn't factor in appreciation, taxes, or major future repairs.

See also: net operating income, cash on cash return, debt service coverage ratio, vacancy rate

Cash to Close

Closing and Settlement

Cash to close is the total amount of funds a borrower must bring to closing after accounting for the loan, deposits, and credits.

Cash to close combines the down payment, closing costs, and prepaid items, then subtracts things like earnest money already paid and any seller or lender credits. The final figure appears on the Closing Disclosure and can shift slightly from the earlier Loan Estimate as details are finalized.

WHY IT MATTERS

Knowing this number in advance helps borrowers plan how to move and verify funds ahead of the closing date.

WHERE YOU MAY SEE IT

Loan Estimate · Closing Disclosure · Wire instructions

EXAMPLE

For illustration, a borrower's estimated cash to close is $28,000 after subtracting a $5,000 earnest money deposit already paid.

COMMON MISUNDERSTANDING

Cash to close is not the same as closing costs alone; it also factors in the down payment and any credits or deposits.

See also: closing disclosure, loan estimate, earnest money, estimated closing costs

Cash-on-Cash Return (CoC)

Investment Property

Annual pre-tax cash flow divided by the total cash invested, expressed as a percentage.

CoC measures the return on the actual dollars you put into a deal — down payment, closing costs, and initial repairs — rather than the property's total value.

WHY IT MATTERS

It's the clearest indicator of how hard your invested cash is working.

WHERE YOU MAY SEE IT

Investment property analysis · Property income statement

EXAMPLE

You put $80,000 into a rental that produces $6,400/year of cash flow: an 8% cash-on-cash return.

COMMON MISUNDERSTANDING

It's not a measure of total return — it excludes appreciation, principal paydown, and tax benefits.

See also: cash flow, net operating income, cap rate, debt service coverage ratio

Cash-Out Refinance

Refinancing

Refinancing your mortgage for more than you owe and receiving the difference as cash.

A cash-out refinance replaces your existing loan with a larger one and delivers the extra proceeds at closing. The new loan is secured by all your equity.

WHY IT MATTERS

It can consolidate higher-interest debt, fund improvements, or free capital for investing — at the cost of resetting your amortization.

WHERE YOU MAY SEE IT

Loan Estimate · Closing Disclosure · Underwriting conditions

EXAMPLE

You owe $250,000 on a home worth $500,000 and refinance for $350,000 — receiving $100,000 in cash minus costs.

COMMON MISUNDERSTANDING

The cash you receive is not free money — it's new debt secured by your home that must be repaid with interest.

See also: refinance, rate and term refinance, equity, loan to value, refinance break even

Certificate of Eligibility (COE) (COE)

Loan Programs

A document from the VA that confirms a veteran or service member is eligible for a VA home loan.

The COE shows entitlement — how much the VA will back on your behalf — and is required before a VA loan closes. Lenders can often pull it electronically.

WHY IT MATTERS

Without a COE, you can't use the VA loan benefit.

WHERE YOU MAY SEE IT

VA loan file · Underwriting conditions · Lender documentation

EXAMPLE

Your lender pulls your COE and confirms full entitlement, allowing a $0-down VA purchase.

COMMON MISUNDERSTANDING

Having a COE doesn't guarantee loan approval — it confirms VA benefit eligibility, not that you meet the lender's credit and income requirements.

See also: va loan, va funding fee, residual income

Certificate of Occupancy (CO)

Construction and Renovation

A local-government document certifying a building is safe to occupy and complies with code.

After construction or major renovation, an inspector confirms the property meets code and issues a CO. Lenders typically require it before a construction-to-permanent loan converts.

WHY IT MATTERS

Without a CO, the home may not be legally habitable — and the permanent loan can't close.

WHERE YOU MAY SEE IT

Municipal inspection records · Construction loan conditions · Closing documents

EXAMPLE

Your builder finishes the home, passes final inspection, and the municipality issues the CO, triggering the loan conversion.

COMMON MISUNDERSTANDING

Passing a framing or rough inspection is not the same as receiving a CO — final approval requires the completed project to meet all code requirements.

See also: construction loan, construction to permanent loan, builders risk insurance

Chain of Title

Closing and Settlement

The historical sequence of ownership transfers for a specific property.

A clean chain of title shows each owner properly transferred the property to the next. Breaks or gaps can create legal risk.

WHY IT MATTERS

Buyers need an unbroken chain of title so title insurance can be issued and ownership is secure.

WHERE YOU MAY SEE IT

Title commitment · Title search report · County records

EXAMPLE

The title company traces ownership back 50 years, resolving one missing deed to complete the chain.

COMMON MISUNDERSTANDING

A long chain of title isn't automatically a problem — the concern is gaps or breaks in the recorded ownership history, not its length.

See also: abstract of title, title, title insurance, title search, deed

Charge-Off

Credit and Qualification

A charge-off is a creditor's accounting decision to write off a seriously delinquent debt as unlikely to be collected.

When an account goes unpaid for an extended period, the creditor may charge it off internally, which is a bookkeeping action, not a forgiveness of the debt. The debt can still be pursued through collections and typically remains on credit reports for a period of years.

WHY IT MATTERS

A charge-off can significantly affect credit standing and mortgage qualification, and lenders may ask for an explanation or documentation of resolution.

WHERE YOU MAY SEE IT

Credit report · Collection account · Letter of explanation

EXAMPLE

For illustration, a credit card account unpaid for several months is charged off by the issuer and later sold to a collection agency.

COMMON MISUNDERSTANDING

A charge-off is not the same as the debt being erased; the borrower may still owe the balance even after it's charged off.

See also: collection account, credit score, delinquency, default

Clear to Close (CTC) (CTC)

Closing and Settlement

The point at which underwriting has approved the loan and closing can be scheduled.

Clear to close means the lender has satisfied every condition — income, assets, appraisal, title, insurance — and only closing documents remain.

WHY IT MATTERS

It's the green light borrowers wait for; closing typically follows within a few days.

WHERE YOU MAY SEE IT

Lender notification · Closing Disclosure · Underwriting conditions

EXAMPLE

You receive the CTC email Tuesday and sign at the closing table Friday morning.

COMMON MISUNDERSTANDING

Clear to close doesn't mean closing has happened — it means underwriting is finished and closing can now be scheduled.

See also: underwriting, closing, closing disclosure

Closing

Closing and Settlement

The legal transfer of a home from seller to buyer, when documents are signed and funds are disbursed.

At closing, the buyer signs the note and mortgage, funds are wired, the deed is recorded, and keys change hands. It's the final step in the transaction.

WHY IT MATTERS

Ownership only transfers when closing is complete and recorded.

WHERE YOU MAY SEE IT

Closing Disclosure · Deed · Mortgage note

EXAMPLE

You sit at a closing table (or e-sign remotely), review and sign disclosures, and the deed is recorded that afternoon.

COMMON MISUNDERSTANDING

Signing documents alone doesn't transfer ownership — the deed generally must also be recorded to complete the transfer.

See also: closing costs, closing disclosure, settlement, clear to close, deed

Closing Costs

Closing and Settlement

Fees and charges — typically 2–5% of the loan amount — paid at closing to complete a mortgage transaction.

Closing costs include lender fees (origination, underwriting), third-party fees (appraisal, title, recording), prepaid items (property taxes, insurance), and any discount points.

WHY IT MATTERS

They're a real cash cost separate from your down payment and can materially affect how much home you can afford.

WHERE YOU MAY SEE IT

Loan Estimate · Closing Disclosure · Purchase contract

EXAMPLE

On a $400,000 loan, closing costs of 3% total $12,000 due at signing on top of down payment.

COMMON MISUNDERSTANDING

Closing costs are not part of your down payment — they're separate cash needed on top of it, though some can sometimes be covered by credits.

See also: loan estimate, closing disclosure, origination fee, discount points, seller concessions, title insurance

Closing Date

Closing and Settlement

The closing date is the day ownership legally transfers and loan documents are signed, finalizing the purchase or refinance.

On the closing date, the borrower signs final loan documents, funds are disbursed, and — for a purchase — the deed is recorded to transfer ownership. The date is set in the purchase agreement or refinance timeline and can shift if financing or inspection issues arise.

WHY IT MATTERS

The closing date drives rate lock expiration, moving plans, and coordination with the seller, so delays can carry real costs.

WHERE YOU MAY SEE IT

Purchase agreement · Closing Disclosure · Rate lock agreement

EXAMPLE

For illustration, a purchase agreement sets a closing date 45 days after contract signing, aligned with the buyer's rate lock period.

COMMON MISUNDERSTANDING

The closing date is not guaranteed to be final; it can be adjusted by mutual agreement if issues delay the transaction.

See also: closing disclosure, rate lock, purchase agreement

Closing Disclosure (CD)

Closing and Settlement

A federally required five-page form detailing the final terms and costs of your mortgage.

The Closing Disclosure lists the final loan amount, interest rate, monthly payment, and every fee — organized to mirror the Loan Estimate for easy comparison. It must be delivered at least three business days before closing.

WHY IT MATTERS

The three-day review window protects you from last-minute surprises and gives time to question changes.

WHERE YOU MAY SEE IT

Closing Disclosure · Loan Estimate · Closing documents

EXAMPLE

You receive the CD Tuesday and can compare it to your original Loan Estimate line by line before signing Friday.

COMMON MISUNDERSTANDING

The Closing Disclosure isn't optional paperwork you can skip reviewing — federal rules require it be provided at least three business days before closing for you to review.

See also: loan estimate, closing, closing costs, trid, annual percentage rate

Co-Borrower

Mortgage Basics

A co-borrower is a person who applies for a mortgage jointly with another borrower and shares equal legal responsibility for repayment.

Co-borrowers are typically evaluated together for income, credit, and assets, and both usually appear on the note and title. This differs from a co-signer, who guarantees the debt but may not hold an ownership interest, depending on how the loan is structured.

WHY IT MATTERS

Adding a co-borrower can strengthen an application by combining income and assets, but it also means both parties are fully liable for the debt.

WHERE YOU MAY SEE IT

Loan application · Mortgage note · Title documents

EXAMPLE

For illustration, two siblings apply together as co-borrowers to purchase a property, combining their incomes for qualification.

COMMON MISUNDERSTANDING

A co-borrower is not the same as a co-signer; co-borrowers generally have an ownership interest and are evaluated as equal applicants.

See also: borrower, co signer, underwriting

Co-Signer

Credit and Qualification

A co-signer agrees to be legally responsible for a mortgage debt without necessarily holding ownership in the property.

A co-signer's income and credit may be considered to help a borrower qualify, but the co-signer's role is primarily to guarantee repayment rather than to occupy or own the home. Requirements for whether a co-signer must be on title vary by lender and program.

WHY IT MATTERS

Co-signing carries real repayment risk, since the co-signer becomes liable for the debt if the primary borrower falls behind.

WHERE YOU MAY SEE IT

Loan application · Mortgage note · Underwriting file

EXAMPLE

For illustration, a parent co-signs for a first-time buyer whose income alone doesn't yet support the desired loan amount.

COMMON MISUNDERSTANDING

A co-signer is not automatically an owner of the property; ownership depends on how title is structured.

See also: co borrower, borrower, underwriting

Collateral

Mortgage Basics

The property pledged to secure a mortgage and available for the lender to foreclose on if the loan defaults.

In a mortgage, the home itself is the collateral. If you don't repay, the lender can foreclose and sell it to recover the balance.

WHY IT MATTERS

Because the loan is secured, mortgage rates are much lower than unsecured borrowing.

WHERE YOU MAY SEE IT

Mortgage note · Deed of trust · Underwriting conditions

EXAMPLE

You default; after required notices and process, the lender forecloses and the home is sold at auction.

COMMON MISUNDERSTANDING

Collateral is not something separate from your home — in a mortgage, the property itself is what's pledged.

See also: mortgage, deed of trust, default, foreclosure, lien

Collection Account

Credit and Qualification

A collection account is a debt that has been transferred or sold to a third-party agency after the original creditor stopped pursuing it directly.

Once an account becomes significantly delinquent, the original creditor may charge it off and assign or sell it to a collection agency, which then attempts to recover the balance. Collection accounts appear on credit reports and can affect mortgage qualification depending on the program and how recently they were reported.

WHY IT MATTERS

Outstanding collections can influence loan approval and may require documentation, payoff, or a letter of explanation depending on investor guidelines.

WHERE YOU MAY SEE IT

Credit report · Letter of explanation · Underwriting conditions

EXAMPLE

For illustration, an unpaid medical bill is sent to collections and later shows up as a collection account on the borrower's credit report.

COMMON MISUNDERSTANDING

A collection account does not automatically disqualify a borrower; treatment varies by lender, loan program, and the type and size of the debt.

See also: charge off, credit score, credit inquiry

Collections

Credit and Qualification

Debts that have been sent to a third-party collector after prolonged non-payment.

Collection accounts appear on your credit report and often stay for up to seven years. Lenders review balances, dates, and any payment plans.

WHY IT MATTERS

Unpaid collections can hurt approval or require payoff before closing.

WHERE YOU MAY SEE IT

Credit report · Underwriting conditions · Loan application

EXAMPLE

A $600 medical collection appears on your report; some programs may allow it to remain, others may require payoff.

COMMON MISUNDERSTANDING

Not every collection account must be paid off before closing — treatment varies by loan program and balance.

See also: credit report, credit score, late payment, underwriting

Combined Loan-to-Value (CLTV)

Home Equity

Combined Loan-to-Value is the percentage of a home's value represented by all liens against it, including a first mortgage and any additional loans.

CLTV adds together the balances of a first mortgage and any second liens, such as a HELOC or home equity loan, then divides by the property's value. Lenders use it to assess total leverage when a borrower has more than one loan secured by the same property.

WHY IT MATTERS

Even with a low first-mortgage balance, a large second lien can push CLTV high enough to affect eligibility for additional borrowing.

WHERE YOU MAY SEE IT

HELOC application · Home equity loan disclosures · Underwriting file

EXAMPLE

For illustration, a home worth $400,000 has a $250,000 first mortgage and a $50,000 HELOC, producing a CLTV of 75%.

COMMON MISUNDERSTANDING

CLTV is not the same as LTV, which typically reflects only the primary mortgage balance against the home's value.

See also: loan to value, heloc, home equity loan

Commission Income

Credit and Qualification

Commission income is earnings based on sales performance rather than a fixed salary, which lenders typically average over a history of tax returns.

Because commission income can fluctuate, lenders generally review one to two years of tax returns or pay records to calculate an average that can be used for qualification. A declining trend may require an explanation or additional documentation.

WHY IT MATTERS

Understanding how commission income is averaged helps borrowers anticipate what income figure a lender may actually use to qualify them.

WHERE YOU MAY SEE IT

Tax returns · Pay stubs · Underwriting file

EXAMPLE

For illustration, a salesperson earned $60,000 and $72,000 in commissions over two years; a lender might average the two years for qualifying income.

COMMON MISUNDERSTANDING

Commission income is not disqualified from mortgage use; it simply requires a documented history and consistent calculation method.

See also: self employed borrower, asset, underwriting

Comparable Sales (Comps)

Homebuying

Recently sold homes similar to a subject property, used to estimate market value.

Appraisers and agents select comps by proximity, size, age, and condition, then adjust for differences to arrive at a value estimate.

WHY IT MATTERS

Comps drive appraised value, listing prices, and offer strategy.

WHERE YOU MAY SEE IT

Appraisal report · Real estate listing analysis

EXAMPLE

Three sold homes within a mile — similar in beds, baths, and square footage — support the appraiser's $525,000 opinion of value.

COMMON MISUNDERSTANDING

Comps are not identical properties — they're similar homes adjusted for differences to estimate value, not an exact match.

See also: appraisal, market value, assessed value

Compensating Factor

Credit and Qualification

A compensating factor is a positive element in a borrower's profile that can help offset a weaker area elsewhere in the loan file.

Underwriters weigh a full financial picture rather than a single number. Strong reserves, a long employment history, or a low loan-to-value ratio might help offset a higher debt-to-income ratio, though how much weight any factor carries varies by lender and program.

WHY IT MATTERS

Recognizing your own compensating factors can help you and your loan officer position an application more effectively.

WHERE YOU MAY SEE IT

Underwriting file · Loan approval conditions

EXAMPLE

For illustration, a borrower with a higher debt-to-income ratio but twelve months of mortgage payment reserves may find that reserve strength helps in underwriting.

COMMON MISUNDERSTANDING

A compensating factor is not a guaranteed override of a lender's standard guidelines; it's one input among many in a discretionary review.

See also: reserves, underwriting, debt service

Compensating Factors

Credit and Qualification

Positive elements of a file that can offset weaknesses during underwriting.

Strong reserves, low LTV, long job tenure, or excellent credit can compensate for higher DTI, thin credit, or other risk factors.

WHY IT MATTERS

They give underwriters room to approve otherwise borderline files.

WHERE YOU MAY SEE IT

Underwriting conditions · Loan application · AUS findings

EXAMPLE

A borrower with a 46% DTI is approved because they show 12 months of reserves and a 780 credit score.

COMMON MISUNDERSTANDING

Compensating factors don't override every guideline automatically — they give underwriters flexibility, not a guaranteed approval.

See also: underwriting, debt to income ratio, reserves, credit score

Conforming Loan

Loan Programs

A conventional loan that meets Fannie Mae and Freddie Mac size and eligibility rules.

Conforming loans fit within annual loan-size limits set by the FHFA and follow standardized underwriting. Loans above the limit are non-conforming — typically jumbo.

WHY IT MATTERS

Conforming loans usually price better than non-conforming ones and offer the widest lender competition.

WHERE YOU MAY SEE IT

Loan Estimate · Underwriting conditions · Loan program guidelines

EXAMPLE

In a standard county, a $700,000 loan is conforming; a $900,000 loan is jumbo.

COMMON MISUNDERSTANDING

Conforming doesn't refer to a loan's quality or safety — it refers only to whether it meets Fannie Mae and Freddie Mac size and eligibility rules.

See also: conventional loan, jumbo loan, non conforming loan, fannie mae, freddie mac

Construction Draw

Construction and Renovation

A scheduled release of construction-loan funds paid as the build reaches defined milestones.

Instead of one lump sum, construction loans disburse in draws — for example, after foundation, framing, drywall, and final. Inspectors verify progress before each draw.

WHY IT MATTERS

The draw structure protects the lender and keeps the builder accountable to milestones.

WHERE YOU MAY SEE IT

Construction loan agreement · Inspection reports · Draw request forms

EXAMPLE

After the framing inspection passes, the lender releases the framing draw so the builder can pay subcontractors.

COMMON MISUNDERSTANDING

A draw is not released automatically on a schedule — it typically requires an inspection confirming the milestone was actually completed.

See also: construction loan, construction to permanent loan, hard costs, soft costs, loan to cost, contingency reserve

Construction Loan

Construction and Renovation

A short-term loan that finances the build of a new home and is drawn on as work progresses.

Construction loans pay for land, materials, and labor. Most are interest-only during the build and convert to — or are refinanced into — a permanent mortgage at completion.

WHY IT MATTERS

Building instead of buying requires a different financing structure than a standard purchase mortgage.

WHERE YOU MAY SEE IT

Loan Estimate · Construction loan agreement · Draw request forms

EXAMPLE

You take a 12-month construction loan of $500,000 with monthly interest-only payments on drawn balances; at completion, it converts to a 30-year mortgage.

COMMON MISUNDERSTANDING

A construction loan isn't the same product as your eventual permanent mortgage — it's typically short-term and interest-only during the build.

See also: construction draw, construction to permanent loan, builders risk insurance, certificate of occupancy, loan to cost, hard costs, soft costs

Construction-to-Permanent Loan

Construction and Renovation

A single loan that funds construction and then converts to a permanent mortgage without a second closing.

Also called a single-close construction loan, it locks the permanent rate up front and eliminates a second round of underwriting and closing costs at conversion.

WHY IT MATTERS

It reduces cost and interest-rate risk between the build and permanent financing.

WHERE YOU MAY SEE IT

Loan Estimate · Construction loan agreement · Closing documents

EXAMPLE

You close once on a construction-to-perm loan; after the CO is issued, the loan modifies to a 30-year fixed at your pre-locked rate.

COMMON MISUNDERSTANDING

It doesn't require two separate closings and two sets of closing costs — that's the feature it's specifically designed to avoid.

See also: construction loan, construction draw, certificate of occupancy, rate lock

Contingency

Homebuying

A condition in a purchase agreement that must be met for the contract to remain binding.

Common contingencies include financing, appraisal, inspection, and sale of a current home. Failing a contingency lets the buyer exit and often recover earnest money.

WHY IT MATTERS

Contingencies protect buyers from being forced to close on a deal that no longer makes sense.

WHERE YOU MAY SEE IT

Purchase contract · Inspection report · Appraisal report

EXAMPLE

The inspection reveals a cracked foundation; the buyer exercises the inspection contingency and cancels the contract.

COMMON MISUNDERSTANDING

A contingency doesn't let a buyer cancel for any reason at any time — it applies only to the specific conditions and deadlines written into the contract.

See also: appraisal contingency, earnest money, purchase agreement, home inspection

Contingency Reserve

Construction and Renovation

Funds set aside in a construction budget to cover unexpected cost overruns.

Lenders typically require a 5–10% contingency reserve on top of the construction budget so unforeseen issues don't stall the build.

WHY IT MATTERS

It's a buffer against material spikes, weather delays, and change orders.

WHERE YOU MAY SEE IT

Construction budget · Construction loan agreement

EXAMPLE

A $500,000 build includes a 10% ($50,000) contingency reserve; a foundation surprise draws $18,000 from it, and the build continues on schedule.

COMMON MISUNDERSTANDING

A contingency reserve is not extra profit for the builder — it's set aside specifically to cover unexpected cost overruns.

See also: construction loan, hard costs, soft costs, loan to cost

Conventional Loan

Loan Programs

A mortgage that isn't backed by a government agency and typically follows Fannie Mae or Freddie Mac guidelines.

Conventional loans are the most common mortgage type in the U.S. They serve borrowers with reasonable credit and offer flexible down payments — from 3% for first-time buyers to 20%+ to avoid PMI.

WHY IT MATTERS

Conventional financing is often the lowest-cost path for borrowers who don't need or want government backing.

WHERE YOU MAY SEE IT

Loan Estimate · Underwriting conditions · Loan program guidelines

EXAMPLE

A first-time buyer uses a 5%-down conventional loan on a $400,000 home; PMI applies until LTV drops to 78%.

COMMON MISUNDERSTANDING

Conventional doesn't mean it always requires 20% down — many conventional programs allow much smaller down payments.

See also: conforming loan, fha loan, va loan, private mortgage insurance, fannie mae, freddie mac

Convertible ARM

Loan Programs

An adjustable-rate mortgage that includes a one-time option to convert to a fixed rate.

During a defined window, you can lock the ARM into a fixed rate without a full refinance. The converted rate is set by a formula in the note, not the market.

WHY IT MATTERS

It's a hedge against rising rates without the cost and paperwork of a refinance.

WHERE YOU MAY SEE IT

Mortgage note · ARM disclosure

EXAMPLE

During years 1–5 of a convertible ARM, you elect to convert to a fixed rate at the formula rate rather than refinance.

COMMON MISUNDERSTANDING

Converting to a fixed rate isn't the same as refinancing at the market rate — the converted rate follows a formula set in the note.

See also: adjustable rate mortgage, refinance, rate lock

Credit Inquiry

Credit and Qualification

A credit inquiry is a record of a lender or company checking a borrower's credit report, which may or may not affect a credit score.

There are two types: soft inquiries, which don't affect scores and often occur for pre-qualification or account reviews, and hard inquiries, which occur when a borrower applies for new credit and can have a modest, temporary effect on scores.

WHY IT MATTERS

Multiple hard inquiries in a short window, especially outside a mortgage rate-shopping period, can influence credit scores at a sensitive time in the loan process.

WHERE YOU MAY SEE IT

Credit report · Mortgage application

EXAMPLE

For illustration, a borrower shopping mortgage rates within a short window may have those inquiries treated as a single event by certain scoring models.

COMMON MISUNDERSTANDING

A credit inquiry is not the same as opening a new account; it simply reflects that credit information was accessed.

See also: credit score, available credit, credit limit

Credit Limit

Credit and Qualification

A credit limit is the maximum balance a lender allows on a revolving account, such as a credit card or line of credit.

The credit limit is set by the issuer based on factors like creditworthiness and income, and it can be increased, decreased, or left unchanged over time. It's a key input for calculating credit utilization, which factors into many credit scoring models.

WHY IT MATTERS

How close a balance sits to its limit can influence credit scores, which in turn can affect mortgage qualification.

WHERE YOU MAY SEE IT

Credit card statement · Credit report · HELOC agreement

EXAMPLE

For illustration, a card with a $5,000 limit and a $4,500 balance shows high utilization, which may affect the borrower's credit score.

COMMON MISUNDERSTANDING

A credit limit is not the same as available credit; available credit is what remains after subtracting the current balance from the limit.

See also: available credit, credit score, credit inquiry

Credit Report

Credit and Qualification

A detailed record of your borrowing history maintained by the major credit bureaus.

Your credit report lists accounts, balances, payment history, inquiries, and public records. Lenders pull it as part of every mortgage application.

WHY IT MATTERS

It's the foundation of your credit score and directly affects approval, rate, and program eligibility.

WHERE YOU MAY SEE IT

Credit report · Underwriting conditions · Loan application

EXAMPLE

You review your report and dispute an inaccurate late payment that had been dragging your score down.

COMMON MISUNDERSTANDING

A credit report is not the same as a credit score — it's the underlying data the score is calculated from.

See also: credit score, fico score, credit utilization, collections, late payment

Credit Score

Credit and Qualification

A three-digit number summarizing your credit risk based on payment history, balances, and other factors.

Scores like FICO range from 300 to 850. Payment history and credit utilization are the two biggest inputs.

WHY IT MATTERS

Higher scores unlock more programs, better pricing, and lower mortgage insurance.

WHERE YOU MAY SEE IT

Credit report · Pre-approval letter · Underwriting conditions

EXAMPLE

Raising your score from 680 to 740 can meaningfully reduce your rate on a conventional purchase.

COMMON MISUNDERSTANDING

There isn't one universal credit score used everywhere — different scoring models and bureaus can produce different numbers.

See also: fico score, credit report, credit utilization, collections, late payment

Credit Utilization

Credit and Qualification

The percentage of your available revolving credit that you're currently using.

Utilization is calculated per card and across all cards. Lower utilization — especially under 30%, and ideally under 10% — supports higher credit scores.

WHY IT MATTERS

Paying down cards before a mortgage application can boost your score enough to improve your rate tier.

WHERE YOU MAY SEE IT

Credit report · Credit card statements

EXAMPLE

You have $10,000 in available credit and $4,000 in balances — a 40% utilization. Paying it down to $800 (8%) can lift your score.

COMMON MISUNDERSTANDING

Utilization is not the same as carrying a balance and paying interest — it's calculated from your reported balance regardless of whether you pay it in full.

See also: credit score, credit report, fico score

D

Debt Service

Investment Property

Debt service is the total amount of principal and interest payments required to keep a loan current over a given period.

Debt service is often discussed in the context of investment property financing, where a property's rental income is compared to the debt service on its loan to gauge cash flow. It can also refer more generally to any borrower's required loan payments.

WHY IT MATTERS

Comparing rental income to debt service helps investors and lenders assess whether a property can support its own financing.

WHERE YOU MAY SEE IT

DSCR loan application · Rent roll · Underwriting file

EXAMPLE

For illustration, a rental property generating $2,400 a month against a $2,000 monthly debt service produces positive cash flow, before other expenses.

COMMON MISUNDERSTANDING

Debt service is not the same as total housing expense; it typically excludes taxes, insurance, and HOA dues unless specifically included by the calculation method used.

See also: compensating factor, asset

Debt Yield

Investment Property

A commercial and investment-property metric equal to NOI divided by loan amount, expressed as a percentage.

Debt yield is independent of interest rate and amortization, giving lenders a pure sense of how much income the property generates per dollar of loan.

WHY IT MATTERS

It's a useful cross-check to DSCR on investment loans, especially for lenders sizing loan proceeds.

WHERE YOU MAY SEE IT

Underwriting conditions · Property income statement

EXAMPLE

A $1,000,000 loan on a property with $90,000 in NOI has a 9% debt yield.

COMMON MISUNDERSTANDING

Debt yield doesn't factor in interest rate or loan term — it's a simplified ratio of income to loan amount used as a risk cross-check.

See also: debt service coverage ratio, net operating income, cap rate

Debt-Service Coverage Ratio (DSCR) (DSCR)

Investment Property

The ratio of a property's net operating income to its total debt payments.

DSCR = NOI ÷ debt service. A DSCR of 1.0 means the property just covers its mortgage; above 1.0 means positive coverage; below 1.0 means the owner subsidizes it.

WHY IT MATTERS

It's the core metric investment-property lenders use — often instead of personal income — to qualify a loan.

WHERE YOU MAY SEE IT

Loan program guidelines · Property income statement · Underwriting conditions

EXAMPLE

A property with $36,000 in NOI and $30,000 in annual debt service has a 1.20 DSCR.

COMMON MISUNDERSTANDING

DSCR loans don't ignore the property's finances entirely — they typically replace personal income verification with property cash flow analysis.

See also: net operating income, cap rate, cash flow, no ratio loan, debt yield

Debt-to-Income Ratio (DTI) (DTI)

Credit and Qualification

The percentage of your gross monthly income used to pay monthly debt obligations.

DTI comes in two flavors: front-end (housing only) and back-end (housing plus all other debts). Program thresholds vary, and compensating factors can allow higher ratios.

WHY IT MATTERS

DTI is one of the most important qualifying metrics — it caps how much you can borrow.

WHERE YOU MAY SEE IT

Loan application · Underwriting conditions · Pre-approval letter

EXAMPLE

You earn $10,000/month and have $700 in car and student loans. A $2,300 housing payment produces a 30% back-end DTI.

COMMON MISUNDERSTANDING

There isn't one universal DTI cutoff that applies to every borrower or program — limits vary by loan type and compensating factors.

See also: housing ratio, front end ratio, gross monthly income, compensating factors, affordability

Deed

Closing and Settlement

The legal document that transfers ownership of real estate from one party to another.

A signed and recorded deed is what actually conveys the property. Different deed types (warranty, quitclaim, grant) provide different levels of protection.

WHY IT MATTERS

Owning a home means having the deed properly signed, delivered, and recorded.

WHERE YOU MAY SEE IT

Deed · County records · Closing documents

EXAMPLE

At closing, the seller signs a warranty deed conveying the home to you; it's recorded that afternoon at the county recorder's office.

COMMON MISUNDERSTANDING

A deed is not the same as a mortgage — the deed transfers ownership, while the mortgage or deed of trust secures the loan against the property.

See also: warranty deed, quitclaim deed, chain of title, title, recording fee

Deed of Trust

Closing and Settlement

A security instrument used in many states to secure a mortgage, involving a trustee in addition to lender and borrower.

In deed-of-trust states, the borrower conveys legal title to a neutral trustee until the loan is repaid. Foreclosure typically proceeds non-judicially.

WHY IT MATTERS

The security instrument affects how foreclosure works if the loan defaults.

WHERE YOU MAY SEE IT

Deed of trust · Closing documents · County records

EXAMPLE

In Texas, your mortgage is documented via a deed of trust; the trustee handles the foreclosure process if you default.

COMMON MISUNDERSTANDING

A deed of trust doesn't mean a trustee owns your home — it holds legal title only as security until the loan is repaid.

See also: mortgage, collateral, foreclosure, acceleration clause

Deed-in-Lieu of Foreclosure

Ownership and Real Estate

A deed-in-lieu of foreclosure is a voluntary transfer of property ownership to the lender to satisfy a defaulted loan and avoid formal foreclosure.

Rather than proceeding through the foreclosure process, a borrower who can no longer make payments may agree to sign the deed directly over to the lender. This can sometimes be less damaging than a completed foreclosure, though outcomes and credit impact vary by lender and circumstances.

WHY IT MATTERS

It's one of several loss-mitigation options a struggling borrower might discuss with their servicer, alongside loan modification or short sale.

WHERE YOU MAY SEE IT

Loss mitigation paperwork · Servicer correspondence

EXAMPLE

For illustration, a homeowner facing hardship works with their servicer to arrange a deed-in-lieu rather than continuing toward foreclosure.

COMMON MISUNDERSTANDING

A deed-in-lieu is not automatically available to every distressed borrower; lenders evaluate eligibility case by case.

See also: foreclosure, short sale, default, delinquency

Default

Mortgage Basics

Failing to meet the terms of the loan — most often by missing payments.

Default is defined in your loan documents. It can trigger late fees, acceleration, and eventually foreclosure.

WHY IT MATTERS

Contact your servicer at the first sign of trouble — options like forbearance and modification are often available before default becomes formal.

WHERE YOU MAY SEE IT

Servicer notices · Mortgage note · Loan modification documents

EXAMPLE

After 90 days of missed payments, the servicer files a notice of default and begins the foreclosure timeline.

COMMON MISUNDERSTANDING

Default doesn't happen the moment a single payment is late — it's typically defined by prolonged non-payment per the loan documents.

See also: delinquency, foreclosure, forbearance, loan modification, acceleration clause

Deferred Interest

Mortgage Basics

Deferred interest is interest that accrues on a loan but is added to the balance rather than being paid currently, increasing the amount owed over time.

Some loan structures allow a payment that doesn't cover the full interest due; the unpaid portion is added to the principal balance, a process sometimes called negative amortization. This differs from simply paying a lower rate — the loan balance can actually grow rather than shrink.

WHY IT MATTERS

Understanding whether a loan includes deferred interest is important because it can mean owing more over time than originally borrowed.

WHERE YOU MAY SEE IT

Loan Estimate · Note disclosures · Amortization schedule

EXAMPLE

For illustration, a payment covers only part of the interest due, and the unpaid $150 is added to the loan's principal balance for that month.

COMMON MISUNDERSTANDING

Deferred interest is not the same as a low introductory rate; it specifically refers to unpaid interest being added to the loan balance.

See also: draw period, escrow shortage

Delinquency

Mortgage Basics

A payment that is past its due date but has not yet resulted in default.

Servicers report delinquencies to credit bureaus after 30, 60, and 90 days late. Late fees and credit damage grow with each stage.

WHY IT MATTERS

Even a single late payment can materially hurt your credit score for years.

WHERE YOU MAY SEE IT

Credit report · Servicer notices · Mortgage statement

EXAMPLE

You pay 45 days after the due date; the servicer reports a 30-day late to the bureaus.

COMMON MISUNDERSTANDING

Delinquency is not the same as default — it describes a past-due payment before the loan reaches that more serious status.

See also: default, late payment, credit score, credit report

Depreciation

Investment Property

A decline in a property's value, or an accounting deduction that spreads a building's cost over its useful life.

Depreciation has two meanings: a market drop in value, and a tax concept letting rental owners deduct a portion of the building's cost each year.

WHY IT MATTERS

For investors, depreciation is a meaningful tax shelter even as the property may appreciate in market value.

WHERE YOU MAY SEE IT

Property income statement · Tax documents

EXAMPLE

A residential rental building with a $275,000 depreciable basis produces $10,000/year in depreciation deductions over 27.5 years.

COMMON MISUNDERSTANDING

Depreciation as a tax deduction doesn't mean the property is actually losing market value — the two concepts are unrelated.

See also: appreciation, market value, cap rate

Discount Points

Mortgage Markets and Rates

Optional upfront fees paid to the lender to lower your interest rate — one point equals 1% of the loan amount.

Buying points trades cash today for a lower rate over the loan's life. Break-even is the number of months of savings needed to recoup the cost.

WHY IT MATTERS

Points can save real money if you'll keep the loan long enough; they're a poor value if you plan to refinance or sell soon.

WHERE YOU MAY SEE IT

Loan Estimate · Closing Disclosure · Rate sheets

EXAMPLE

Paying one point ($4,000) on a $400,000 loan may lower the rate by 0.25%, saving about $60/month — break-even around year six.

COMMON MISUNDERSTANDING

Points are not a fee you're required to pay — they're optional and only worthwhile if you keep the loan long enough to recoup the cost.

See also: interest rate, annual percentage rate, buydown, origination fee, closing costs

Down Payment

Homebuying

The portion of a home's purchase price you pay in cash upfront, with the rest financed.

Down payment percentages vary by program — 0% for VA and USDA, 3% for many conventional first-time-buyer programs, 3.5% for FHA, higher for jumbo and investment loans.

WHY IT MATTERS

A larger down payment reduces the loan, lowers your payment, may eliminate mortgage insurance, and can improve pricing.

WHERE YOU MAY SEE IT

Loan Estimate · Purchase contract · Closing Disclosure

EXAMPLE

On a $400,000 home, a 10% down payment is $40,000 and a 20% down payment is $80,000.

COMMON MISUNDERSTANDING

A down payment is not the same as closing costs — they're separate cash requirements, though both are due around the same time.

See also: loan to value, private mortgage insurance, gift funds, down payment assistance, closing costs

Down Payment Assistance (DPA) (DPA)

Homebuying

Grants or second-lien loans from state or local programs that help buyers cover down payment and closing costs.

DPA structures vary — some are forgivable grants after a residency period, others are silent second mortgages, others carry monthly payments.

WHY IT MATTERS

DPA can accelerate homeownership for buyers who have income but not accumulated savings.

WHERE YOU MAY SEE IT

Loan program guidelines · Closing Disclosure · Underwriting conditions

EXAMPLE

A state DPA program provides $10,000 in forgivable assistance after five years of primary occupancy.

COMMON MISUNDERSTANDING

Not all down payment assistance is a grant you never repay — some programs are structured as loans or liens with their own conditions.

See also: down payment, gift funds, closing costs, first mortgage

Draw Period

Home Equity

The draw period is the phase of a HELOC during which a borrower can withdraw funds, typically making interest-only or minimum payments.

During the draw period, which commonly lasts around ten years but varies by lender, a borrower can access available credit as needed, repay it, and draw again. Once the draw period ends, the loan enters a repayment period where the balance is amortized and new draws are no longer allowed.

WHY IT MATTERS

Payments can rise noticeably once the draw period ends and full repayment begins, so planning ahead matters.

WHERE YOU MAY SEE IT

HELOC agreement · Loan disclosures · Monthly statement

EXAMPLE

For illustration, a HELOC has a 10-year draw period followed by a 20-year repayment period during which no new draws are permitted.

COMMON MISUNDERSTANDING

A draw period is not the full life of the loan; it's typically an initial phase followed by a distinct repayment period.

See also: cltv, available credit, deferred interest

Due-on-Sale Clause

Ownership and Real Estate

A due-on-sale clause lets a lender demand full repayment of a loan if the property is sold or transferred without the lender's consent.

Most conventional mortgages include this clause, which protects the lender from having its loan assumed by an unapproved buyer. It generally means the loan cannot simply be handed off to a new owner without triggering the requirement for full payoff, though certain transfers, such as some family situations, may be exempt under law.

WHY IT MATTERS

Buyers hoping to take over an existing loan should confirm whether it's actually assumable, since most standard mortgages are not due to this clause.

WHERE YOU MAY SEE IT

Mortgage note · Deed of trust

EXAMPLE

For illustration, a homeowner who transfers title to a buyer without lender approval could trigger the due-on-sale clause, requiring the loan to be paid in full.

COMMON MISUNDERSTANDING

A due-on-sale clause does not mean every property transfer accelerates the loan; certain exemptions can apply depending on the circumstances and applicable law.

See also: mortgage note, deed, lien

E

Earnest Money

Homebuying

A deposit the buyer places when making an offer, showing good-faith commitment to the transaction.

Earnest money is held in escrow and credited toward down payment or closing costs at closing. It can be forfeited if the buyer defaults outside contract protections.

WHY IT MATTERS

It signals seriousness to sellers and can strengthen an offer in competitive markets.

WHERE YOU MAY SEE IT

Purchase contract · Closing Disclosure · Escrow instructions

EXAMPLE

You offer $500,000 with $10,000 earnest money; at closing, the deposit is credited toward your cash to close.

COMMON MISUNDERSTANDING

Earnest money is not automatically forfeited if a deal falls through — contract contingencies often protect a buyer's right to get it back.

See also: purchase agreement, contingency, closing, escrow

Easement

Ownership and Real Estate

A legal right that lets someone use part of your property for a specific purpose.

Common easements include utility lines, driveways shared with neighbors, and drainage. Easements typically stay with the land regardless of ownership changes.

WHY IT MATTERS

Easements can affect what you can build and how you use the property.

WHERE YOU MAY SEE IT

Title commitment · Survey · County records

EXAMPLE

An electric utility has an easement to run overhead lines across the back of your lot; you can't build over it.

COMMON MISUNDERSTANDING

An easement doesn't transfer ownership of the land — it only grants someone else a specific right to use part of it.

See also: title, encumbrance, survey

Effective Gross Income (EGI) (EGI)

Investment Property

A rental property's potential rental income minus vacancy and collection losses.

EGI is the top-line revenue an investor can reasonably expect to collect, before operating expenses.

WHY IT MATTERS

It's the starting point for calculating NOI and other investment metrics.

WHERE YOU MAY SEE IT

Property income statement · Rent roll

EXAMPLE

A property with $60,000 in potential gross rent and a 5% vacancy factor has an EGI of $57,000.

COMMON MISUNDERSTANDING

EGI is not the same as net income — it's calculated before operating expenses are subtracted.

See also: net operating income, vacancy rate, cash flow, cap rate

Encumbrance

Ownership and Real Estate

Any claim, lien, or restriction attached to a property that affects its title.

Encumbrances include mortgages, tax liens, easements, and deed restrictions. Some are removed at closing; others transfer to the new owner.

WHY IT MATTERS

Buyers need to know exactly what encumbrances stay on the property after closing.

WHERE YOU MAY SEE IT

Title commitment · County records

EXAMPLE

A recorded HOA restriction limiting exterior paint colors is an encumbrance that persists after sale.

COMMON MISUNDERSTANDING

Not every encumbrance is removed at closing — some, like certain easements or deed restrictions, transfer with the property to the new owner.

See also: lien, easement, title, title insurance

Equal Housing Opportunity

Mortgage Basics

Equal Housing Opportunity refers to the principle and related laws that prohibit discrimination in housing and lending based on protected characteristics.

Federal fair housing and fair lending laws prohibit discrimination in mortgage lending based on characteristics such as race, color, religion, sex, national origin, familial status, and disability. Lenders display the Equal Housing Opportunity logo and statement to affirm their commitment to these protections.

WHY IT MATTERS

Understanding these protections helps borrowers recognize their rights throughout the home financing process.

WHERE YOU MAY SEE IT

Lender advertising · Loan application disclosures · Website footers

EXAMPLE

For illustration, a lender includes the Equal Housing Opportunity logo on its website and marketing materials to reflect its fair lending commitment.

COMMON MISUNDERSTANDING

Equal Housing Opportunity is not merely a marketing slogan; it reflects legal obligations under fair housing and fair lending laws.

See also: borrower, underwriting

Equity

Home Equity

The portion of a property you truly own — the value minus what you still owe.

Equity grows through principal payments, appreciation, and improvements. It can be tapped through cash-out refinancing, HELOCs, or home equity loans.

WHY IT MATTERS

Equity is often the largest single component of household wealth.

WHERE YOU MAY SEE IT

Closing Disclosure · Mortgage statement · Appraisal report

EXAMPLE

Your home is worth $600,000 with a $350,000 balance — you have $250,000 of equity.

COMMON MISUNDERSTANDING

Equity is not cash sitting in an account — it's a calculated value that must be accessed through selling, refinancing, or borrowing against the home.

See also: appreciation, loan to value, cash out refinance, heloc, home equity loan

Escrow

Closing and Settlement

A neutral third-party arrangement that holds funds or documents until specific conditions are met.

Escrow appears twice in a mortgage: at closing (to hold earnest money and documents) and after closing (to collect taxes and insurance monthly).

WHY IT MATTERS

It protects all parties by ensuring money and paperwork are released only when obligations are complete.

WHERE YOU MAY SEE IT

Purchase contract · Closing Disclosure · Escrow instructions

EXAMPLE

Your $10,000 earnest money sits in escrow until closing, then is credited to your cash to close.

COMMON MISUNDERSTANDING

Escrow doesn't refer to only one thing — it can mean the closing-process holding account or the ongoing account that pays taxes and insurance.

See also: escrow account, escrow analysis, impound account, closing, earnest money

Escrow Account

Mortgage Basics

A lender-held account that collects a portion of your monthly payment to pay property taxes and insurance when due.

Each month you pay 1/12 of your annual taxes and insurance into escrow. The servicer pays those bills directly when they come due.

WHY IT MATTERS

Escrow smooths large annual bills into predictable monthly payments and protects the lender's collateral.

WHERE YOU MAY SEE IT

Mortgage statement · Escrow analysis statement · Closing Disclosure

EXAMPLE

Property taxes of $6,000/year and insurance of $1,800/year add $650/month to your PITI payment.

COMMON MISUNDERSTANDING

Money in an escrow account is not extra savings for you to withdraw — it's reserved specifically for upcoming tax and insurance bills.

See also: escrow, escrow analysis, impound account, piti, property taxes, homeowners insurance

Escrow Analysis

Mortgage Basics

A yearly review your servicer performs to reconcile the escrow account against actual bills.

The analysis compares what you paid into escrow against what was disbursed. Shortages or surpluses adjust your monthly payment for the following year.

WHY IT MATTERS

It's why your monthly payment can change year to year even on a fixed-rate loan.

WHERE YOU MAY SEE IT

Escrow analysis statement · Mortgage statement

EXAMPLE

Property taxes rise 8%. Your escrow analysis produces a $60 payment increase for the next 12 months.

COMMON MISUNDERSTANDING

A fixed-rate mortgage's total monthly payment isn't guaranteed to stay flat forever — escrow analysis can still change it based on tax and insurance costs.

See also: escrow account, property taxes, homeowners insurance, piti

Escrow Shortage

Insurance and Property Costs

An escrow shortage occurs when a loan's escrow account has less money than needed to cover upcoming property tax and insurance bills.

Escrow accounts collect a portion of taxes and insurance each month, but shortages can arise from tax increases, insurance premium hikes, or miscalculations. Servicers typically perform an annual escrow analysis and may raise the monthly payment or offer a repayment option to cover the shortfall.

WHY IT MATTERS

An escrow shortage can lead to a higher monthly payment, so understanding the annual escrow analysis helps borrowers avoid surprises.

WHERE YOU MAY SEE IT

Annual escrow analysis statement · Mortgage statement

EXAMPLE

For illustration, rising property taxes create a $600 escrow shortage, which the servicer spreads over twelve months as an addition to the monthly payment.

COMMON MISUNDERSTANDING

An escrow shortage is not necessarily a sign of a payment default; it typically reflects a shift in tax or insurance costs rather than missed payments.

See also: escrow account

Estimated Closing Costs

Closing and Settlement

Estimated closing costs are the projected lender, title, and third-party fees a borrower expects to pay to finalize a mortgage transaction.

These figures first appear on the Loan Estimate and include items like origination charges, appraisal fees, title insurance, recording fees, and prepaid items. Because some costs are based on third-party services, the actual totals can shift slightly by the time the Closing Disclosure is issued.

WHY IT MATTERS

Reviewing estimated closing costs early helps borrowers budget accurately and compare offers from different lenders.

WHERE YOU MAY SEE IT

Loan Estimate · Closing Disclosure

EXAMPLE

For illustration, a Loan Estimate shows approximately $9,500 in estimated closing costs, which may adjust slightly by closing.

COMMON MISUNDERSTANDING

Estimated closing costs are not the final, guaranteed amount; some fees can change within tolerances allowed by regulation before closing.

See also: loan estimate, closing disclosure, cash to close

Estimated Property Value

Homebuying

Estimated property value is a preliminary, non-appraisal figure used early in the loan process to gauge a home's likely worth.

Before an official appraisal is ordered, borrowers, agents, and lenders often rely on comparable sales, automated valuation tools, or the contract price as an estimated property value. This figure helps with early loan structuring but is later replaced or confirmed by the appraiser's independent opinion of value.

WHY IT MATTERS

Because loan terms often depend on the appraised value rather than the estimate, borrowers should treat early figures as a starting point, not a guarantee.

WHERE YOU MAY SEE IT

Loan application · Pre-qualification worksheet · Automated valuation report

EXAMPLE

For illustration, a lender uses an estimated property value of $350,000 based on the contract price while the formal appraisal is being ordered.

COMMON MISUNDERSTANDING

An estimated property value is not the same as an appraised value; only a licensed appraiser's report provides the value a lender will typically rely on for underwriting.

See also: appraisal, appraisal gap, loan to value

Exit Strategy

Investment Property

A borrower's plan for paying off a short-term or interest-only loan when it comes due.

Common exit strategies include sale of the property, refinancing into a long-term loan, or paying off with a lump sum from another source.

WHY IT MATTERS

Bridge, balloon, and construction lenders often want to see the exit before they'll approve the loan.

WHERE YOU MAY SEE IT

Loan application · Underwriting conditions · Business plan documentation

EXAMPLE

Your fix-and-flip exit strategy is to sell within 9 months and pay off the private money loan from sale proceeds.

COMMON MISUNDERSTANDING

An exit strategy isn't just a formality — for short-term financing, lenders often want a credible plan before approving the loan.

See also: bridge loan, balloon mortgage, private money loan, refinance

Expense Factor

Investment Property

Expense factor is the estimated percentage of a rental property's gross income that goes toward operating costs like taxes, insurance, and maintenance.

Lenders and investors sometimes use an expense factor — a rule-of-thumb percentage — to quickly estimate operating costs on a rental property when detailed records aren't available. It stands in for actual expenses like repairs, management, taxes, and insurance.

WHY IT MATTERS

The expense factor used in an analysis can change the estimated cash flow a property appears to generate, which in turn can affect qualification for programs that weigh rental income, such as DSCR loans.

WHERE YOU MAY SEE IT

Rental cash flow worksheets · DSCR loan analyses · Investment property pro formas

EXAMPLE

For illustration, an analyst might apply a 35% expense factor to $2,000 in monthly gross rent, estimating $700 in costs and $1,300 in net operating income — actual expenses vary by property and lender.

COMMON MISUNDERSTANDING

An expense factor is not a guarantee of actual costs; real operating expenses can run higher or lower depending on the property's age, location, and condition.

See also: gross rent, debt to income ratio, investment property loan

F

Fair Market Value

Ownership and Real Estate

Fair market value is the price a property would likely sell for between a willing buyer and seller, neither under pressure, with reasonable knowledge of the property.

Fair market value reflects what a property is realistically worth in the current market, based on comparable sales, condition, and location. It's distinct from the asking price, the tax-assessed value, or what a seller hopes to get.

WHY IT MATTERS

Appraisals, lending decisions, and insurance coverage often rely on an estimate of fair market value, so understanding how it's derived helps borrowers interpret those numbers.

WHERE YOU MAY SEE IT

Appraisal reports · Purchase negotiations · Property tax disputes · Insurance replacement discussions

EXAMPLE

For illustration, a home listed at $450,000 might have an appraised fair market value of $430,000 based on recent comparable sales in the neighborhood.

COMMON MISUNDERSTANDING

Fair market value is not the same as the county's tax-assessed value, which is often calculated differently and may lag actual market conditions.

See also: appraisal, comparable sales, loan to value ratio

Fannie Mae

Mortgage Markets and Rates

A government-sponsored enterprise that buys conforming mortgages from lenders to keep housing capital flowing.

Fannie Mae (formally the Federal National Mortgage Association) doesn't lend to borrowers directly. It buys qualifying loans from lenders, packages them into securities, and sells them to investors.

WHY IT MATTERS

Fannie's guidelines shape most conventional mortgages in the U.S.

WHERE YOU MAY SEE IT

Underwriting conditions · Loan program guidelines · Secondary market documentation

EXAMPLE

Your conventional loan is funded by a bank, then sold to Fannie Mae — but your servicer may stay the same.

COMMON MISUNDERSTANDING

Fannie Mae doesn't lend money directly to homebuyers — it purchases qualifying loans from lenders after they close.

See also: freddie mac, conforming loan, conventional loan, mortgage backed securities, secondary market

Federal Funds Rate (Fed Funds Rate)

Mortgage Markets and Rates

The federal funds rate is the short-term interest rate the Federal Reserve targets for overnight lending between banks, which indirectly influences broader borrowing costs.

The Federal Reserve adjusts this rate to manage inflation and economic growth. While it doesn't set mortgage rates directly, changes to it can shift investor expectations and bond yields, which do factor into how mortgage rates move over time.

WHY IT MATTERS

Borrowers often assume Fed rate changes move mortgage rates in lockstep, but the relationship is indirect — mortgage rates are driven more by mortgage-backed securities and bond markets.

WHERE YOU MAY SEE IT

Financial news coverage of Fed meetings · Rate outlook discussions · ARM index commentary

EXAMPLE

For illustration, if the Fed raises its target rate, mortgage rates might rise, fall, or stay flat depending on what investors already expected — the two don't always move together.

COMMON MISUNDERSTANDING

The federal funds rate is not the same as, and does not directly set, mortgage interest rates.

See also: prime rate, index arm, treasury yield mortgage

Federal Reserve

Mortgage Markets and Rates

The U.S. central bank, which sets short-term policy rates that indirectly influence mortgage rates.

The Fed doesn't set mortgage rates directly. Its policy on short-term rates, balance-sheet actions, and inflation expectations shape the bond market that determines mortgage pricing.

WHY IT MATTERS

Fed announcements can move mortgage rates within hours.

WHERE YOU MAY SEE IT

Market commentary · Rate sheets

EXAMPLE

A hawkish Fed meeting can push bond yields up and add 0.125–0.25% to mortgage rate sheets that afternoon.

COMMON MISUNDERSTANDING

The Federal Reserve doesn't set mortgage rates directly — its policy actions influence the broader bond market that mortgage pricing follows.

See also: prime rate, yield curve, mortgage backed securities, interest rate

FHA Loan (FHA)

Loan Programs

A mortgage insured by the Federal Housing Administration, designed to expand access for buyers with modest credit or down payments.

FHA loans allow lower down payments (as little as 3.5%) and more flexible credit than most conventional programs. They require mortgage insurance premiums (MIP), often for the life of the loan.

WHY IT MATTERS

FHA is often the most accessible path to homeownership for first-time buyers with limited savings or thinner credit files.

WHERE YOU MAY SEE IT

Loan Estimate · Underwriting conditions · Loan program guidelines

EXAMPLE

A first-time buyer with a 640 score puts 3.5% down on a $350,000 home using an FHA loan.

COMMON MISUNDERSTANDING

An FHA loan isn't issued by the government — it's originated by a private lender and insured by the Federal Housing Administration.

See also: mortgage insurance premium, conventional loan, fha vs conventional, government backed loan

FICO Score (FICO)

Credit and Qualification

The most widely used credit score in U.S. mortgage lending, ranging from 300 to 850.

Mortgage lenders typically pull FICO scores from all three bureaus and use the middle score for a single borrower, or the lower middle score across joint borrowers.

WHY IT MATTERS

Your mortgage FICO can differ from consumer app scores; it's the number that drives your rate and program tier.

WHERE YOU MAY SEE IT

Credit report · Underwriting conditions

EXAMPLE

Your bureau scores are 720/735/745; the middle score, 735, is used for your mortgage.

COMMON MISUNDERSTANDING

The FICO score a lender uses for a mortgage can differ from the score shown in consumer credit apps or free credit monitoring tools.

See also: credit score, credit report, credit utilization, collections, late payment

Finance Charge

Closing and Settlement

The finance charge is the total dollar amount a loan is estimated to cost in interest and certain fees over its full term.

Disclosed on loan documents, the finance charge adds up interest along with specific fees the lender is required to include, giving a dollar-figure sense of borrowing cost beyond just the interest rate.

WHY IT MATTERS

Comparing the finance charge alongside the APR can help borrowers see the full cost picture of a loan, not just the monthly payment.

WHERE YOU MAY SEE IT

Closing Disclosure · Loan Estimate · Truth in Lending disclosures

EXAMPLE

For illustration, a loan might show a finance charge of $310,000 over its full term, representing estimated interest and included fees combined.

COMMON MISUNDERSTANDING

The finance charge is not the same as total closing costs; it reflects specific finance-related costs defined by disclosure rules, not every fee paid at closing.

See also: annual percentage rate, closing disclosure, loan estimate

First Mortgage

Mortgage Basics

The primary loan secured by a property, in first-lien position ahead of any other financing.

A first mortgage has priority over any junior liens (HELOCs, second mortgages). In foreclosure, it's paid first from sale proceeds.

WHY IT MATTERS

Lien position dictates payoff order and, therefore, pricing and risk.

WHERE YOU MAY SEE IT

County records · Title commitment · Mortgage note

EXAMPLE

You have a $300,000 first mortgage and a $50,000 HELOC; the first is paid from any foreclosure proceeds before the HELOC.

COMMON MISUNDERSTANDING

'First' doesn't refer to being your first-ever mortgage — it refers to lien priority, meaning it's paid before other loans against the same property.

See also: second mortgage, subordinate financing, heloc, lien

First-Time Homebuyer

Homebuying

A first-time homebuyer is generally someone who has not owned a primary residence within a defined recent period, a status that can unlock certain programs and assistance.

Many state and local programs define 'first-time' more broadly than the literal term — often meaning someone who hasn't owned a home in the past three years, even if they owned one previously. Definitions vary by program and administering agency.

WHY IT MATTERS

Qualifying as a first-time buyer can open access to down payment assistance, special loan programs, or reduced fees, so it's worth checking the specific definition used by any program you're considering.

WHERE YOU MAY SEE IT

Down payment assistance applications · State housing finance agency programs · Homebuyer education course requirements

EXAMPLE

For illustration, someone who sold a home five years ago and has rented since might still qualify as a 'first-time' buyer under a program that only looks back three years.

COMMON MISUNDERSTANDING

First-time homebuyer status does not always require having never owned property; the lookback period and rules vary by program.

See also: down payment assistance, pre approval, homebuyer education

Fixed-Rate Mortgage

Loan Programs

A mortgage whose interest rate stays the same for the entire loan term.

The 30-year and 15-year fixed are the most common. The rate never changes, so your principal and interest payment is predictable for the life of the loan.

WHY IT MATTERS

Payment stability makes long-term planning easier and protects against rising rates.

WHERE YOU MAY SEE IT

Loan Estimate · Closing Disclosure · Mortgage note

EXAMPLE

A 30-year fixed at 6.5% on $400,000 has a P&I payment of $2,528.27 for every one of the 360 months.

COMMON MISUNDERSTANDING

A fixed interest rate doesn't mean your total monthly payment never changes — escrowed taxes and insurance can still cause it to adjust.

See also: adjustable rate mortgage, amortization, interest rate, term loan

Float

Mortgage Markets and Rates

Choosing not to lock your interest rate and letting it move with the market until a later decision.

Floating exposes you to rate movement — up or down — and requires you to eventually lock before closing. Some lenders offer a float-down option after lock.

WHY IT MATTERS

Floating can pay off in a falling market and hurt in a rising one; the choice depends on rate expectations and your closing timeline.

WHERE YOU MAY SEE IT

Rate lock agreement · Loan Estimate

EXAMPLE

You float for two weeks after application; rates drop 0.125% and you lock at the better rate.

COMMON MISUNDERSTANDING

Floating doesn't guarantee a better rate — it exposes you to market movement in either direction until you lock.

See also: rate lock, lock period, interest rate, yield curve

Flood Insurance

Insurance and Property Costs

A policy that covers damage from flooding, which standard homeowners insurance doesn't cover.

Flood insurance is typically purchased through the National Flood Insurance Program (NFIP) or private carriers. Homes in FEMA-designated high-risk zones must carry it while a mortgage is in place.

WHY IT MATTERS

Flooding is one of the most common — and most expensive — disasters, and it's excluded from most home policies.

WHERE YOU MAY SEE IT

Insurance policy · Underwriting conditions · Mortgage statement

EXAMPLE

Your home is in a FEMA A zone; the lender requires flood insurance with a premium of about $1,400/year.

COMMON MISUNDERSTANDING

Standard homeowners insurance does not cover flood damage — it's a separate policy, often required in designated flood zones.

See also: homeowners insurance, hazard insurance, escrow account

Flood Zone

Insurance and Property Costs

A flood zone is a geographic area designated by FEMA based on its estimated risk of flooding, which can determine whether flood insurance is required.

FEMA maps assign flood zone designations to areas based on modeled flood risk. Properties in higher-risk zones typically must carry flood insurance as a condition of the mortgage, while lower-risk zones usually don't require it.

WHY IT MATTERS

A property's flood zone can add a recurring insurance cost that affects overall affordability, so it's worth checking before finalizing a purchase.

WHERE YOU MAY SEE IT

Flood zone determination forms · Homeowners insurance quotes · Closing disclosures for affected properties

EXAMPLE

For illustration, a home in a high-risk flood zone might require an additional insurance policy costing roughly $1,000 a year, on top of standard homeowners coverage — actual premiums vary widely.

COMMON MISUNDERSTANDING

Being outside a mapped high-risk flood zone does not mean a property can never flood; it simply reflects a lower modeled probability.

See also: flood insurance, homeowners insurance, appraisal

Forbearance

Mortgage Basics

A temporary pause or reduction in mortgage payments granted by the servicer during hardship.

Forbearance doesn't erase payments — missed amounts are handled through a repayment plan, deferral, or modification when the forbearance ends.

WHY IT MATTERS

It's a critical option to avoid default during job loss, disaster, or medical emergency.

WHERE YOU MAY SEE IT

Servicer notices · Forbearance agreement · Mortgage statement

EXAMPLE

You lose income for three months and receive a forbearance plan; missed payments are added to the loan's tail via a partial claim.

COMMON MISUNDERSTANDING

Forbearance does not erase or forgive missed payments — it postpones them, and they must still be repaid through a plan afterward.

See also: delinquency, default, loan modification, loan servicer

Foreclosure

Mortgage Basics

The legal process by which a lender takes ownership of a property after prolonged mortgage default.

Depending on the state, foreclosure is judicial (through court) or non-judicial (out of court, per the deed of trust). It typically takes months and often more than a year.

WHY IT MATTERS

Foreclosure is credit-damaging and displacing — talking to your servicer early can open alternatives.

WHERE YOU MAY SEE IT

Servicer notices · County records · Court filings

EXAMPLE

After nine months of missed payments and no workout agreement, the lender proceeds to a foreclosure sale.

COMMON MISUNDERSTANDING

Foreclosure isn't instantaneous after a missed payment — it's a lengthy legal process that generally follows prolonged default.

See also: default, delinquency, acceleration clause, deed of trust, real estate owned, short sale

Freddie Mac

Mortgage Markets and Rates

A government-sponsored enterprise that buys conforming mortgages from lenders, alongside Fannie Mae.

Freddie Mac (the Federal Home Loan Mortgage Corporation) plays a similar role to Fannie: buying qualifying loans and securitizing them for investors.

WHY IT MATTERS

Freddie's guidelines shape conventional lending in parallel with Fannie's.

WHERE YOU MAY SEE IT

Underwriting conditions · Loan program guidelines · Secondary market documentation

EXAMPLE

Your conventional refinance is delivered to Freddie Mac after closing; the transfer of servicing may be seamless.

COMMON MISUNDERSTANDING

Freddie Mac doesn't lend directly to borrowers — like Fannie Mae, it buys qualifying loans from lenders after closing.

See also: fannie mae, conforming loan, conventional loan, mortgage backed securities

Front-End Ratio

Credit and Qualification

The percentage of gross monthly income that goes to housing payments (PITI) only.

Front-end DTI focuses on housing alone: principal, interest, taxes, insurance, HOA, and mortgage insurance. Some programs cap it in addition to overall DTI.

WHY IT MATTERS

It ensures housing alone isn't overwhelming your budget, even when total DTI looks fine.

WHERE YOU MAY SEE IT

Underwriting conditions · Loan application

EXAMPLE

A borrower earning $10,000/month with a $2,400 PITI has a 24% front-end ratio.

COMMON MISUNDERSTANDING

The front-end ratio isn't the whole DTI picture — it looks only at housing costs, not your other monthly debts.

See also: debt to income ratio, housing ratio, piti, gross monthly income

Fully Amortized Loan

Mortgage Basics

A loan whose scheduled payments will pay off the entire balance by the end of the term.

Most standard 30-year and 15-year mortgages are fully amortizing — the last scheduled payment brings the balance to zero.

WHY IT MATTERS

It contrasts with interest-only and balloon loans, which leave a balance owed at some point.

WHERE YOU MAY SEE IT

Amortization schedule · Mortgage note

EXAMPLE

A 30-year fixed at 6.5% on $400,000 fully amortizes at $2,528.27/month.

COMMON MISUNDERSTANDING

Not every mortgage fully amortizes — interest-only and balloon loans can leave a balance owed before or at the end of the term.

See also: amortization, interest only loan, balloon mortgage, term loan

Funding Fee

Loan Programs

A funding fee is an upfront charge on certain government-backed loans, most commonly VA loans, that helps sustain the program instead of requiring ongoing mortgage insurance.

Rather than monthly mortgage insurance, some government loan programs charge a one-time funding fee based on factors like down payment size and whether it's a first or subsequent use of the benefit. It can often be financed into the loan.

WHY IT MATTERS

Because the fee can be rolled into the loan amount, borrowers should understand it affects the total balance and interest paid over time, even without an upfront out-of-pocket cost.

WHERE YOU MAY SEE IT

VA loan disclosures · Loan Estimate · Closing Disclosure

EXAMPLE

For illustration, a VA borrower might see a funding fee equal to a percentage of the loan amount added to the balance rather than paid in cash — the exact percentage varies by circumstances.

COMMON MISUNDERSTANDING

The funding fee is not the same as mortgage insurance and doesn't necessarily recur monthly; it's typically a one-time charge tied to the loan.

See also: mortgage insurance, va, closing disclosure

G

Gift Funds

Homebuying

Money given by an eligible donor to help a buyer cover down payment or closing costs.

Gift funds must come from eligible donors (usually family, defined by program), documented with a gift letter, and often sourced through paper trails. They aren't repaid.

WHY IT MATTERS

Gifts accelerate homeownership for buyers with income but limited savings.

WHERE YOU MAY SEE IT

Gift letter · Bank statements · Underwriting conditions

EXAMPLE

A parent gifts $20,000 for down payment; the buyer provides a signed gift letter and bank documentation.

COMMON MISUNDERSTANDING

Gift funds can't come from just anyone without documentation — lenders require an eligible donor relationship and a paper trail.

See also: down payment, down payment assistance, reserves, assets

Gift Letter

Homebuying

A gift letter is a signed statement confirming that money given toward a home purchase is a genuine gift, not a loan that must be repaid.

When part of a down payment or closing costs comes from a relative or other approved donor, lenders typically require a gift letter stating the funds don't need to be repaid, along with documentation showing the money moved from donor to borrower.

WHY IT MATTERS

Lenders need to confirm gifted funds aren't a hidden loan, since that would change the borrower's true debt obligations and risk profile.

WHERE YOU MAY SEE IT

Underwriting file · Closing package · Down payment sourcing documentation

EXAMPLE

For illustration, a parent might gift $20,000 toward a down payment; the lender would ask for a signed gift letter plus bank statements showing the transfer.

COMMON MISUNDERSTANDING

A gift letter alone is often not sufficient — lenders usually also want to see paper trail evidence of the funds moving between accounts.

See also: down payment, assets, underwriting

Ginnie Mae

Mortgage Markets and Rates

A federal agency that guarantees mortgage-backed securities backed by government-insured loans.

Ginnie Mae (GNMA) doesn't buy loans. It guarantees timely principal and interest on securities pooled from FHA, VA, and USDA mortgages.

WHY IT MATTERS

That guarantee helps government-backed loans price competitively in the secondary market.

WHERE YOU MAY SEE IT

Secondary market documentation · Underwriting conditions

EXAMPLE

Your VA loan is pooled into a Ginnie Mae security that pays investors even if individual borrowers default.

COMMON MISUNDERSTANDING

Ginnie Mae doesn't buy mortgages like Fannie Mae or Freddie Mac — it guarantees securities backed by government-insured loans.

See also: fannie mae, freddie mac, mortgage backed securities, va loan, fha loan

Good Faith Deposit

Homebuying

A good faith deposit is money a buyer puts down to show serious intent to purchase, often used interchangeably with earnest money.

The good faith deposit is typically held in escrow after an offer is accepted, signaling the buyer's commitment to the transaction. Terms of the contract determine when it's refundable and when it may be forfeited.

WHY IT MATTERS

Understanding the conditions attached to this deposit helps buyers know what's at risk if the deal falls through.

WHERE YOU MAY SEE IT

Purchase agreement · Escrow instructions · Closing Disclosure credits

EXAMPLE

For illustration, a buyer might put down a $5,000 good faith deposit that's later applied toward closing costs if the sale completes.

COMMON MISUNDERSTANDING

A good faith deposit is not an extra fee on top of the purchase price; it's typically credited back toward the buyer's costs at closing.

See also: earnest money, closing disclosure, purchase agreement

Government-Backed Loan

Loan Programs

A mortgage insured or guaranteed by a federal agency — FHA, VA, or USDA.

Government backing reduces lender risk, allowing more flexible credit, lower down payments, and specialized borrower benefits.

WHY IT MATTERS

These programs expand homeownership for first-time buyers, veterans, and rural borrowers.

WHERE YOU MAY SEE IT

Loan Estimate · Loan program guidelines · Underwriting conditions

EXAMPLE

A rural buyer uses a USDA loan for 0% down on a qualifying property.

COMMON MISUNDERSTANDING

Government-backed doesn't mean government-funded — these loans are still issued by private lenders, with a federal agency insuring or guaranteeing them.

See also: fha loan, va loan, conventional loan, mortgage insurance premium, va funding fee

Government-Sponsored Enterprise (GSE)

Mortgage Markets and Rates

A government-sponsored enterprise is a congressionally chartered company, such as Fannie Mae or Freddie Mac, that buys mortgages from lenders to keep money flowing through the housing market.

GSEs don't lend directly to consumers. Instead, they purchase loans that meet their guidelines from originating lenders, package many of them into securities, and sell those to investors — a process that helps lenders replenish funds to make new loans.

WHY IT MATTERS

GSE guidelines shape many of the underwriting standards used for conventional loans, influencing what documentation and qualifications borrowers encounter.

WHERE YOU MAY SEE IT

Conventional loan underwriting guidelines · Conforming loan limit announcements · Mortgage industry news

EXAMPLE

For illustration, a lender might originate a conventional loan and later sell it to a GSE, while continuing to service the monthly payments for the borrower.

COMMON MISUNDERSTANDING

GSEs are not federal agencies and do not directly originate or guarantee every mortgage in the market.

See also: conforming loan, non conforming loan, secondary mortgage market

Gross Monthly Income

Credit and Qualification

Total pre-tax monthly income lenders use to calculate DTI and qualifying amounts.

Gross income includes salary, verifiable bonuses, self-employment income (calculated per program), rental income, and other stable earnings.

WHY IT MATTERS

Gross — not take-home — is the denominator for every ratio lenders care about.

WHERE YOU MAY SEE IT

Loan application · Pay stubs · Underwriting conditions

EXAMPLE

A borrower earning $120,000/year has $10,000 in gross monthly income for DTI purposes.

COMMON MISUNDERSTANDING

Gross monthly income is not your take-home pay — it's your pre-tax earnings, which is what qualifying ratios are based on.

See also: debt to income ratio, housing ratio, front end ratio, affordability

Gross Rent

Investment Property

Gross rent is the total rental income a property generates before subtracting any operating expenses, vacancy, or management costs.

Gross rent is simply the top-line rent collected — it doesn't account for taxes, insurance, repairs, or the periods a unit sits vacant. Net operating income is calculated by subtracting those costs from gross rent.

WHY IT MATTERS

Lenders evaluating rental income for programs like DSCR loans typically start with gross rent and then apply an expense assumption to estimate cash flow.

WHERE YOU MAY SEE IT

Rent rolls · Lease agreements · DSCR loan worksheets

EXAMPLE

For illustration, a duplex with two units renting for $1,200 each generates $2,400 in monthly gross rent, before any expenses are considered.

COMMON MISUNDERSTANDING

Gross rent is not the same as profit or cash flow — actual take-home income is typically much lower after expenses.

See also: expense factor, debt to income ratio, investment property loan

Gross Rent Multiplier (GRM) (GRM)

Investment Property

A quick investment metric equal to purchase price divided by gross annual rent.

GRM is a rough screening tool. Lower GRM often signals stronger cash-flow potential, but it doesn't account for expenses or vacancy.

WHY IT MATTERS

It's useful for quickly comparing multiple properties before doing full underwriting.

WHERE YOU MAY SEE IT

Investment property analysis · Property income statement

EXAMPLE

A property listed at $600,000 with $60,000 gross annual rent has a GRM of 10.

COMMON MISUNDERSTANDING

A low GRM doesn't automatically mean a good investment — the metric ignores expenses, vacancy, and financing costs.

See also: cap rate, net operating income, cash flow, cash on cash return

Guarantor

Credit and Qualification

A guarantor is a person who agrees to repay a loan if the primary borrower fails to, typically without holding ownership title to the property.

Unlike a co-borrower, a guarantor usually isn't on the property title and may not occupy the home, but they take on legal responsibility for the debt if the borrower defaults. Programs allowing guarantors vary by lender.

WHY IT MATTERS

Adding a guarantor can sometimes help a borrower qualify by strengthening the overall credit picture, though not all loan programs permit this structure.

WHERE YOU MAY SEE IT

Loan application forms · Underwriting guideline exceptions · Non-occupant co-borrower documentation

EXAMPLE

For illustration, a parent might act as guarantor on a child's mortgage without appearing on the property deed — specific structures depend on lender and program rules.

COMMON MISUNDERSTANDING

A guarantor is not automatically the same as a co-signer or co-borrower; the legal role and rights can differ by loan structure.

See also: co borrower, joint credit, underwriting

H

Hard Costs

Construction and Renovation

Direct construction costs — materials, labor, and site work — used to build the physical structure.

Hard costs include foundation, framing, HVAC, roofing, and finishes. They usually make up the majority of a construction budget.

WHY IT MATTERS

Hard-cost overruns are common and drive the need for a contingency reserve.

WHERE YOU MAY SEE IT

Construction budget · Construction loan agreement

EXAMPLE

On a $500,000 build, hard costs might total $400,000 with the remainder split between soft costs and contingency.

COMMON MISUNDERSTANDING

Hard costs don't cover permits, design fees, or financing charges — those fall under soft costs.

See also: soft costs, construction loan, construction draw, loan to cost, contingency reserve

Hazard Insurance

Insurance and Property Costs

The portion of homeowners insurance that covers physical damage to the structure from perils like fire and wind.

Hazard insurance is one component of a homeowners policy. Lenders require it because the home is their collateral.

WHY IT MATTERS

Without it, one fire or storm could wipe out the value of the lender's security — and your equity.

WHERE YOU MAY SEE IT

Insurance policy · Mortgage statement · Escrow analysis statement

EXAMPLE

A kitchen fire causes $40,000 of damage; the hazard portion of your homeowners policy pays for repairs after deductible.

COMMON MISUNDERSTANDING

Hazard insurance is not a separate policy from your homeowners insurance — it's typically one component within it.

See also: homeowners insurance, flood insurance, escrow account

Home Equity

Home Equity

The market value of your home minus what you owe on it.

Home equity grows through appreciation and principal payments. You can access it through cash-out refinancing, home equity loans, or HELOCs.

WHY IT MATTERS

It's a core piece of long-term household wealth and a source of low-cost borrowing.

WHERE YOU MAY SEE IT

Mortgage statement · Appraisal report · Closing Disclosure

EXAMPLE

A home worth $700,000 with $400,000 owed has $300,000 in equity.

COMMON MISUNDERSTANDING

Home equity is not liquid cash — accessing it requires selling, refinancing, or borrowing against the property.

See also: equity, heloc, home equity loan, cash out refinance, loan to value

Home Equity Line of Credit (HELOC) (HELOC)

Home Equity

A revolving line of credit secured by your home, letting you draw and repay funds as needed.

During the draw period (often 10 years), you can borrow up to a credit limit. After that, the line enters repayment. HELOC rates are typically variable and tied to the prime rate.

WHY IT MATTERS

It's flexible access to equity for renovations, tuition, or short-term needs — with rate risk.

WHERE YOU MAY SEE IT

Loan Estimate · Mortgage statement · Line of credit agreement

EXAMPLE

You have a $100,000 HELOC and draw $30,000 to renovate a kitchen; interest accrues only on the drawn balance.

COMMON MISUNDERSTANDING

A HELOC is not a lump-sum loan — it's a revolving line you draw from as needed, and interest generally accrues only on what you've drawn.

See also: home equity loan, equity, cash out refinance, prime rate, second mortgage, subordinate financing

Home Equity Loan

Home Equity

A fixed-rate, lump-sum second mortgage secured by your home's equity.

Unlike a HELOC, a home equity loan disburses all funds at closing and repays with fixed monthly payments over a set term.

WHY IT MATTERS

Predictable payments and a fixed rate make it attractive when you have a defined project or debt to consolidate.

WHERE YOU MAY SEE IT

Loan Estimate · Closing Disclosure · Mortgage statement

EXAMPLE

You take a $60,000 home equity loan at a fixed rate for 15 years to consolidate higher-interest debt.

COMMON MISUNDERSTANDING

A home equity loan is not the same as a HELOC — it disburses funds as a lump sum with fixed payments rather than a revolving line.

See also: heloc, home equity, cash out refinance, second mortgage, fixed rate mortgage

Home Inspection

Homebuying

A professional evaluation of a home's condition — structure, systems, and safety — usually done during the contract period.

An inspector produces a report on visible defects and suggested repairs. Findings often lead to renegotiation or repair credits.

WHY IT MATTERS

It surfaces issues before you own them and can prevent a costly mistake.

WHERE YOU MAY SEE IT

Inspection report · Purchase contract

EXAMPLE

An inspector finds an aging roof; you negotiate a $6,000 seller credit at closing.

COMMON MISUNDERSTANDING

A home inspection is not the same as an appraisal — it evaluates condition, not market value, and lenders don't require it.

See also: appraisal, contingency, purchase agreement

Homeowners Association (HOA) (HOA)

Ownership and Real Estate

An organization that governs and maintains common areas in a planned community or condo.

HOA dues fund shared amenities, exterior maintenance, and reserves. Rules and restrictions vary widely.

WHY IT MATTERS

HOA dues are added to your monthly housing payment for qualifying and can materially affect affordability.

WHERE YOU MAY SEE IT

Purchase contract · HOA disclosure documents · Mortgage statement

EXAMPLE

A $350/month HOA fee raises your qualifying housing payment by $350 and reduces the loan amount you can support.

COMMON MISUNDERSTANDING

HOA dues are not optional once you own in a governed community, and they're not included automatically in your loan payment unless the lender factors them in for qualifying.

See also: piti, affordability, debt to income ratio, housing ratio, homeowners insurance

Homeowners Insurance

Insurance and Property Costs

A policy that protects your home and personal property from covered perils and provides liability protection.

Standard policies include dwelling, other structures, personal property, loss of use, personal liability, and medical payments. Flood and earthquake are typically separate.

WHY IT MATTERS

It's required by lenders and protects your largest asset.

WHERE YOU MAY SEE IT

Insurance policy · Closing Disclosure · Mortgage statement

EXAMPLE

An annual premium of $1,600 is escrowed, adding about $133 to your monthly payment.

COMMON MISUNDERSTANDING

Homeowners insurance typically does not cover flood or earthquake damage — those usually require separate policies.

See also: hazard insurance, flood insurance, escrow account, piti

Homestead Exemption

Ownership and Real Estate

A state or local tax break that reduces the taxable value of your primary residence.

Rules and amounts vary by state. Applying can reduce property taxes and, in some states, provide creditor protection.

WHY IT MATTERS

Missing a homestead filing leaves money on the table every year.

WHERE YOU MAY SEE IT

Tax assessment notice · County records

EXAMPLE

A $50,000 homestead exemption on a home assessed at $400,000 saves about $500/year at a 1.0% tax rate.

COMMON MISUNDERSTANDING

A homestead exemption isn't applied automatically in every area — it often must be filed for with the local taxing authority.

See also: property taxes, assessed value, escrow account

Housing Expense Ratio

Credit and Qualification

The housing expense ratio compares a borrower's total monthly housing payment to their gross monthly income, often called the front-end ratio.

This ratio includes principal, interest, taxes, insurance, and any HOA dues, divided by gross monthly income. It's typically reviewed alongside the broader debt-to-income ratio, which adds in other debts like car loans and credit cards.

WHY IT MATTERS

Lenders use this ratio, along with other factors, to gauge how comfortably a housing payment fits within a borrower's income — guidelines vary by program and lender.

WHERE YOU MAY SEE IT

Pre-approval letters · Automated underwriting findings · Affordability calculators

EXAMPLE

For illustration, a borrower with $8,000 in gross monthly income and a $2,000 total housing payment has a housing expense ratio of 25% — acceptable ranges vary by program.

COMMON MISUNDERSTANDING

The housing expense ratio is not the same as the total debt-to-income ratio, which also factors in non-housing debts.

See also: debt to income ratio, piti, affordability

Housing Payment History

Credit and Qualification

Housing payment history is the record of how consistently a borrower has paid rent or a prior mortgage, which lenders may review during underwriting.

Beyond a credit score, lenders sometimes look specifically at rental or mortgage payment patterns — such as timeliness over the past 12 to 24 months — as a supplemental indicator of repayment behavior.

WHY IT MATTERS

A strong housing payment history can support an application, while missed payments may prompt additional underwriting scrutiny or documentation requests.

WHERE YOU MAY SEE IT

Verification of rent forms · Credit report tradelines · Manual underwriting reviews

EXAMPLE

For illustration, an underwriter might request 12 months of canceled rent checks to document consistent on-time payments for a borrower with limited credit history.

COMMON MISUNDERSTANDING

Housing payment history is not always automatically captured in a credit score, especially for renters, which is why lenders sometimes verify it separately.

See also: credit score, underwriting, verification of rent

Housing Ratio

Credit and Qualification

The share of gross monthly income used for housing expenses — same as front-end DTI.

It's calculated by dividing PITI (plus HOA and mortgage insurance) by gross monthly income.

WHY IT MATTERS

Some programs cap the housing ratio in addition to overall DTI.

WHERE YOU MAY SEE IT

Underwriting conditions · Loan application

EXAMPLE

A $2,300 total housing payment against $8,000 gross monthly income produces a 28.75% housing ratio.

COMMON MISUNDERSTANDING

The housing ratio isn't your full debt burden — it only reflects housing costs, separate from your overall debt-to-income ratio.

See also: debt to income ratio, front end ratio, piti, affordability

HUD-1 Settlement Statement (HUD-1)

Closing and Settlement

A legacy closing statement used before 2015; largely replaced by the Closing Disclosure for consumer mortgages.

The HUD-1 is still used in some cash transactions and reverse mortgages. It itemizes every debit and credit at settlement.

WHY IT MATTERS

You may still encounter it in specific transaction types; TRID's Closing Disclosure is the standard for most consumer mortgages.

WHERE YOU MAY SEE IT

Closing documents · Settlement statement

EXAMPLE

A cash real estate transaction may still be documented with a HUD-1-style settlement statement.

COMMON MISUNDERSTANDING

The HUD-1 is not the standard closing document for most consumer mortgages today — it's largely been replaced by the Closing Disclosure.

See also: closing disclosure, settlement, trid

I

Impound Account

Mortgage Basics

Another name for an escrow account, used mostly on the West Coast.

An impound account collects taxes and insurance monthly and pays those bills when due, just like an escrow account.

WHY IT MATTERS

It's the same concept; only the terminology varies by region.

WHERE YOU MAY SEE IT

Mortgage statement · Escrow analysis statement

EXAMPLE

In California, your servicer refers to your escrow as an impound account.

COMMON MISUNDERSTANDING

An impound account is not a different type of account from escrow — it's the same concept, just a regional term.

See also: escrow account, escrow analysis, piti, property taxes, homeowners insurance

Income Verification

Credit and Qualification

Income verification is the process lenders use to confirm a borrower's stated earnings through documents like pay stubs, tax returns, or bank statements.

Depending on employment type and loan program, income verification can involve W-2s, pay stubs, tax transcripts, bank statements, or a profit-and-loss statement for self-employed borrowers. The goal is to confirm income is stable, accurate, and likely to continue.

WHY IT MATTERS

The type and amount of documentation required can vary significantly depending on whether income is salaried, self-employed, or from other sources, which affects how far in advance a borrower should prepare paperwork.

WHERE YOU MAY SEE IT

Loan application · Underwriting conditions · Bank statement loan programs

EXAMPLE

For illustration, a self-employed borrower might provide two years of tax returns and recent bank statements, while a salaried borrower might only need recent pay stubs and a W-2.

COMMON MISUNDERSTANDING

Income verification is not a one-size-fits-all checklist; requirements vary by lender, loan program, and employment type.

See also: irs transcript, underwriting, self employed income

Index (ARM)

Mortgage Markets and Rates

A published benchmark rate used to calculate an adjustable-rate mortgage's new rate at each adjustment.

Common indexes include SOFR and CMT. At each adjustment, the ARM rate equals the index plus a fixed margin, subject to caps.

WHY IT MATTERS

The index is the movable piece of your ARM rate — where it goes largely determines whether payments rise or fall.

WHERE YOU MAY SEE IT

ARM disclosure · Mortgage note · Rate adjustment notice

EXAMPLE

If the index is 4.5% and the margin is 2.75%, the fully indexed rate at adjustment is 7.25% (subject to caps).

COMMON MISUNDERSTANDING

The index is not set by your lender — it's a published, independent benchmark rate the loan references.

See also: adjustable rate mortgage, margin arm, arm cap, adjustment period

Initial Rate Period

Loan Programs

The length of time an ARM's introductory rate is fixed before the first adjustment.

This is the first number in a label like 5/6 or 7/6 — the fixed years before the rate begins to adjust.

WHY IT MATTERS

It defines how long you have payment certainty before the ARM behavior begins.

WHERE YOU MAY SEE IT

ARM disclosure · Mortgage note

EXAMPLE

A 7/6 ARM has a seven-year initial rate period before the first six-month adjustment.

COMMON MISUNDERSTANDING

The initial rate period doesn't mean the loan term ends then — it's only when the fixed introductory rate ends and adjustments can begin.

See also: adjustable rate mortgage, adjustment period, arm cap

Interest

Mortgage Basics

The cost of borrowing money, expressed as a percentage of the outstanding balance.

Mortgage interest is calculated on the remaining balance each month. Early in a loan, most of your payment is interest; that shifts to principal over time.

WHY IT MATTERS

Interest is the largest single expense of most mortgages over their life.

WHERE YOU MAY SEE IT

Mortgage statement · Amortization schedule · Closing Disclosure

EXAMPLE

The first month of a $400,000 loan at 6.5% owes about $2,167 in interest.

COMMON MISUNDERSTANDING

Interest is not charged on the original loan amount for the life of the loan — it's calculated on the remaining balance each month.

See also: interest rate, principal, amortization, annual percentage rate

Interest Rate

Mortgage Markets and Rates

The percentage a lender charges to borrow money, quoted on an annual basis.

The interest rate — also called the note rate — determines the interest component of your monthly payment. APR is broader because it includes certain fees.

WHY IT MATTERS

Rate directly drives your monthly payment and total interest over the loan.

WHERE YOU MAY SEE IT

Loan Estimate · Closing Disclosure · Mortgage note

EXAMPLE

Dropping from 7.0% to 6.5% on a $400,000 30-year loan saves about $130/month.

COMMON MISUNDERSTANDING

The interest rate is not the same as the APR — the rate applies only to the loan balance, while APR reflects certain added costs.

See also: annual percentage rate, discount points, rate lock, basis point, fixed rate mortgage, adjustable rate mortgage

Interest-Only Loan (IO)

Loan Programs

A loan with a period during which payments cover only interest, not principal.

Interest-only loans keep monthly payments low during the IO period, but the balance doesn't shrink. When the period ends, payments jump to fully amortize the remaining balance over a shorter time.

WHY IT MATTERS

IO loans can be useful for investors and high-income borrowers but require a plan for the payment step-up.

WHERE YOU MAY SEE IT

Loan Estimate · Mortgage note · Amortization schedule

EXAMPLE

A 10-year IO on a $500,000 loan at 7% has an interest-only payment of about $2,917; when IO ends, payments jump to fully amortize over 20 years.

COMMON MISUNDERSTANDING

An interest-only payment does not reduce your loan balance — the principal stays the same until you start making principal payments.

See also: amortization, balloon mortgage, adjustable rate mortgage, fully amortized loan

Investment Property

Investment Property

Real estate purchased primarily to generate income or appreciation, not for the owner to live in.

Investment properties include single-family rentals, small multifamily (2–4 units), and larger portfolios. Underwriting is stricter than for a primary residence.

WHY IT MATTERS

Financing an investment property typically requires larger down payments, higher rates, and stronger reserves.

WHERE YOU MAY SEE IT

Loan application · Underwriting conditions · Loan program guidelines

EXAMPLE

A first rental at $350,000 with 25% down commonly requires reserves of six months of PITI in addition to closing funds.

COMMON MISUNDERSTANDING

Financing an investment property is not the same process as financing a primary residence — requirements for down payment and reserves are typically stricter.

See also: occupancy, owner occupied, debt service coverage ratio, cap rate, vacancy rate, short term rental, long term rental

Investment Property Loan

Investment Property

An investment property loan finances a home purchased to generate rental income or appreciation rather than to be used as a primary residence.

These loans often carry different qualification criteria and pricing than owner-occupied loans, since lenders generally view non-owner-occupied properties as carrying more risk. Programs range from conventional investment loans to specialized options like DSCR loans that focus on the property's rental income.

WHY IT MATTERS

Understanding that investment property financing differs from primary residence financing helps borrowers set realistic expectations for costs and documentation.

WHERE YOU MAY SEE IT

Loan application property type questions · Rate sheets differentiating occupancy type · DSCR and investment loan programs

EXAMPLE

For illustration, an investor purchasing a rental duplex might explore a DSCR loan that evaluates the property's rent rather than the borrower's personal income.

COMMON MISUNDERSTANDING

Investment property loans are not simply the same product as a primary residence mortgage with a different name — terms, pricing, and qualification approaches can differ meaningfully.

See also: investor, gross rent, expense factor

Investor

Mortgage Markets and Rates

In mortgage terminology, an investor is the entity — often a GSE or private buyer — that purchases loans from lenders and ultimately holds or securitizes them.

After a lender originates a loan, it's frequently sold to an investor in the secondary market. That investor's guidelines can shape which loan products a lender offers and what documentation is required, even though the borrower rarely interacts with the investor directly.

WHY IT MATTERS

Investor guidelines are a key reason underwriting requirements can differ between lenders offering seemingly similar loan products.

WHERE YOU MAY SEE IT

Secondary market loan sales · Underwriting guideline references · Loan program eligibility matrices

EXAMPLE

For illustration, two lenders might offer conventional loans, but each may sell to a different investor with slightly different documentation requirements.

COMMON MISUNDERSTANDING

The investor is not the same as the loan servicer; the investor owns the loan or its economic interest, while a servicer typically handles day-to-day payment collection.

See also: government sponsored enterprise, secondary mortgage market, loan servicer

IRS Transcript

Credit and Qualification

An IRS transcript is an official summary of a filed tax return that lenders use to verify reported income directly with the IRS.

Lenders often request tax transcripts as an independent check against income documents a borrower provides, since transcripts come straight from IRS records rather than the borrower's own copies.

WHY IT MATTERS

Transcripts help prevent mismatches between what's reported to a lender and what was actually filed with the IRS, which is especially relevant for self-employed borrowers.

WHERE YOU MAY SEE IT

Underwriting income verification · IRS Form 4506-C authorization · Self-employed income documentation

EXAMPLE

For illustration, an underwriter might order a transcript to confirm that a borrower's submitted tax return matches what was actually filed.

COMMON MISUNDERSTANDING

An IRS transcript is not the same as a full tax return copy; it's a condensed summary of key line items from the filing.

See also: income verification, underwriting, self employed income

J

Joint Credit

Credit and Qualification

Joint credit is a loan or credit account held by two or more people who share equal responsibility for repayment.

When co-borrowers apply for a mortgage together, the loan is typically evaluated using combined income and both parties' credit histories, with each borrower fully liable for the debt regardless of who contributes what.

WHY IT MATTERS

Because liability is shared, both parties' credit profiles can be affected by how the loan is managed, even if only one person is primarily making payments.

WHERE YOU MAY SEE IT

Joint mortgage applications · Credit reports listing shared tradelines · Co-borrower documentation

EXAMPLE

For illustration, two co-borrowers applying jointly might combine incomes to qualify for a larger loan amount than either could individually — actual qualifying factors vary by lender.

COMMON MISUNDERSTANDING

Joint credit does not mean liability is split proportionally; each borrower is typically responsible for the full debt, not just a share of it.

See also: co borrower, guarantor, credit score

Joint Tenancy

Ownership and Real Estate

A form of co-ownership with equal shares and a right of survivorship.

When one joint tenant dies, their share passes automatically to the surviving tenants, bypassing probate.

WHY IT MATTERS

It affects estate planning and how ownership transfers on death.

WHERE YOU MAY SEE IT

Deed · County records

EXAMPLE

Two siblings own a home as joint tenants; when one dies, the other automatically owns 100%.

COMMON MISUNDERSTANDING

Joint tenancy is not the same as tenancy in common — joint tenancy includes a right of survivorship that automatically passes a share to co-owners.

See also: tenancy in common, title, deed

Judgment

Credit and Qualification

A court ruling that a debtor owes a specific amount, which can attach as a lien to real property.

Judgments appear on credit reports and title reports. Unpaid judgments typically must be resolved before closing.

WHY IT MATTERS

Undisclosed judgments can surface in title and delay or derail closing.

WHERE YOU MAY SEE IT

Credit report · Title commitment · Court filings

EXAMPLE

A $12,000 judgment against a seller must be paid from proceeds at closing before clear title transfers.

COMMON MISUNDERSTANDING

A judgment isn't automatically cleared when a property is sold — it's usually a lien that must be paid or resolved before clear title can transfer.

See also: lien, title, title search, credit report

Jumbo Loan

Loan Programs

A mortgage larger than the conforming loan limit set by the FHFA.

Jumbo loans finance higher-priced properties. They generally require stronger credit, larger down payments, and more reserves — but pricing is often competitive with conforming.

WHY IT MATTERS

Jumbo is the primary path to financing high-value homes without splitting into multiple loans.

WHERE YOU MAY SEE IT

Loan Estimate · Underwriting conditions · Loan program guidelines

EXAMPLE

In a standard county, a $900,000 loan is jumbo; a strong-credit borrower may qualify with 10–20% down.

COMMON MISUNDERSTANDING

Jumbo loans don't always have higher rates than conforming loans — pricing depends on the lender and borrower profile.

See also: conforming loan, conventional loan, non conforming loan, reserves

Junior Lien

Home Equity

A junior lien is a loan secured against a property that ranks behind another loan, such as a first mortgage, in priority for repayment.

Common examples include second mortgages and HELOCs. If a property is sold or foreclosed, the senior lien (usually the first mortgage) is paid first, with junior lien holders repaid only from remaining proceeds.

WHY IT MATTERS

Because of their lower repayment priority, junior liens often carry higher interest rates than first mortgages to offset the added risk to the lender.

WHERE YOU MAY SEE IT

Title search results · HELOC and home equity loan documents · Refinance payoff calculations

EXAMPLE

For illustration, a homeowner with a first mortgage and a HELOC has the HELOC treated as a junior lien, ranking behind the first mortgage in a foreclosure sale.

COMMON MISUNDERSTANDING

A junior lien is not necessarily a smaller loan amount than a senior lien — 'junior' refers to repayment priority, not loan size.

See also: second mortgage, subordinate financing, home equity loan

L

Late Fee

Mortgage Basics

A late fee is a charge assessed when a mortgage payment isn't received within the grace period specified in the loan documents.

Most mortgages include a grace period, often around 15 days, after which a late fee — typically a small percentage of the payment — is added if the payment still hasn't been received.

WHY IT MATTERS

Repeated late payments can trigger fees, affect credit reporting, and in serious cases move a loan toward default, so understanding the grace period matters.

WHERE YOU MAY SEE IT

Mortgage note · Monthly billing statements · Servicer late payment notices

EXAMPLE

For illustration, a loan with a 15-day grace period and a late fee of 5% of the payment might charge roughly $100 in fees on a $2,000 payment made after day 15 — actual terms vary by loan.

COMMON MISUNDERSTANDING

A late fee is not the same as a delinquency reported to credit bureaus; reporting timelines are typically longer than the late fee grace period.

See also: delinquency, mortgage note, loan servicer

Late Payment

Credit and Qualification

A mortgage payment made after its due date and grace period.

Most mortgages carry a 15-day grace period before a late fee applies. Payments 30+ days late are reported to credit bureaus.

WHY IT MATTERS

A single 30-day late can affect your credit score for years and complicate future financing.

WHERE YOU MAY SEE IT

Credit report · Mortgage statement · Servicer notices

EXAMPLE

A payment made on day 20 incurs a late fee but is not typically reported; a payment on day 35 hits your credit report as 30 days late.

COMMON MISUNDERSTANDING

A payment made a few days after the due date isn't automatically reported as late to credit bureaus — grace periods often apply before reporting.

See also: delinquency, default, credit score, credit report

Leasehold

Ownership and Real Estate

A leasehold is a form of property ownership where the buyer owns the structure but leases the underlying land for a set term.

Unlike fee simple ownership, where a buyer owns both land and structure outright, a leasehold estate means the land is leased — often for decades — from a separate landowner, with lease terms affecting financing and resale.

WHY IT MATTERS

Financing leasehold properties can be more complex, since lenders review the remaining lease term and terms of renewal before approving a loan.

WHERE YOU MAY SEE IT

Title reports for leasehold properties · Ground lease agreements · Condominium and land-lease community disclosures

EXAMPLE

For illustration, a buyer might purchase a home with a 60-year leasehold interest in the land, rather than owning the land outright.

COMMON MISUNDERSTANDING

A leasehold is not the same as renting month-to-month; leasehold interests are typically long-term and can be bought, sold, and financed.

See also: fee simple, fair market value, appraisal

Lender

Mortgage Basics

The institution or entity that provides the mortgage funds and holds the note.

Lenders include banks, credit unions, mortgage bankers, and mortgage brokers (who broker to wholesale lenders). After closing, the loan may be sold or serviced by another company.

WHY IT MATTERS

Choice of lender affects available programs, pricing, and speed to close.

WHERE YOU MAY SEE IT

Loan Estimate · Mortgage note · Closing Disclosure

EXAMPLE

You compare loan estimates from a bank, a mortgage banker, and a broker before selecting a lender.

COMMON MISUNDERSTANDING

The lender that originates your loan isn't necessarily who you'll make payments to for the life of the loan — servicing can be transferred.

See also: mortgage broker, loan officer, loan servicer, loan estimate

Lender Credit

Closing and Settlement

A lender credit is money a lender applies toward a borrower's closing costs, often in exchange for accepting a slightly higher interest rate.

Borrowers can sometimes choose to trade a portion of potential rate savings for a credit that offsets upfront costs, which can help reduce cash needed at closing.

WHY IT MATTERS

Whether a lender credit makes sense depends on how long a borrower expects to keep the loan, since a higher rate accrues cost over time in exchange for lower upfront costs.

WHERE YOU MAY SEE IT

Loan Estimate · Closing Disclosure · Rate and cost comparison worksheets

EXAMPLE

For illustration, a borrower might accept a rate that's slightly higher in exchange for a $3,000 lender credit applied to closing costs — actual tradeoffs vary by lender and market conditions.

COMMON MISUNDERSTANDING

A lender credit is not free money; it's typically financed through a higher interest rate over the life of the loan.

See also: discount points, closing disclosure, annual percentage rate

Lien

Ownership and Real Estate

A legal claim against a property used as security for a debt or obligation.

Mortgages, tax bills, unpaid contractors, and judgments can all create liens. Liens must generally be satisfied before a property can be sold with clear title.

WHY IT MATTERS

Liens can block a sale or refinance until resolved.

WHERE YOU MAY SEE IT

Title commitment · County records · Credit report

EXAMPLE

A $3,000 mechanic's lien from an unpaid contractor must be paid at closing before a clean title can transfer.

COMMON MISUNDERSTANDING

A lien is not the same as owning a debt outright against the property owner personally — it's a claim attached specifically to the property.

See also: first mortgage, second mortgage, encumbrance, title, title insurance

Lifetime Cap

Loan Programs

The maximum amount an ARM's interest rate can rise above its initial rate over the life of the loan.

The lifetime cap is the last defense against runaway payment shock on an ARM.

WHY IT MATTERS

It defines worst-case pricing across the entire loan.

WHERE YOU MAY SEE IT

Mortgage note · ARM disclosure

EXAMPLE

An ARM starting at 6% with a lifetime cap of 5 could never adjust above 11%.

COMMON MISUNDERSTANDING

The lifetime cap doesn't limit each individual adjustment — that's the periodic cap; the lifetime cap limits total movement from the start rate.

See also: adjustable rate mortgage, arm cap, payment shock, adjustment period

Line of Credit

Home Equity

A line of credit is a flexible borrowing arrangement that lets a borrower draw funds up to an approved limit and repay over time, rather than receiving a lump sum.

Unlike a traditional installment loan, a line of credit allows borrowing, repaying, and re-borrowing during a draw period, with interest typically charged only on the amount actually used.

WHY IT MATTERS

This flexibility can suit ongoing or unpredictable expenses, like renovations completed in stages, but variable rates on many lines of credit mean payments can fluctuate.

WHERE YOU MAY SEE IT

HELOC agreements · Home equity line disclosures · Draw period statements

EXAMPLE

For illustration, a homeowner approved for a $50,000 line of credit might draw $10,000 for a project and only pay interest on that drawn amount, not the full limit.

COMMON MISUNDERSTANDING

A line of credit is not the same as receiving the full approved amount upfront; funds are typically drawn as needed.

See also: home equity line of credit, junior lien, liquid asset

Liquid Asset

Credit and Qualification

A liquid asset is cash or an asset that can be quickly converted to cash, such as checking, savings, or money market account balances.

Lenders often review liquid assets to confirm a borrower has enough readily available funds for a down payment, closing costs, and reserves. Retirement accounts and investments may count differently depending on how easily they can be accessed.

WHY IT MATTERS

Having sufficient liquid assets can support approval on certain programs and demonstrate a cushion beyond the immediate transaction, which underwriters may view favorably.

WHERE YOU MAY SEE IT

Bank statements · Asset verification in underwriting · Reserve requirement calculations

EXAMPLE

For illustration, a borrower with $30,000 in a savings account has that amount readily counted as liquid assets, while funds in a retirement account might only be partially counted depending on program rules.

COMMON MISUNDERSTANDING

Liquid assets are not the same as total net worth; illiquid assets like home equity or business ownership stakes typically aren't counted the same way.

See also: assets, reserves, gift letter

Loan Amount

Mortgage Basics

The loan amount is the total sum a lender agrees to lend a borrower, typically the purchase price or appraised value minus the down payment.

The loan amount forms the basis for calculating monthly principal and interest payments, and it's a key figure lenders use alongside the property value to determine the loan-to-value ratio.

WHY IT MATTERS

A larger loan amount generally means a higher monthly payment and more interest paid over the life of the loan, which is why down payment size directly affects affordability.

WHERE YOU MAY SEE IT

Loan Estimate · Promissory note · Closing Disclosure

EXAMPLE

For illustration, a $500,000 purchase with a $100,000 down payment results in a $400,000 loan amount, before any financed fees are added.

COMMON MISUNDERSTANDING

The loan amount is not always identical to the purchase price; it can be higher if fees are financed, or lower if a larger down payment is made.

See also: down payment, loan to value ratio, amortization

Loan Estimate (LE)

Closing and Settlement

A three-page federally required disclosure summarizing a mortgage offer's terms and costs.

The Loan Estimate is delivered within three business days of application. It uses a standardized format to compare offers apples-to-apples.

WHY IT MATTERS

It's the primary shopping tool for comparing lender offers on rate, fees, and cash to close.

WHERE YOU MAY SEE IT

Loan Estimate · Disclosure forms

EXAMPLE

You request LEs from three lenders and compare the total cash to close and estimated payment side by side.

COMMON MISUNDERSTANDING

A Loan Estimate is not a guaranteed final offer — actual terms and costs can change before closing, subject to certain tolerance rules.

See also: closing disclosure, annual percentage rate, closing costs, trid, origination fee

Loan Modification

Mortgage Basics

A permanent change to a mortgage's terms — rate, term, or balance — negotiated to make payments sustainable.

Modifications are typically pursued in hardship situations to avoid foreclosure. They may extend term, reduce rate, or defer principal.

WHY IT MATTERS

It's one of the main workout tools when default is at risk.

WHERE YOU MAY SEE IT

Loan modification documents · Servicer notices

EXAMPLE

After a hardship, your loan is modified to a 40-year term with a lower rate that reduces monthly payments by $500.

COMMON MISUNDERSTANDING

A loan modification is not the same as refinancing — it changes the terms of your existing loan rather than replacing it with a new one.

See also: forbearance, default, loan servicer, acceleration clause

Loan Officer (LO) (LO)

Mortgage Basics

A licensed mortgage professional who advises and processes your application.

The LO explains program options, collects your documentation, and shepherds the loan through processing and underwriting to closing.

WHY IT MATTERS

A knowledgeable LO can save you money and time by matching you to the right program and structure.

WHERE YOU MAY SEE IT

Loan application · Loan Estimate

EXAMPLE

Your loan officer identifies that a 7/6 ARM may fit your timeline better than a 30-year fixed given your plan to move in six years.

COMMON MISUNDERSTANDING

A loan officer is not the person who approves your loan — underwriters make that decision based on documentation.

See also: mortgage broker, lender, loan servicer

Loan Origination

Mortgage Basics

Loan origination is the full process of creating a new mortgage, from application through underwriting to final funding at closing.

Origination covers everything a lender does to evaluate, approve, and prepare a loan for closing — collecting documents, ordering an appraisal, underwriting the file, and issuing final loan documents.

WHY IT MATTERS

Understanding the origination process helps borrowers anticipate what documentation and steps lie ahead, even though the process and timeline vary by lender and loan complexity.

WHERE YOU MAY SEE IT

Loan application · Origination fee disclosures · Loan Estimate

EXAMPLE

For illustration, loan origination might begin with a completed application and end weeks later with funding at the closing table, though the exact timeline varies by lender and program.

COMMON MISUNDERSTANDING

Loan origination is not the same as loan servicing; origination ends at closing, while servicing covers ongoing payment collection afterward.

See also: origination fee, underwriting, pre approval

Loan Program

Loan Programs

Loan Program refers to a specific set of underwriting rules, eligibility criteria, and terms — such as conventional, FHA, VA, or USDA — that a lender offers.

A loan program bundles together the rules that govern a mortgage: who can qualify, what documentation is required, down payment expectations, and mortgage insurance treatment. Lenders often offer several programs side by side so borrowers can compare which fits their situation.

WHY IT MATTERS

The program you choose can affect your rate, mortgage insurance, and how flexible underwriting is with credit or income, so it's worth comparing more than one before committing.

WHERE YOU MAY SEE IT

Loan estimate · Pre-approval letter · Rate sheet · Loan application

EXAMPLE

For illustration, a borrower comparing an FHA program against a conventional program might see different down payment and mortgage insurance expectations for the same purchase price.

COMMON MISUNDERSTANDING

A loan program is not the same as a lender — many lenders offer the same general programs, such as FHA or conventional, with their own overlays.

See also: conventional loan, fha loan, va loan, usda loan, non qm loan

Loan Servicer

Mortgage Basics

The company that collects mortgage payments and manages the loan after closing.

The servicer handles billing, escrow, customer service, and — if needed — hardship and loss-mitigation programs. It may be different from your original lender.

WHY IT MATTERS

You'll interact with the servicer far more than with your original lender over the life of the loan.

WHERE YOU MAY SEE IT

Mortgage statement · Servicer notices · Escrow analysis statement

EXAMPLE

Your loan closes with one bank but the servicing is transferred to another; monthly payments now go to the new servicer.

COMMON MISUNDERSTANDING

Your loan servicer is not necessarily the same company you originally closed your loan with — servicing rights are often sold or transferred.

See also: lender, escrow account, escrow analysis, forbearance, loan modification

Loan Term

Mortgage Basics

Loan Term is the length of time you agree to repay a mortgage, such as 15 or 30 years, which shapes your monthly payment and total interest.

The loan term is set in the note and determines the amortization schedule. Shorter terms typically mean higher monthly payments but less interest paid overall, while longer terms spread payments out and lower the monthly amount.

WHY IT MATTERS

Choosing a term affects affordability today versus total interest cost over the life of the loan, so it's a core tradeoff in mortgage planning.

WHERE YOU MAY SEE IT

Promissory note · Loan estimate · Amortization schedule · Closing disclosure

EXAMPLE

For illustration, a borrower comparing a 30-year term against a 15-year term on the same loan amount would see a lower monthly payment with the 30-year option but more total interest over time.

COMMON MISUNDERSTANDING

A loan term is not the same as the initial fixed-rate period on an ARM — the term is the full repayment length, while the fixed period may be shorter.

See also: amortization, fixed rate mortgage, maturity date, amortization schedule

Loan-to-Cost (LTC) (LTC)

Construction and Renovation

The ratio of a construction loan to the total cost of the project, expressed as a percentage.

LTC = loan amount ÷ total project cost (land, hard costs, soft costs, contingency). It measures how much of a project the lender is financing.

WHY IT MATTERS

Construction lenders use LTC alongside LTV to size loans and require adequate borrower skin in the game.

WHERE YOU MAY SEE IT

Construction loan agreement · Underwriting conditions

EXAMPLE

A $400,000 loan on a $500,000 project has an 80% LTC.

COMMON MISUNDERSTANDING

Loan-to-cost is not the same as loan-to-value — LTC compares the loan to total project cost, while LTV compares it to appraised value.

See also: loan to value, construction loan, hard costs, soft costs, contingency reserve

Loan-to-Value (LTV) (LTV)

Mortgage Basics

The loan amount expressed as a percentage of the appraised value or purchase price, whichever is lower.

LTV = loan ÷ value. Lower LTV means more borrower equity, which reduces lender risk and often improves pricing.

WHY IT MATTERS

LTV drives mortgage insurance requirements, program eligibility, and rate pricing.

WHERE YOU MAY SEE IT

Loan Estimate · Appraisal report · Underwriting conditions

EXAMPLE

A $360,000 loan on a $400,000 home is 90% LTV — PMI applies until it drops below 80%.

COMMON MISUNDERSTANDING

LTV is not based on your purchase price alone — it's calculated using the lower of the appraised value or purchase price.

See also: private mortgage insurance, equity, down payment, appraisal, cash out refinance

Lock Extension

Mortgage Markets and Rates

A lock extension pushes back the expiration date of a rate lock, usually for a fee, when closing is delayed beyond the original lock period.

When a rate lock is about to expire before closing can happen, borrowers or lenders may request an extension to keep the locked rate in place a bit longer. Costs and availability vary by lender and how far out the extension needs to go.

WHY IT MATTERS

Without an extension, a borrower risks losing the locked rate and being subject to current market pricing, which could be higher or lower.

WHERE YOU MAY SEE IT

Rate lock agreement · Loan estimate updates · Closing timeline communications

EXAMPLE

For illustration, if closing slips two weeks past the original lock expiration, the lender might offer a lock extension for a small fee to preserve the original rate.

COMMON MISUNDERSTANDING

A lock extension does not automatically happen for free — it typically requires a request and may carry a cost depending on the lender and market conditions.

See also: rate lock, lock period, float, closing

Lock Period

Mortgage Markets and Rates

The length of time a rate lock is valid — typically 30, 45, or 60 days.

Longer lock periods usually cost more but protect against market moves between application and closing.

WHY IT MATTERS

Choosing the right lock period balances protection against cost and closing timeline.

WHERE YOU MAY SEE IT

Rate lock agreement · Loan Estimate

EXAMPLE

A 45-day lock costs slightly more than a 30-day, giving buffer if closing slips.

COMMON MISUNDERSTANDING

A rate lock isn't permanent regardless of timing — if closing extends beyond the lock period, an extension may be needed, sometimes at added cost.

See also: rate lock, float, interest rate, annual percentage rate

Long-Term Rental

Investment Property

A rental property leased on annual or multi-year terms to tenants using it as a primary residence.

Long-term rentals produce more predictable income than short-term rentals and are underwritten with market rent from an appraiser's rent schedule.

WHY IT MATTERS

Long-term rental income is generally easier to qualify against in DSCR and conventional investor programs.

WHERE YOU MAY SEE IT

Lease agreement · Rent roll · Underwriting conditions

EXAMPLE

A single-family rental leased for $2,500/month on a 12-month lease qualifies with underwriter-verified market rent.

COMMON MISUNDERSTANDING

Long-term rental income isn't automatically counted at face value — lenders typically verify it against an appraiser's market rent schedule.

See also: short term rental, investment property, debt service coverage ratio, occupancy

M

Manufactured Home

Ownership and Real Estate

A manufactured home is a factory-built dwelling constructed to federal HUD code and transported to a site, with financing rules that differ from site-built homes.

Manufactured homes are built in a factory under federal building standards rather than local codes used for site-built construction. Financing options and property requirements vary depending on whether the home is permanently affixed to land and titled as real property.

WHY IT MATTERS

Not every loan program finances manufactured housing the same way, so confirming eligibility early can avoid delays or the need for a different program.

WHERE YOU MAY SEE IT

Appraisal report · Property type disclosure · Loan program guidelines

EXAMPLE

For illustration, a borrower purchasing a manufactured home permanently affixed to owned land might explore a conventional or government-backed program, since eligibility varies by lender and investor.

COMMON MISUNDERSTANDING

A manufactured home is not the same as a modular home, which is built to local/state codes rather than the federal HUD code.

See also: property type, minimum property requirements, appraisal

Margin (ARM)

Mortgage Markets and Rates

The fixed spread added to an ARM's index to determine the fully indexed interest rate.

The margin doesn't change over the loan's life. At each adjustment, the new rate equals index plus margin, subject to caps.

WHY IT MATTERS

A lower margin means a lower rate at every future adjustment.

WHERE YOU MAY SEE IT

ARM disclosure · Note · Adjustable-rate rider · Rate change notice

EXAMPLE

With an index of 4.75% and a margin of 2.5%, the fully indexed rate is 7.25%.

COMMON MISUNDERSTANDING

The margin doesn't change over the life of the loan — only the index does. It's not the same thing as the fully indexed rate itself.

See also: adjustable rate mortgage, index arm, arm cap

Market Rent

Investment Property

Market rent is the rental income a property could reasonably command in the current local rental market, often used to estimate cash flow for investment properties.

Appraisers and lenders may estimate market rent using comparable rental listings in the area, which can differ from what a property currently charges. This estimate helps evaluate income potential when actual lease history is limited or unavailable.

WHY IT MATTERS

Market rent estimates can influence how much rental income a lender is willing to count toward qualifying for an investment property loan.

WHERE YOU MAY SEE IT

Rent schedule (Form 1007) · Appraisal report · DSCR loan analysis

EXAMPLE

For illustration, an appraiser might estimate market rent of $1,800 a month for a unit based on nearby comparable rentals, even though the current tenant pays less.

COMMON MISUNDERSTANDING

Market rent is not the same as actual collected rent — it's an estimate of potential, not a guarantee of income.

See also: cash flow, debt service coverage ratio, gross rent multiplier, vacancy rate

Market Value

Ownership and Real Estate

The most probable price a home would sell for in an open, competitive market.

Market value is an appraiser's or agent's opinion based on recent comparable sales, condition, and market conditions. It's different from assessed value used for taxes.

WHY IT MATTERS

Market value drives listing decisions, appraisals, and how much you can borrow.

WHERE YOU MAY SEE IT

Appraisal report · Listing materials · Comparative market analysis · Title commitment

EXAMPLE

Comps and condition support a $525,000 market value; the seller lists at $535,000 expecting some negotiation.

COMMON MISUNDERSTANDING

Market value isn't the same as the price a seller lists, the amount owed on a mortgage, or the tax-assessed value.

See also: appraisal, comparable sales, assessed value, appreciation

Maturity Date

Mortgage Basics

The date on which a mortgage's final scheduled payment is due and the balance must be paid in full.

For a fully amortized loan, the maturity date coincides with the last scheduled payment. For balloon and interest-only loans, a large balance may come due at maturity.

WHY IT MATTERS

Knowing maturity is critical for planning payoff, refinance, or sale.

WHERE YOU MAY SEE IT

Mortgage note · Amortization schedule · Closing Disclosure · Loan payoff statement

EXAMPLE

A 30-year fixed originated in 2025 matures in 2055 with the final scheduled payment.

COMMON MISUNDERSTANDING

The maturity date isn't when refinancing is required — it's simply the scheduled end of the original loan term if paid as agreed.

See also: term loan, balloon mortgage, interest only loan, amortization

Mechanic's Lien

Closing and Settlement

A mechanic's lien is a legal claim against a property filed by a contractor, subcontractor, or supplier who wasn't paid for work or materials.

When work is performed on a property but not paid for, the party owed money can file a mechanic's lien, which attaches to the property's title. This can cloud ownership and must typically be resolved before the property can be sold or refinanced cleanly.

WHY IT MATTERS

An unresolved mechanic's lien can delay or derail closing since it represents a claim against the title that lenders and title companies want cleared.

WHERE YOU MAY SEE IT

Title search · Title commitment · Closing disclosure exceptions

EXAMPLE

For illustration, if a roofing contractor was never paid after a renovation, they might file a mechanic's lien that shows up during the title search before a sale.

COMMON MISUNDERSTANDING

A mechanic's lien is not automatically removed when the property changes hands — it stays attached to the title until it's satisfied or released.

See also: lien, title search, encumbrance, closing

Minimum Property Requirements (MPR)

Insurance and Property Costs

Minimum Property Requirements are the safety, soundness, and habitability standards a property must meet for certain government-backed loan programs.

Programs like FHA and VA loans require the property to meet baseline condition standards covering things like a functioning roof, heating, and safe access. These requirements are typically evaluated during the appraisal, and issues found may need repair before closing.

WHY IT MATTERS

If a property doesn't meet these standards, financing on that specific program may be delayed or unavailable until repairs are made.

WHERE YOU MAY SEE IT

Appraisal report · FHA/VA appraisal addendum · Repair escrow agreement

EXAMPLE

For illustration, an FHA appraiser might flag missing handrails on a stairway as an MPR issue that needs correction before closing can proceed.

COMMON MISUNDERSTANDING

Minimum Property Requirements are not the same as a full home inspection — they focus on safety and livability basics, not a comprehensive condition report.

See also: appraisal, home inspection, property type, manufactured home

Monthly Housing Expense

Credit and Qualification

Monthly Housing Expense is the total recurring cost of owning a home each month, typically including principal, interest, taxes, insurance, and HOA dues.

Lenders add up all housing-related costs — not just the loan payment — to evaluate affordability. This figure feeds directly into ratios like the front-end debt-to-income ratio used during underwriting.

WHY IT MATTERS

Underestimating monthly housing expense by focusing only on principal and interest can lead to surprises about true affordability.

WHERE YOU MAY SEE IT

Loan estimate · Underwriting worksheet · Pre-approval letter

EXAMPLE

For illustration, a borrower's monthly housing expense might include $1,600 principal and interest, $300 taxes, $150 insurance, and $75 HOA dues.

COMMON MISUNDERSTANDING

Monthly housing expense is not the same as the mortgage payment alone — it captures the full cost of housing, often abbreviated as PITI plus HOA.

See also: piti, front end ratio, housing ratio, property taxes

Mortgage

Mortgage Basics

A loan used to buy or refinance real estate, secured by the property itself.

A mortgage combines a promissory note (the debt) with a security instrument (mortgage or deed of trust) that lets the lender foreclose if the loan defaults.

WHY IT MATTERS

Because it's secured by real estate, a mortgage typically carries a much lower rate than unsecured borrowing.

WHERE YOU MAY SEE IT

Mortgage note · Deed of trust · Closing Disclosure · Title commitment

EXAMPLE

You borrow $400,000 to buy a $500,000 home; the mortgage secures the loan against the property.

COMMON MISUNDERSTANDING

A mortgage isn't the same document as the promissory note — the mortgage (or deed of trust) is the security instrument, while the note is the promise to repay.

See also: mortgage note, deed of trust, collateral, principal, interest rate

Mortgage Broker

Homebuying

A licensed intermediary who shops your loan across multiple wholesale lenders to find terms that fit.

Brokers don't fund loans themselves. They collect your application and shop it to wholesale lenders whose rates and guidelines they know well.

WHY IT MATTERS

A broker's access to many lenders often surfaces programs and pricing a single retail bank can't offer.

WHERE YOU MAY SEE IT

Loan application · Rate quotes · Loan Estimate · Compensation disclosure

EXAMPLE

A broker submits your file to three lenders and returns three loan estimates — you pick the best combination of rate, fees, and program fit.

COMMON MISUNDERSTANDING

A broker isn't a lender and doesn't fund your loan directly. Their compensation doesn't automatically mean you get a worse rate than going direct to a bank.

See also: lender, loan officer, loan estimate, origination fee

Mortgage Insurance

Insurance and Property Costs

Insurance that protects the lender if you default; often required when LTV is above 80%.

Conventional loans use PMI, FHA uses MIP, and VA uses a funding fee instead. Rules for removal, cost, and structure vary.

WHY IT MATTERS

MI adds to your monthly payment and can be avoided or removed under specific conditions.

WHERE YOU MAY SEE IT

Loan Estimate · Closing Disclosure · Mortgage statement · Escrow analysis

EXAMPLE

A conventional loan at 95% LTV requires PMI; you can request cancellation once LTV drops to 80%.

COMMON MISUNDERSTANDING

Mortgage insurance doesn't protect the borrower or pay off the loan if they can't make payments — it protects the lender against loss.

See also: private mortgage insurance, mortgage insurance premium, loan to value, va funding fee

Mortgage Insurance Premium (MIP) (MIP)

Insurance and Property Costs

The mortgage insurance required on FHA loans, paid both upfront and monthly.

FHA charges an upfront MIP (financed into the loan) and an annual MIP paid monthly. On most current FHA loans with less than 10% down, MIP lasts the life of the loan.

WHY IT MATTERS

MIP is a real ongoing cost that can make FHA more expensive than conventional over the long run.

WHERE YOU MAY SEE IT

Loan Estimate · Closing Disclosure · Mortgage statement · FHA loan disclosures

EXAMPLE

A $350,000 FHA loan with 3.5% down carries upfront MIP (about $6,000 financed) and annual MIP of roughly 0.55% paid monthly.

COMMON MISUNDERSTANDING

MIP isn't the same as homeowners insurance and doesn't protect the borrower — it protects the lender if the loan defaults.

See also: fha loan, private mortgage insurance, mortgage insurance, loan to value

Mortgage Note

Mortgage Basics

The written promise to repay a mortgage, containing loan terms and payment schedule.

The note is your legal promise to repay. The mortgage or deed of trust is the security instrument that lets the lender enforce that promise against the property.

WHY IT MATTERS

The note governs everything about your loan — rate, term, prepayment, default, and acceleration.

WHERE YOU MAY SEE IT

Closing package · Loan file · Servicing transfer notice

EXAMPLE

You sign the note at closing; it lists the $400,000 principal, 6.5% rate, and 360-month term.

COMMON MISUNDERSTANDING

The note isn't the deed to the property — it's the borrower's written promise to repay, separate from the lien that secures it.

See also: mortgage, deed of trust, acceleration clause, principal, interest rate

Mortgage Payment

Mortgage Basics

A mortgage payment is the recurring amount due on a home loan, generally covering principal and interest plus, if escrowed, taxes and insurance.

Each mortgage payment is applied first according to the loan's amortization schedule, typically covering interest, then principal. If the lender collects an escrow, the payment also includes a portion for property taxes and insurance.

WHY IT MATTERS

Understanding what makes up your payment helps you see why it can change over time even on a fixed-rate loan, usually due to shifts in escrowed taxes or insurance.

WHERE YOU MAY SEE IT

Loan estimate · Closing disclosure · Monthly mortgage statement

EXAMPLE

For illustration, a borrower's total mortgage payment might be $2,100 a month, made up of $1,700 principal and interest plus $400 in escrowed taxes and insurance.

COMMON MISUNDERSTANDING

A mortgage payment is not always fixed for the life of the loan — the escrow portion can change annually based on updated tax and insurance costs.

See also: piti, principal and interest, escrow account, amortization

Mortgage Readiness

Homebuying

Mortgage Readiness describes how prepared a borrower's overall financial picture — credit, income, savings, and debt — is for pursuing a home loan.

Rather than a single number, mortgage readiness reflects several factors together: credit history, steady income, available funds for a down payment and reserves, and manageable debt levels. Working on these areas ahead of time can make the loan process smoother.

WHY IT MATTERS

Addressing gaps before applying — like paying down revolving debt or building savings — can improve options and reduce surprises during underwriting.

WHERE YOU MAY SEE IT

Pre-qualification conversation · Homebuyer education materials · Loan officer consultation

EXAMPLE

For illustration, a prospective buyer might spend several months paying down credit card balances and saving for reserves to strengthen their mortgage readiness before applying.

COMMON MISUNDERSTANDING

Mortgage readiness is not a formal score or approval status — it's a general concept describing financial preparation, since actual qualification varies by lender and program.

See also: pre qualification, pre approval, compensating factors, credit score

Mortgage Servicing

Mortgage Basics

Mortgage servicing is the ongoing administration of a home loan after closing, including collecting payments, managing escrow, and handling customer requests.

The company that services your loan may not be the one that originated it — loans are often sold or transferred for servicing rights. The servicer processes your monthly payments, manages the escrow account, sends statements, and is the point of contact if issues like delinquency arise.

WHY IT MATTERS

Knowing who services your loan and how to reach them matters for resolving payment issues, escrow questions, or requesting assistance.

WHERE YOU MAY SEE IT

Mortgage statement · Servicing transfer notice · Escrow analysis

EXAMPLE

For illustration, a borrower might close a loan with one lender, only to receive a notice a few months later that servicing has transferred to a different company.

COMMON MISUNDERSTANDING

Mortgage servicing is not the same as loan ownership — the investor who owns the loan and the servicer who manages it are often different entities.

See also: loan servicer, escrow account, escrow analysis, secondary market

Mortgage-Backed Securities (MBS) (MBS)

Mortgage Markets and Rates

Bonds backed by pools of mortgages, whose yields influence mortgage rates.

Lenders sell mortgages into the secondary market, where they're pooled and securitized. Investors buy MBS for yield, and their appetite drives daily mortgage rate movement.

WHY IT MATTERS

Understanding MBS is the key to understanding why mortgage rates move day to day.

WHERE YOU MAY SEE IT

Secondary market commentary · Rate lock confirmation · Investor disclosures

EXAMPLE

A rally in MBS prices lowers their yields; lenders re-price rate sheets lower that afternoon.

COMMON MISUNDERSTANDING

MBS pricing influences mortgage rates, but an individual borrower's rate isn't set directly by MBS trades minute to minute — lenders build in their own margins and costs.

See also: secondary market, fannie mae, freddie mac, ginnie mae, yield curve, federal reserve

Mortgagee

Mortgage Basics

The lender in a mortgage transaction — the party lending the money.

Mortgagee = lender. The borrower is the mortgagor.

WHY IT MATTERS

It shows up on insurance binders ("mortgagee clause") and legal documents.

WHERE YOU MAY SEE IT

Mortgage document · Insurance policy (mortgagee clause) · Title commitment

EXAMPLE

Your homeowners policy lists the mortgagee so the insurer notifies the lender of policy changes.

COMMON MISUNDERSTANDING

The mortgagee is the lender, not the homeowner — a common point of confusion with 'mortgagor.'

See also: mortgagor, lender, homeowners insurance

Mortgagor

Mortgage Basics

The borrower in a mortgage transaction — the party pledging the property as security.

Mortgagor = borrower. The lender is the mortgagee.

WHY IT MATTERS

Legal documents and title records use these terms to identify the parties.

WHERE YOU MAY SEE IT

Mortgage document · Closing Disclosure · Deed of trust

EXAMPLE

The deed of trust names you as mortgagor and the lender as mortgagee.

COMMON MISUNDERSTANDING

The mortgagor is the borrower, not the lender — the term is often mixed up with 'mortgagee.'

See also: mortgagee, collateral, deed of trust

Multifamily Property

Investment Property

A residential property with multiple separate units — most commonly 2- to 4-unit buildings for residential financing.

Residential mortgage programs cover 1–4 units. Buildings with 5 or more units are commercial and financed differently.

WHY IT MATTERS

House-hacking a 2–4 unit lets an owner-occupant qualify with attractive terms while renting the other units.

WHERE YOU MAY SEE IT

Appraisal report · Loan Estimate · Rent roll · Property listing

EXAMPLE

You buy a fourplex, live in one unit, and rent the other three — using owner-occupied financing with as little as 5% down on some programs.

COMMON MISUNDERSTANDING

Not all multifamily properties qualify for residential financing — buildings with five or more units typically require commercial loan programs.

See also: investment property, owner occupied, debt service coverage ratio, long term rental

N

Negative Amortization

Mortgage Basics

When a loan's monthly payment doesn't cover the interest due, causing the balance to grow.

Neg-am can happen with option ARMs and some payment structures where you pay less than accrued interest. Unpaid interest gets added to principal.

WHY IT MATTERS

Negative amortization erodes equity and can lead to payment shock when full amortization kicks in.

WHERE YOU MAY SEE IT

Loan disclosures · ARM program terms · Amortization schedule

EXAMPLE

A minimum payment leaves $200 of interest unpaid; the balance grows by $200 that month.

COMMON MISUNDERSTANDING

Negative amortization doesn't mean the loan is in default — it's a designed feature of certain loan structures where the balance can grow rather than shrink.

See also: amortization, adjustable rate mortgage, payment shock, interest only loan

Net Operating Income (NOI) (NOI)

Investment Property

A property's income after operating expenses but before mortgage payments and taxes.

NOI = effective gross income – operating expenses (management, maintenance, insurance, property tax, utilities, etc.). It excludes debt service and income taxes.

WHY IT MATTERS

NOI drives cap rate, DSCR, debt yield, and property valuation.

WHERE YOU MAY SEE IT

Rent roll · Operating statement · DSCR loan underwriting · Appraisal report

EXAMPLE

A property with $72,000 in EGI and $18,000 in operating expenses has an NOI of $54,000.

COMMON MISUNDERSTANDING

NOI isn't the same as cash flow — it's calculated before mortgage payments and debt service are subtracted.

See also: effective gross income, cap rate, debt service coverage ratio, cash flow, debt yield

Net Worth

Credit and Qualification

Net worth is the value of everything you own minus everything you owe, offering a snapshot of overall financial standing.

Net worth is calculated by adding up assets — cash, investments, real estate, retirement accounts — and subtracting liabilities like loans and credit card balances. Some loan programs consider net worth or asset strength as part of a broader financial picture.

WHY IT MATTERS

A strong net worth can sometimes serve as a compensating factor in underwriting, even when income documentation is less traditional.

WHERE YOU MAY SEE IT

Asset statements · Financial questionnaire · Asset-based loan program applications

EXAMPLE

For illustration, a borrower with $500,000 in assets and $150,000 in liabilities would have an approximate net worth of $350,000.

COMMON MISUNDERSTANDING

Net worth is not the same as annual income — someone can have substantial net worth with modest reported income, or vice versa.

See also: assets, asset depletion, compensating factors, reserves

No Ratio Loan

Loan Programs

A loan that doesn't require the borrower to state or document income for the DTI calculation.

No-ratio programs use assets, credit, and reserves — not income — to qualify. They're a niche solution for borrowers with complex or unverifiable income.

WHY IT MATTERS

They can be the right fit for high-net-worth or asset-rich borrowers with limited documented income.

WHERE YOU MAY SEE IT

Non-QM loan disclosures · Underwriting conditions · Loan program guidelines

EXAMPLE

A retired borrower with substantial assets qualifies for a no-ratio jumbo without tax returns or W-2s.

COMMON MISUNDERSTANDING

A no-ratio loan doesn't mean income is unlimited or irrelevant — the borrower's income situation still influences program eligibility and pricing.

See also: asset depletion, asset qualifier, non qm loan, bank statement loan

Non-Conforming Loan

Loan Programs

A loan that doesn't meet Fannie Mae or Freddie Mac guidelines — usually because of size, property type, or borrower profile.

Jumbo and many non-QM loans are non-conforming. They're held on lender or investor balance sheets rather than sold to Fannie or Freddie.

WHY IT MATTERS

They offer flexibility for scenarios conforming loans can't handle.

WHERE YOU MAY SEE IT

Loan Estimate · Underwriting conditions · Rate sheet

EXAMPLE

A $1.2M loan in a standard county is non-conforming — likely a jumbo — and priced by the lender's own investors.

COMMON MISUNDERSTANDING

Non-conforming doesn't mean a loan is risky or unregulated — it simply means it isn't eligible for purchase by Fannie Mae or Freddie Mac.

See also: conforming loan, jumbo loan, non qm loan, portfolio loan

Non-Occupant Co-Borrower

Credit and Qualification

A non-occupant co-borrower is someone on the mortgage loan and title who doesn't live in the financed property but helps the primary borrower qualify.

A relative or other qualifying party may join a mortgage application as a non-occupant co-borrower, adding their income and credit to the application without residing at the property. Programs vary in how much they allow this arrangement to help with qualification.

WHY IT MATTERS

This option can help a borrower qualify for a home they couldn't otherwise afford alone, though it comes with shared legal and financial responsibility for the co-borrower.

WHERE YOU MAY SEE IT

Loan application · Underwriting approval conditions · Promissory note

EXAMPLE

For illustration, a parent might act as a non-occupant co-borrower on their adult child's first home purchase to help strengthen the application.

COMMON MISUNDERSTANDING

A non-occupant co-borrower is not the same as a co-signer in every program — requirements and liability can differ depending on the loan type and investor.

See also: debt to income ratio, compensating factors, occupancy, qualifying income

Non-QM Loan (Non-QM)

Loan Programs

A mortgage that doesn't meet the strict CFPB definition of a Qualified Mortgage but is still fully underwritten.

Non-QM programs include bank statement, asset-depletion, DSCR, and interest-only loans. They serve borrowers who need flexibility on income documentation or product structure.

WHY IT MATTERS

Non-QM opens doors for self-employed, investor, and high-net-worth borrowers.

WHERE YOU MAY SEE IT

Loan program disclosures · Underwriting conditions · Rate sheet

EXAMPLE

A self-employed borrower with strong deposits qualifies via a 12-month bank statement non-QM program.

COMMON MISUNDERSTANDING

Non-QM doesn't mean unregulated or predatory — lenders still verify a borrower's ability to repay, just using alternative documentation methods.

See also: qualified mortgage, bank statement loan, asset depletion, debt service coverage ratio, no ratio loan

Non-Warrantable Condominium

Ownership and Real Estate

A non-warrantable condominium is a condo project that doesn't meet standard investor eligibility guidelines, often requiring specialized financing.

Condo projects can fail to meet conventional eligibility standards for reasons like high investor concentration, pending litigation, insufficient reserves, or too much commercial space. These properties may still be financeable, but typically through a different loan program with its own terms.

WHY IT MATTERS

Buying in a non-warrantable building can limit financing options and affect pricing, so it's worth confirming a condo's status early in the process.

WHERE YOU MAY SEE IT

Condo questionnaire · HOA documents · Underwriting condo review

EXAMPLE

For illustration, a condo project with a large share of investor-owned units might be classified as non-warrantable, steering a buyer toward a non-QM or portfolio loan option.

COMMON MISUNDERSTANDING

A non-warrantable condominium is not automatically unfinanceable — it just falls outside standard conventional guidelines and may need a different program.

See also: hoa, non qm loan, portfolio loan, property type

Note Rate

Mortgage Basics

The interest rate stated on the mortgage note, used to calculate monthly interest.

Note rate ≠ APR. Note rate applies only to principal; APR reflects certain financed loan fees on top.

WHY IT MATTERS

Your monthly interest is calculated on the note rate, not the APR.

WHERE YOU MAY SEE IT

Mortgage note · Closing Disclosure · Rate lock confirmation

EXAMPLE

A note rate of 6.5% on $400,000 produces about $2,167 of interest in month one.

COMMON MISUNDERSTANDING

The note rate isn't the same as the APR — the note rate excludes fees and other finance charges that APR factors in.

See also: interest rate, annual percentage rate, discount points, rate lock

Notice of Right to Cancel

Closing and Settlement

The Notice of Right to Cancel informs borrowers of a limited window to cancel certain refinance transactions on their primary residence.

Federal law provides a short rescission period, generally three business days, for eligible transactions like a refinance secured by a primary residence, giving borrowers a chance to change their mind after signing. Purchase loans typically don't carry this right since the transaction closes ownership immediately.

WHY IT MATTERS

Understanding this window matters if you're refinancing and want to be sure of your decision before funds are disbursed.

WHERE YOU MAY SEE IT

Closing package for refinances · Right of rescission disclosure

EXAMPLE

For illustration, a homeowner refinancing their primary residence might sign closing documents on a Monday but still have until midnight a few business days later to cancel.

COMMON MISUNDERSTANDING

The Notice of Right to Cancel does not apply to a typical home purchase transaction — it generally applies to refinances of an owner's primary residence.

See also: right of rescission, closing, closing disclosure, trid

O

Occupancy

Homebuying

The intended use of a property — primary residence, second home, or investment property.

Occupancy affects program eligibility, rate, and down payment. Primary residence is priced best; investment is priced highest.

WHY IT MATTERS

Misrepresenting occupancy is loan fraud with serious consequences.

WHERE YOU MAY SEE IT

Loan application · Occupancy affidavit · Underwriting conditions

EXAMPLE

A primary-residence rate of 6.5% might be 7.0% for the same borrower on the same property as an investment.

COMMON MISUNDERSTANDING

Occupancy status isn't just a formality — misstating it can affect pricing, eligibility, and can constitute loan fraud if inaccurate.

See also: owner occupied, investment property, second home, underwriting

Origination Fee

Closing and Settlement

A lender charge for processing and originating your loan, usually 0.5%–1% of the loan amount.

Origination fees compensate the lender for underwriting and closing the loan. Some lenders replace it with a flat fee or bake it into rate.

WHY IT MATTERS

Origination is one of the more negotiable pieces of the loan estimate.

WHERE YOU MAY SEE IT

Loan Estimate · Closing Disclosure · Rate lock confirmation

EXAMPLE

A 1% origination fee on a $400,000 loan equals $4,000 at closing.

COMMON MISUNDERSTANDING

An origination fee isn't the same as points — origination fees are a lender charge for processing, while points are optional payments to buy down the rate.

See also: discount points, closing costs, annual percentage rate, loan estimate

Owner-Occupied

Homebuying

A property where the borrower lives as their primary residence for most of the year.

Owner-occupied is the most favorable occupancy category and unlocks the best pricing and lowest down payments.

WHY IT MATTERS

Owner-occupied status is required for many programs (FHA, VA, USDA) and drives conventional pricing.

WHERE YOU MAY SEE IT

Loan application · Occupancy affidavit · Underwriting conditions

EXAMPLE

A house-hacker lives in one unit of a fourplex and finances it as owner-occupied.

COMMON MISUNDERSTANDING

Owner-occupied status usually requires living in the home most of the year — it isn't satisfied by occasional or seasonal use alone.

See also: occupancy, investment property, second home, multifamily property

Ownership Interest

Ownership and Real Estate

Ownership interest is the legal share or stake a person holds in a property, which can range from full sole ownership to a partial or shared claim.

How title is held — sole ownership, joint tenancy, tenancy in common, or through a trust — defines each party's ownership interest and rights. This affects things like inheritance, the ability to sell, and how mortgage obligations are shared.

WHY IT MATTERS

Lenders and title companies need to confirm ownership interest to determine who must sign loan documents and how proceeds or liabilities are divided.

WHERE YOU MAY SEE IT

Deed · Title report · Loan application disclosures

EXAMPLE

For illustration, two siblings who inherit a home together might each hold a 50% ownership interest as tenants in common.

COMMON MISUNDERSTANDING

Ownership interest is not the same as occupancy — someone can hold an ownership interest in a property without living there.

See also: title, tenancy in common, joint tenancy, deed

P

Payment Cap

Mortgage Markets and Rates

A limit on how much an ARM's monthly payment can rise at each adjustment, regardless of the rate change.

Payment caps can prevent immediate payment shock but risk negative amortization if the capped payment doesn't cover accrued interest.

WHY IT MATTERS

They soften payment increases but can quietly grow the loan balance.

WHERE YOU MAY SEE IT

ARM disclosure · Adjustable-rate rider · Rate change notice

EXAMPLE

An ARM with a 7.5% payment cap limits the annual increase in payment, potentially producing negative amortization.

COMMON MISUNDERSTANDING

A payment cap doesn't mean interest stops accruing above the cap — if the payment can't cover the full interest owed, negative amortization can still occur.

See also: adjustable rate mortgage, arm cap, negative amortization, payment shock

Payment Shock

Refinancing

A significant jump in monthly housing payment — often when an ARM adjusts or a low intro payment ends.

Underwriters look at payment shock as the ratio of new housing payment to prior rent or housing cost. Large shocks add risk.

WHY IT MATTERS

Understanding potential shock helps you choose a loan you can carry long-term.

WHERE YOU MAY SEE IT

ARM disclosure · Underwriting conditions · Loan comparison worksheets

EXAMPLE

Moving from $1,600 rent to a $3,200 mortgage is 100% payment shock.

COMMON MISUNDERSTANDING

Payment shock isn't unique to risky loans — it can happen with any structure that has a low introductory payment period, including some buydowns.

See also: adjustable rate mortgage, arm cap, affordability, housing ratio

Per-Diem Interest

Closing and Settlement

Interest charged from the day your loan funds until the end of that month, collected at closing.

Because mortgages are paid in arrears, closing near month-end usually means less prepaid interest at closing.

WHY IT MATTERS

Timing your closing date can materially change the cash you need to bring.

WHERE YOU MAY SEE IT

Closing Disclosure · Settlement statement · Loan Estimate

EXAMPLE

Closing on the 3rd of the month collects 27 days of per-diem interest; closing on the 28th collects only 2 days.

COMMON MISUNDERSTANDING

Per-diem interest isn't a fee or penalty — it's simply interest for the partial month between funding and the first full payment cycle.

See also: closing costs, closing, loan estimate, interest rate

Piggyback Loan

Loan Programs

A structure that pairs a first mortgage with a second lien to avoid PMI or jumbo pricing.

Common structures include 80/10/10 (80% first, 10% second, 10% down) or 80/15/5. The second lien is often a HELOC.

WHY IT MATTERS

It can lower monthly cost and avoid mortgage insurance or jumbo tier — with the trade-off of managing two loans.

WHERE YOU MAY SEE IT

Loan Estimate · Closing Disclosure · Second mortgage documents

EXAMPLE

On a $600,000 purchase, an 80/10/10 splits into a $480,000 first and $60,000 HELOC with $60,000 down.

COMMON MISUNDERSTANDING

A piggyback loan doesn't eliminate the cost of the extra borrowing — it trades mortgage insurance for a second loan payment, which isn't always cheaper.

See also: first mortgage, second mortgage, subordinate financing, heloc, private mortgage insurance, jumbo loan

PITI (PITI)

Mortgage Basics

Principal, Interest, Taxes, and Insurance — the four components of a typical monthly housing payment.

PITI is the base housing payment lenders use to calculate affordability. HOA and mortgage insurance are added when applicable.

WHY IT MATTERS

Comparing homes on PITI (not just P&I) reveals the true monthly cost.

WHERE YOU MAY SEE IT

Loan Estimate · Mortgage statement · Pre-approval letter · Escrow analysis

EXAMPLE

A $2,000 P&I plus $500 taxes and $150 insurance produces a $2,650 PITI (or $2,800 with HOA).

COMMON MISUNDERSTANDING

PITI isn't the total cost of homeownership — it excludes HOA dues, maintenance, and utilities.

See also: principal and interest, property taxes, homeowners insurance, escrow account, hoa, housing ratio

Planned Unit Development (PUD)

Ownership and Real Estate

A Planned Unit Development is a community of individually owned homes that share common areas and amenities managed through a homeowners association.

Unlike a condo, where you own an interior unit, a PUD generally means you own the home and the land it sits on, while shared spaces like parks, pools, or roads are maintained by an HOA. This structure affects appraisal, insurance, and HOA dues considerations.

WHY IT MATTERS

Lenders review PUD status because it can affect the appraisal approach and whether specific HOA documentation is needed during underwriting.

WHERE YOU MAY SEE IT

PUD rider · HOA documents · Appraisal report

EXAMPLE

For illustration, a buyer purchasing a single-family home in a gated community with shared amenities might be buying into a PUD rather than a condo.

COMMON MISUNDERSTANDING

A Planned Unit Development is not the same as a condominium — in a PUD you typically own the land, while in a condo you own only the unit interior.

See also: hoa, non warrantable condominium, property type, zoning

Points

Mortgage Markets and Rates

Percentage-based fees paid to the lender at closing — one point equals 1% of the loan amount.

Origination points cover the lender's fee. Discount points buy down the rate. Loan estimates show them separately.

WHY IT MATTERS

Points can be smart or wasteful depending on how long you keep the loan.

WHERE YOU MAY SEE IT

Loan Estimate · Closing Disclosure · Rate lock confirmation

EXAMPLE

On a $400,000 loan, 1 discount point ($4,000) may lower your rate by 0.25%.

COMMON MISUNDERSTANDING

Points aren't a required cost of every loan — they're an optional way to trade upfront cash for a lower rate, and 'discount points' differ from origination points.

See also: discount points, origination fee, annual percentage rate, closing costs

Portfolio Loan

Loan Programs

A loan a lender keeps on its own balance sheet rather than selling to Fannie, Freddie, or Ginnie.

Because the lender bears the risk, portfolio loans can offer more flexible guidelines — unique properties, non-warrantable condos, complex borrower profiles.

WHY IT MATTERS

Portfolio loans solve for scenarios agency loans reject.

WHERE YOU MAY SEE IT

Loan program disclosures · Underwriting conditions

EXAMPLE

A borrower buying a non-warrantable condo finances through a bank's portfolio program.

COMMON MISUNDERSTANDING

A portfolio loan doesn't automatically mean looser underwriting overall — lenders set their own guidelines, which can be stricter in some ways and more flexible in others.

See also: non conforming loan, non qm loan, jumbo loan, conforming loan

Pre-Approval

Homebuying

A conditional lender commitment based on a full credit and documentation review.

Pre-approval reviews credit, income, and assets and typically issues a letter for a specific loan amount. It's stronger than pre-qualification and expected on offers.

WHY IT MATTERS

A pre-approval letter tells sellers your financing is credible and speeds the path to close.

WHERE YOU MAY SEE IT

Pre-approval letter · Purchase agreement · Loan application

EXAMPLE

You submit tax returns, W-2s, and bank statements and receive a pre-approval letter for $500,000.

COMMON MISUNDERSTANDING

A pre-approval isn't a final loan commitment — the loan still has to go through full underwriting, and changes in credit, income, or the property can affect the outcome.

See also: pre qualification, underwriting, loan estimate, credit report

Pre-Payment Penalty

Loan Programs

A fee charged for paying off a loan early, either fully or beyond a certain principal amount.

Most consumer purchase mortgages don't have prepayment penalties. They're more common on certain investor and non-QM loans.

WHY IT MATTERS

A prepayment penalty can wipe out the savings of a fast refinance or early sale.

WHERE YOU MAY SEE IT

Mortgage note · Loan Estimate · Closing Disclosure

EXAMPLE

A 3-year step-down prepayment penalty on a DSCR loan may charge 3% in year one, 2% in year two, and 1% in year three of any early payoff.

COMMON MISUNDERSTANDING

Not all mortgages have a pre-payment penalty — many common loan types don't include one at all, so it shouldn't be assumed present.

See also: refinance, cash out refinance, portfolio loan, non qm loan

Pre-Qualification

Homebuying

A quick, informal estimate of what you may be able to borrow, based on self-reported information.

Pre-qualification is a starting point for exploring price ranges. It's not a commitment and doesn't verify income, assets, or credit at the same depth as pre-approval.

WHY IT MATTERS

It gives buyers direction early in the process without a heavy paperwork lift.

WHERE YOU MAY SEE IT

Pre-qualification letter · Initial loan application

EXAMPLE

You share basic income, debts, and down payment; the lender estimates you can borrow up to ~$450,000.

COMMON MISUNDERSTANDING

Pre-qualification isn't a verified or guaranteed lending decision — it's based on unverified, self-reported information and can change once documentation is reviewed.

See also: pre approval, underwriting, credit score

Prepaid Expenses

Closing and Settlement

Prepaid expenses are upfront costs collected at closing to fund items like homeowners insurance, property taxes, and prepaid interest.

Beyond the closing costs tied directly to originating the loan, borrowers typically fund an initial escrow cushion and pay for the first year of homeowners insurance, along with prepaid interest. These are separate line items from lender or title fees.

WHY IT MATTERS

Prepaid expenses can add a meaningful amount to cash needed at closing, so borrowers should review the loan estimate carefully rather than focus only on closing costs.

WHERE YOU MAY SEE IT

Loan estimate · Closing disclosure · Cash-to-close summary

EXAMPLE

For illustration, a loan estimate might show $2,500 in prepaid expenses covering the first year of insurance, several months of escrowed taxes, and prepaid interest.

COMMON MISUNDERSTANDING

Prepaid expenses are not fees paid to the lender — they fund your own insurance and tax obligations in advance.

See also: prepaid interest, escrow account, closing costs, hazard insurance

Prepaid Interest

Closing and Settlement

Prepaid interest is the interest charged from the closing date through the end of that month, collected upfront at closing.

Because mortgage interest is paid in arrears, closing mid-month creates a gap between funding and the first regular payment. Prepaid interest, sometimes called per diem interest, covers that gap so the loan starts accruing correctly.

WHY IT MATTERS

This is a real cost due at closing, and the amount depends on the closing date and days remaining in the month.

WHERE YOU MAY SEE IT

Closing disclosure · Loan estimate · Cash-to-close calculation

EXAMPLE

For illustration, closing on the 20th of the month might mean about 10 days of prepaid interest is collected before your first regular payment is due the following month.

COMMON MISUNDERSTANDING

Prepaid interest is not an extra fee or profit for the lender — it's simply interest for days you'll own the home before your first scheduled payment.

See also: per diem interest, closing disclosure, closing costs, interest

Prepayment

Mortgage Basics

Prepayment means paying toward a mortgage balance beyond the scheduled payment, whether as extra principal or paying the loan off entirely early.

Borrowers can make prepayments through extra principal payments, lump sums, or paying off the loan in full before its term ends. Doing so can reduce total interest paid, subject to any prepayment penalty terms in the note.

WHY IT MATTERS

Understanding your loan's prepayment terms helps you decide whether extra payments make sense and whether any penalty applies.

WHERE YOU MAY SEE IT

Promissory note · Amortization schedule · Mortgage statement

EXAMPLE

For illustration, a borrower who makes an extra $200 principal payment each month could shorten their loan term and reduce total interest over time.

COMMON MISUNDERSTANDING

Prepayment does not automatically reduce your required monthly payment — extra principal typically shortens the loan term rather than lowering future payments, unless you request recasting.

See also: pre payment penalty, amortization, biweekly payment, extra payment

Prime Rate

Mortgage Markets and Rates

The interest rate banks charge their most creditworthy customers, often the base for HELOCs and other variable-rate consumer loans.

Prime moves in lockstep with the Fed funds rate — typically Fed funds + 3%. HELOC rates are often prime + a margin.

WHY IT MATTERS

Prime moves change HELOC and variable-rate payments immediately.

WHERE YOU MAY SEE IT

HELOC disclosures · Variable-rate loan documents · Rate change notices

EXAMPLE

A HELOC priced at prime + 0.5% moves from 8.75% to 9.00% the moment the Fed raises rates 25 bps.

COMMON MISUNDERSTANDING

The prime rate isn't the same as a mortgage interest rate — it's a benchmark banks use, and consumer rates are typically set relative to it, not equal to it.

See also: federal reserve, heloc, adjustable rate mortgage, interest rate

Principal

Mortgage Basics

The unpaid balance of a loan — what you actually owe, separate from interest.

Each amortized payment reduces principal by a growing amount over time. Extra principal payments accelerate payoff and reduce total interest.

WHY IT MATTERS

Reducing principal is how you build equity in the loan itself.

WHERE YOU MAY SEE IT

Mortgage statement · Amortization schedule · Closing Disclosure

EXAMPLE

A $400,000 loan starts with a $400,000 principal balance; after a year of payments it might be about $394,700.

COMMON MISUNDERSTANDING

Principal isn't the original loan amount forever — it's the current unpaid balance, which decreases as payments are made.

See also: interest, amortization, principal and interest, extra payment

Principal and Interest (P&I) (P&I)

Mortgage Basics

The portion of a mortgage payment that pays down principal and the cost of borrowing.

P&I is the base amortized payment on the loan itself. Taxes, insurance, HOA, and mortgage insurance are added to reach PITI.

WHY IT MATTERS

P&I is what's fixed on a fixed-rate loan — the pieces added on top can and do change.

WHERE YOU MAY SEE IT

Loan Estimate · Mortgage statement · Amortization schedule

EXAMPLE

A 30-year, $400,000 loan at 6.5% has a P&I of $2,528.27; escrow adds another $650 to reach a $3,178 PITI.

COMMON MISUNDERSTANDING

P&I isn't the full monthly housing payment — it typically excludes taxes, insurance, and HOA dues, which are shown separately.

See also: piti, principal, interest, amortization, escrow account

Private Money Loan

Investment Property

A short-term real estate loan funded by private individuals or funds rather than banks.

Private money — sometimes called hard money — is fast, flexible, and asset-based. Rates and fees are higher; terms are short. It's a tool for investors, fix-and-flips, and time-sensitive purchases.

WHY IT MATTERS

It solves speed and complexity problems traditional lenders can't, at a premium.

WHERE YOU MAY SEE IT

Loan program disclosures · Promissory note · Underwriting conditions

EXAMPLE

A flipper closes a $400,000 private money loan in 10 days to secure an off-market deal, then refinances into a DSCR loan after stabilization.

COMMON MISUNDERSTANDING

Private money loans aren't inherently predatory — they're simply funded by non-bank sources and typically used for short-term or investment purposes.

See also: bridge loan, portfolio loan, exit strategy, debt service coverage ratio, non qm loan

Private Mortgage Insurance (PMI) (PMI)

Insurance and Property Costs

Mortgage insurance on conventional loans, typically required when LTV exceeds 80%.

PMI protects the lender if you default. Borrowers can request cancellation at 80% LTV and lenders must automatically terminate at 78% LTV under most conditions.

WHY IT MATTERS

Getting PMI removed can save hundreds of dollars per month.

WHERE YOU MAY SEE IT

Loan Estimate · Closing Disclosure · Mortgage statement · Escrow analysis

EXAMPLE

A $360,000 loan on a $400,000 home carries PMI until the balance drops to $320,000 (80% LTV).

COMMON MISUNDERSTANDING

PMI doesn't protect the borrower if they can't pay — it protects the lender, and it isn't the same product as homeowners insurance.

See also: mortgage insurance, mortgage insurance premium, loan to value, conventional loan

Processing

Mortgage Basics

Processing is the stage of the mortgage workflow where documentation is collected, organized, and prepared for underwriting review.

After a loan application is submitted, a processor gathers required documents — income verification, asset statements, appraisal, title work — and ensures the file is complete before sending it to underwriting. Good processing keeps the loan moving efficiently.

WHY IT MATTERS

Responding quickly to processor requests can help keep your loan on track, since incomplete files are a common source of delay.

WHERE YOU MAY SEE IT

Document request lists · Loan status updates · Conditional approval communications

EXAMPLE

For illustration, a processor might request updated bank statements midway through the loan to make sure the file reflects current information before underwriting review.

COMMON MISUNDERSTANDING

Processing is not the same as underwriting — the processor prepares and organizes the file, while the underwriter makes the actual credit decision.

See also: underwriting, automated underwriting, loan officer, verification of employment

Promissory Note

Closing and Settlement

A promissory note is the legal document in which a borrower promises to repay a loan under specific terms, including rate, payment amount, and term.

The promissory note is the borrower's personal promise to repay the debt, separate from the mortgage or deed of trust that secures that promise with the property. It spells out the loan amount, interest rate, payment schedule, and what happens in case of default.

WHY IT MATTERS

Signing the note creates personal liability for repaying the loan, which is why its terms deserve careful review at closing.

WHERE YOU MAY SEE IT

Closing package · Loan servicing records · Refinance payoff process

EXAMPLE

For illustration, a borrower's promissory note might specify a 30-year term, a fixed rate, and the exact monthly principal and interest amount.

COMMON MISUNDERSTANDING

A promissory note is not the same as the mortgage or deed of trust — the note is the promise to pay, while the mortgage/deed of trust is what secures that promise with the property.

See also: mortgage note, deed of trust, acceleration clause, closing

Property Taxes

Insurance and Property Costs

Local government taxes assessed annually based on a property's assessed value.

Property taxes fund schools, public safety, and infrastructure. They're typically escrowed and paid by the lender from your monthly deposits.

WHY IT MATTERS

Property taxes are a permanent part of homeownership cost and can rise materially year to year.

WHERE YOU MAY SEE IT

Loan Estimate · Closing Disclosure · Mortgage statement · Escrow analysis

EXAMPLE

A home assessed at $400,000 in a 1.2% tax jurisdiction owes $4,800/year, or $400/month escrowed.

COMMON MISUNDERSTANDING

Property taxes aren't fixed for the life of the loan — they can change as local assessments and tax rates change, affecting the escrowed payment.

See also: assessed value, homestead exemption, escrow account, escrow analysis, piti

Property Type

Ownership and Real Estate

Property type describes the classification of a home — such as single-family, condo, PUD, manufactured, or multifamily — which affects loan eligibility and terms.

Lenders categorize properties because different types carry different risk profiles and appraisal approaches. A single-family detached home is treated differently than a condo unit, a duplex, or a manufactured home when it comes to underwriting guidelines.

WHY IT MATTERS

The property type can affect which loan programs are available, down payment considerations, and how the appraisal is conducted.

WHERE YOU MAY SEE IT

Loan application · Appraisal report · Purchase agreement

EXAMPLE

For illustration, a borrower purchasing a duplex to live in one unit and rent the other might see different program guidelines than someone buying a single-family home.

COMMON MISUNDERSTANDING

Property type is not just a description for marketing purposes — it directly shapes underwriting and appraisal requirements.

See also: multifamily property, non warrantable condominium, manufactured home, planned unit development

Purchase Agreement

Homebuying

The legally binding contract between buyer and seller detailing the terms of a real estate sale.

It includes price, earnest money, contingencies, closing date, and any concessions. Once signed by both parties it governs the transaction.

WHY IT MATTERS

The purchase agreement is the roadmap the lender, title company, and agents work from.

WHERE YOU MAY SEE IT

Executed contract · Title commitment · Closing Disclosure

EXAMPLE

Your fully executed contract sets a $500,000 price, $10,000 earnest money, inspection and appraisal contingencies, and a 30-day closing.

COMMON MISUNDERSTANDING

A purchase agreement isn't just a formality — once signed, it's a binding legal contract with enforceable contingencies and deadlines.

See also: earnest money, contingency, closing, appraisal contingency

Q

Qualified Mortgage (QM) (QM)

Loan Programs

A category of mortgages that meet CFPB rules designed to make sure borrowers can repay.

QM loans meet standards on DTI, points and fees, and features (no negative amortization, no interest-only, no terms over 30 years). They come with certain legal protections for lenders.

WHY IT MATTERS

Most agency loans are QM; non-QM loans exist for legitimate scenarios that fall outside these rules.

WHERE YOU MAY SEE IT

Loan program disclosures · Underwriting conditions · Closing Disclosure

EXAMPLE

A standard 30-year conventional at 42% DTI is a Qualified Mortgage; a bank statement loan at 50% DTI is non-QM.

COMMON MISUNDERSTANDING

QM status isn't a guarantee of the best rate or a stamp of loan quality — it's a regulatory category based on certain underwriting and structural features.

See also: non qm loan, debt to income ratio, underwriting

Qualifying Income

Credit and Qualification

Qualifying income is the portion of a borrower's earnings that a lender can count toward meeting debt-to-income requirements for loan approval.

Not all income is treated equally — lenders often require a history of stability and continuance for income like bonuses, overtime, or self-employment earnings before counting it fully. Documentation such as tax returns, pay stubs, or bank statements is used to verify and calculate this figure.

WHY IT MATTERS

The amount of income a lender counts can differ from your gross pay or take-home pay, which affects how much you may be able to borrow.

WHERE YOU MAY SEE IT

Underwriting income calculation · Loan application · Automated underwriting findings

EXAMPLE

For illustration, a borrower with fluctuating overtime income might only have a portion of that overtime counted as qualifying income after averaging recent pay history.

COMMON MISUNDERSTANDING

Qualifying income is not automatically the same as gross income reported on a pay stub — lenders may adjust it based on documentation and consistency.

See also: debt to income ratio, gross monthly income, effective gross income, verification of employment

Qualifying Rate

Credit and Qualification

Qualifying rate is the interest rate a lender uses to calculate a borrower's payment for underwriting purposes, which can differ from the actual note rate.

For certain loan types, especially ARMs, lenders may use a higher assumed rate to make sure the borrower could still afford payments if the rate adjusts upward. This is a conservative underwriting measure rather than the rate the borrower actually pays initially.

WHY IT MATTERS

Using a qualifying rate rather than the initial low rate helps ensure affordability isn't based only on a temporary discounted rate.

WHERE YOU MAY SEE IT

Underwriting guidelines · ARM qualification worksheet · Automated underwriting findings

EXAMPLE

For illustration, a borrower applying for an ARM with a low initial rate might still be qualified using a higher assumed rate to test long-term affordability.

COMMON MISUNDERSTANDING

The qualifying rate is not necessarily the rate you'll pay on your first monthly statement — it's a calculation tool used for underwriting risk assessment.

See also: adjustable rate mortgage, note rate, debt to income ratio, payment shock

Quitclaim Deed

Ownership and Real Estate

A deed that transfers whatever interest the grantor has in a property, with no warranties.

Quitclaim deeds are common in divorces, family transfers, and title cleanup. They don't guarantee the grantor actually owns a clean interest.

WHY IT MATTERS

Buyers in arms-length transactions almost always want a warranty deed, not a quitclaim.

WHERE YOU MAY SEE IT

Title records · Divorce settlements · Title commitment

EXAMPLE

In a divorce, one spouse signs a quitclaim deed transferring their interest in the home to the other.

COMMON MISUNDERSTANDING

A quitclaim deed doesn't guarantee the grantor actually owns the property free and clear — it transfers only whatever interest they may have, with no warranties.

See also: warranty deed, deed, title, chain of title

R

Rate Lock

Mortgage Markets and Rates

A lender's guarantee that your interest rate won't change for a set period before closing.

A lock protects you from rising rates during processing. Longer locks and float-down features usually cost more.

WHY IT MATTERS

Timing the lock right can save real money — and a lock protects you from mid-process shocks.

WHERE YOU MAY SEE IT

Rate lock confirmation · Loan Estimate · Closing Disclosure

EXAMPLE

You lock a 6.50% rate for 45 days after the appraisal is ordered; even if rates rise, your rate stays 6.50%.

COMMON MISUNDERSTANDING

A rate lock isn't permanent or unconditional — it usually has an expiration date, and changes to the loan can require re-locking or extending at a cost.

See also: lock period, float, interest rate, annual percentage rate

Rate-and-Term Refinance

Refinancing

A refinance that changes rate, term, or both without pulling significant cash out.

Rate-and-term is used to lower rate, shorten term, or convert an ARM to fixed. Cash back is generally limited to a small amount.

WHY IT MATTERS

It's the cleanest way to reduce interest cost or restructure the loan.

WHERE YOU MAY SEE IT

Loan Estimate · Closing Disclosure · Refinance application

EXAMPLE

You refinance a 7% loan to 5.75% at the same balance, saving about $150/month with no cash out.

COMMON MISUNDERSTANDING

A rate-and-term refinance isn't the same as a cash-out refinance — it's designed to adjust loan terms, not to access equity as cash.

See also: refinance, cash out refinance, refinance break even, interest rate

Real Estate Owned (REO) (REO)

Ownership and Real Estate

A property that has become a lender's asset after failing to sell at a foreclosure auction.

Once REO, the lender or servicer markets the property for sale. REO inventory is often sold at a discount but as-is.

WHY IT MATTERS

REO properties can offer value to prepared buyers who understand the trade-offs.

WHERE YOU MAY SEE IT

Property listings · Title commitment · Appraisal report

EXAMPLE

After a foreclosure sale draws no qualifying bids, the property is taken back and listed as REO.

COMMON MISUNDERSTANDING

An REO property isn't automatically a bargain or in poor condition — pricing and condition vary widely by lender and property.

See also: foreclosure, short sale, default, acceleration clause

Realtor

Homebuying

A real estate agent who is a member of the National Association of Realtors and bound by its code of ethics.

All Realtors are agents, but not all agents are Realtors. Membership brings an ethics code and access to the MLS.

WHY IT MATTERS

Working with a Realtor adds a layer of ethics accountability on top of state licensing.

WHERE YOU MAY SEE IT

Purchase agreement · Listing agreement · Business cards

EXAMPLE

You engage a buyer's-side Realtor who agrees in writing to represent your interests.

COMMON MISUNDERSTANDING

Not every real estate agent is a Realtor — the term is a trademarked title reserved for NAR members bound by its code of ethics.

See also: buyers agent, purchase agreement, closing

Recording

Closing and Settlement

Recording is the process of filing documents like the deed and mortgage with the local government office to create a public record of ownership and liens.

After closing, the deed transferring ownership and the mortgage or deed of trust securing the loan are submitted to the county recorder's office. This creates an official public record establishing who owns the property and what claims exist against it.

WHY IT MATTERS

Recording protects both the buyer's ownership claim and the lender's security interest by making them part of the public record.

WHERE YOU MAY SEE IT

Closing disclosure (recording fees) · Deed · Title records

EXAMPLE

For illustration, shortly after closing, the title company submits the deed and mortgage for recording, after which they become searchable public documents.

COMMON MISUNDERSTANDING

Recording is not the same as closing itself — closing is signing and funding, while recording is the administrative step that finalizes the public record afterward.

See also: recording fee, deed, title, closing

Recording Fee

Closing and Settlement

A government fee charged to record the deed and mortgage in public land records.

Recording puts the world on notice of ownership and liens. Fees are set by county and vary by document type and length.

WHY IT MATTERS

It's a small but required closing cost that establishes public record of the transaction.

WHERE YOU MAY SEE IT

Loan Estimate · Closing Disclosure · Settlement statement

EXAMPLE

Recording your deed and mortgage may cost $60–$300 depending on county.

COMMON MISUNDERSTANDING

Recording fees aren't set by the lender — they're set by the local government office that records the deed and mortgage.

See also: closing costs, deed, mortgage, title

Refinance

Refinancing

Replacing an existing mortgage with a new one — usually to change rate, term, structure, or pull cash.

Refinancing pays off the current loan with the proceeds of a new one. Purpose varies: lower payment, shorter term, ARM-to-fixed, or cash-out.

WHY IT MATTERS

A well-timed refinance can save tens of thousands of dollars over the life of a loan.

WHERE YOU MAY SEE IT

Loan Estimate · Closing Disclosure · Refinance application

EXAMPLE

You refinance a 7.25% mortgage to 6.00% and drop your monthly payment by $250 while paying $4,500 in closing costs.

COMMON MISUNDERSTANDING

Refinancing doesn't erase the original loan's history or automatically save money — closing costs and the new terms determine whether it's beneficial.

See also: rate and term refinance, cash out refinance, refinance break even, streamline refinance

Refinance Break-Even

Refinancing

The point at which the monthly savings from a refinance recoup its closing costs.

Break-even = closing costs ÷ monthly savings. If break-even is beyond how long you'll keep the loan, the refi may not pencil.

WHY IT MATTERS

It's the fastest sanity check on whether a refinance is worth it.

WHERE YOU MAY SEE IT

Refinance comparison worksheets · Loan Estimate

EXAMPLE

$4,500 in costs saving $150/month breaks even in 30 months — good if you'll stay past then.

COMMON MISUNDERSTANDING

The break-even point isn't the same for everyone — it depends on closing costs, the size of the payment change, and how long the borrower keeps the loan.

See also: refinance, rate and term refinance, cash out refinance, closing costs

Rehab Loan

Construction and Renovation

A loan that finances both the purchase (or refinance) of a home and the cost of eligible improvements.

FHA 203(k) and Fannie's HomeStyle are common examples. Funds for renovation are drawn on as work progresses, similar to construction financing.

WHY IT MATTERS

It lets buyers roll renovation costs into the mortgage instead of financing separately.

WHERE YOU MAY SEE IT

Loan program disclosures · Contractor bids · Underwriting conditions

EXAMPLE

A $300,000 purchase + $60,000 renovation is financed as one $360,000 rehab loan.

COMMON MISUNDERSTANDING

A rehab loan isn't the same as a personal loan for repairs — funds are typically disbursed in draws tied to completed work and verified by inspections.

See also: construction loan, construction draw, fha loan, conventional loan

Remaining Entitlement

Loan Programs

Remaining entitlement is the portion of a veteran's VA loan guaranty benefit still available after using some entitlement on a previous VA loan.

VA entitlement is the guaranty the VA provides lenders, which supports borrowing without a down payment on eligible loans. If a veteran still has an outstanding VA loan or used entitlement on a prior property, only the remaining portion may be available for a new purchase, which can affect down payment considerations depending on loan amount and location.

WHY IT MATTERS

Knowing your remaining entitlement helps determine whether a subsequent VA loan can be used without a down payment or whether other factors come into play.

WHERE YOU MAY SEE IT

Certificate of Eligibility · VA loan application · Lender entitlement calculation

EXAMPLE

For illustration, a veteran who used part of their entitlement on a starter home years ago might have reduced remaining entitlement available for a new VA purchase.

COMMON MISUNDERSTANDING

Remaining entitlement is not eliminated just because a prior VA loan was paid off through a sale — restoration is often possible, though rules vary by circumstance.

See also: certificate of eligibility, va loan, va funding fee

Repayment Period

Home Equity

Repayment period is the phase of a loan — often on a HELOC — during which you pay both principal and interest on a set schedule.

On products like a HELOC, the repayment period follows an initial draw period. Once it begins, you can no longer borrow against the line, and payments are structured to pay off the outstanding balance by the end of the term, which varies by lender and program.

WHY IT MATTERS

Payments typically jump when the repayment period starts because they now include principal, not just interest, so planning ahead avoids payment shock.

WHERE YOU MAY SEE IT

HELOC agreement · Line of credit terms · Home equity loan documents

EXAMPLE

For illustration, a HELOC might have a 10-year draw period followed by a 20-year repayment period during which the balance amortizes fully.

COMMON MISUNDERSTANDING

It is not the same as the draw period, when interest-only or flexible payments may be allowed.

See also: heloc, draw period, amortization, home equity loan

Reserves

Credit and Qualification

Liquid assets you have left after closing, measured in months of housing payments.

Programs count eligible checking, savings, brokerage, and often a portion of retirement funds. More reserves reduce lender risk and support approval.

WHY IT MATTERS

Reserves can be a decisive compensating factor for higher DTI, higher LTV, or complex files.

WHERE YOU MAY SEE IT

Bank statements · Underwriting conditions · Loan Estimate

EXAMPLE

A $3,000 PITI with $18,000 remaining after closing equals 6 months of reserves.

COMMON MISUNDERSTANDING

Reserves aren't the same as the down payment or closing funds — they're the liquid assets left over after those costs are covered.

See also: assets, gift funds, compensating factors, underwriting, affordability

Residual Income

Credit and Qualification

The net monthly income remaining after all debts, taxes, and typical living expenses — used by VA underwriting.

The VA sets minimum residual income requirements by region and household size. It's an additional test alongside DTI.

WHY IT MATTERS

Residual income can allow VA borrowers to qualify with higher DTI than other programs would permit.

WHERE YOU MAY SEE IT

VA underwriting worksheet · Loan application · Underwriting conditions

EXAMPLE

A family of four in the West must show a residual income above the VA's regional table minimum to qualify.

COMMON MISUNDERSTANDING

Residual income isn't the same calculation as DTI — it looks at actual dollars left over rather than a ratio of debts to income.

See also: va loan, debt to income ratio, underwriting, compensating factors

Reverse Mortgage

Home Equity

A loan for older homeowners that converts home equity into cash without monthly payments.

The most common reverse mortgage is the FHA-insured HECM. Interest accrues and the loan is repaid when the borrower moves, sells, or passes away.

WHY IT MATTERS

It can provide retirement income but reduces heirs' equity and has specific eligibility rules.

WHERE YOU MAY SEE IT

Loan disclosures · HUD counseling certificate · Closing Disclosure

EXAMPLE

A 72-year-old with a paid-off home draws a $200,000 line via a HECM to fund healthcare needs.

COMMON MISUNDERSTANDING

A reverse mortgage doesn't give away home ownership to the lender — the homeowner retains title, though the loan balance grows over time and becomes due under certain conditions.

See also: home equity, heloc, cash out refinance, fha loan

Right of Rescission

Closing and Settlement

A three-day window during which a borrower can cancel certain refinances or home equity loans on a primary residence.

Rescission applies to most refinances and HELOCs on owner-occupied primary residences — not to purchase loans.

WHY IT MATTERS

It gives borrowers a legal cooling-off period to reconsider without penalty.

WHERE YOU MAY SEE IT

Closing Disclosure · Notice of Right to Cancel · Truth in Lending disclosures

EXAMPLE

You sign a HELOC on Monday; funds don't disburse until after the three-day rescission window closes.

COMMON MISUNDERSTANDING

The right of rescission doesn't apply to most home purchase loans — it generally applies to certain refinances and home equity transactions on a primary residence.

See also: refinance, heloc, closing, closing disclosure

S

Seasoning

Credit and Qualification

Seasoning refers to the amount of time an asset, account, or property has existed or been held before it can be used to qualify for a loan.

Lenders and investors often want to see that funds have been in an account for a period of time (asset seasoning) or that a borrower has owned a property for a period before refinancing (title seasoning). Requirements vary widely by lender, program, and investor.

WHY IT MATTERS

Unseasoned funds or recently acquired properties can trigger extra documentation requests or limit certain loan options.

WHERE YOU MAY SEE IT

Bank statements · Cash-out refinance guidelines · Gift fund documentation

EXAMPLE

For illustration, an underwriter might ask for two months of statements to confirm a large deposit has been seasoned in the borrower's account.

COMMON MISUNDERSTANDING

Seasoning is not a fixed universal number of days or months — it depends entirely on the specific lender, loan program, and investor requirements.

See also: source of funds, underwriting condition, verification of assets

Second Mortgage

Home Equity

A loan secured by your home that sits in second-lien position behind the first mortgage.

Home equity loans and most HELOCs are second mortgages. In foreclosure, they're paid only after the first is satisfied.

WHY IT MATTERS

Second-lien position drives higher pricing and stricter guidelines than a first mortgage.

WHERE YOU MAY SEE IT

Loan Estimate · Closing Disclosure · Title commitment

EXAMPLE

A $50,000 second mortgage adds to your total leverage against the home behind your $300,000 first.

COMMON MISUNDERSTANDING

A second mortgage isn't automatically a home equity loan or HELOC by name — it simply refers to lien position, and various loan types can hold that position.

See also: first mortgage, heloc, home equity loan, subordinate financing, piggyback loan

Secondary Market

Mortgage Markets and Rates

The market where lenders sell existing mortgages to investors, freeing capital to make new loans.

Fannie Mae, Freddie Mac, and private investors buy loans in the secondary market and often bundle them into MBS.

WHY IT MATTERS

The secondary market is why standardized underwriting exists — and why mortgage rates move with bond yields.

WHERE YOU MAY SEE IT

Servicing transfer notice · Investor disclosures

EXAMPLE

Your lender sells your loan to Fannie Mae within weeks of closing to replenish capital for new lending.

COMMON MISUNDERSTANDING

Selling a loan on the secondary market doesn't change the borrower's loan terms — it typically only changes who owns or services the loan.

See also: mortgage backed securities, fannie mae, freddie mac, ginnie mae, conforming loan

Seller Concessions

Homebuying

Money contributed by the seller toward the buyer's closing costs, prepaid items, or rate buydown.

Concessions are capped by program and occupancy — often 3%–6% of price. They can eliminate cash-to-close friction without lowering the purchase price.

WHY IT MATTERS

Concessions can unlock a purchase for a buyer short on cash, and they're often negotiable in slower markets.

WHERE YOU MAY SEE IT

Purchase agreement · Loan Estimate · Closing Disclosure

EXAMPLE

On a $500,000 purchase, a $10,000 seller concession covers most of your closing costs.

COMMON MISUNDERSTANDING

Seller concessions aren't unlimited — loan programs cap how much can be applied toward a buyer's costs, and they can't be used to fund the down payment itself.

See also: closing costs, buydown, purchase agreement, discount points

Seller Credit

Closing and Settlement

A seller credit is money the seller agrees to contribute toward the buyer's closing costs or prepaid items, negotiated as part of the purchase agreement.

Seller credits reduce the amount of cash a buyer needs at closing by having the seller pay for some allowable costs. Limits on how much a seller can contribute vary by loan program, lender, and loan-to-value ratio.

WHY IT MATTERS

A well-negotiated seller credit can meaningfully lower a buyer's out-of-pocket cash to close without changing the purchase price.

WHERE YOU MAY SEE IT

Purchase agreement · Closing disclosure · Loan estimate

EXAMPLE

For illustration, a seller might agree to credit $6,000 toward closing costs as part of the negotiated purchase price.

COMMON MISUNDERSTANDING

A seller credit is not the same as a price reduction; it is applied specifically toward closing costs and prepaid items, subject to program limits.

See also: closing costs, closing disclosure, cash to close

Servicing Transfer

Mortgage Basics

A servicing transfer occurs when the company that collects your mortgage payments changes, even though your loan terms stay the same.

Lenders often sell the right to service a loan to another company after closing. When this happens, borrowers receive advance notice of where to send future payments, but the interest rate, balance, and terms of the loan remain unchanged.

WHY IT MATTERS

Knowing how to recognize a legitimate servicing transfer notice helps borrowers avoid missing payments or falling for scams during the transition.

WHERE YOU MAY SEE IT

Servicing transfer notice letters · Mortgage statements

EXAMPLE

For illustration, a borrower's loan might be sold from one servicer to another 90 days after closing, with payment instructions updated accordingly.

COMMON MISUNDERSTANDING

A servicing transfer does not change the loan's rate, balance, or terms — only who collects and manages the payments.

See also: mortgage note, escrow account, verification of mortgage

Settlement

Closing and Settlement

Another word for closing — the formal disbursement of funds and transfer of ownership.

Settlement wraps up all financial and legal steps: signing, funding, disbursing to seller and third parties, and recording the deed.

WHY IT MATTERS

Settlement is the moment ownership actually transfers.

WHERE YOU MAY SEE IT

Settlement statement · Closing Disclosure · Title company communications

EXAMPLE

The settlement agent wires funds, records the deed, and delivers keys to the buyer that day.

COMMON MISUNDERSTANDING

Settlement isn't a separate event from closing in most cases — the terms are commonly used interchangeably to describe finalizing the transaction.

See also: closing, closing disclosure, closing costs, recording fee

Short Sale

Ownership and Real Estate

A sale in which the lender agrees to accept less than the full mortgage payoff to avoid foreclosure.

Short sales require lender approval, take longer than normal sales, and can affect the seller's credit less severely than foreclosure.

WHY IT MATTERS

It's a workout option for underwater homeowners who need to sell.

WHERE YOU MAY SEE IT

Purchase agreement · Lender approval letter · Title commitment

EXAMPLE

Owing $320,000 on a home worth $290,000, the seller negotiates a short sale for $285,000 with lender approval.

COMMON MISUNDERSTANDING

A short sale isn't the same as a foreclosure — the homeowner still owns and sells the property, but with the lender's agreement to accept less than the full payoff.

See also: foreclosure, default, real estate owned, loan modification

Short-Term Rental

Investment Property

A rental leased for short stays, typically fewer than 30 days per booking (e.g., Airbnb, Vrbo).

STR income can be higher than long-term but more volatile. Underwriting typically requires documented income history or professional operator projections.

WHY IT MATTERS

Not every lender allows STR income, and city rules may restrict operations — check both before you buy.

WHERE YOU MAY SEE IT

Loan program disclosures · Appraisal report · Rental income documentation

EXAMPLE

A cabin generates $85,000 in annual STR revenue; a DSCR lender qualifies using two years of documented income.

COMMON MISUNDERSTANDING

Not every loan program treats short-term rental income the same as traditional long-term rental income — underwriting rules and eligible income sources can differ.

See also: long term rental, investment property, debt service coverage ratio, occupancy

Simple Interest

Mortgage Basics

Interest calculated only on principal, not on accumulated interest.

Most residential mortgages accrue on a monthly basis, effectively simple interest on the outstanding balance. Some private and daily-accrual loans compute interest per diem.

WHY IT MATTERS

It's the base calculation behind your monthly interest charge.

WHERE YOU MAY SEE IT

Loan disclosures · Amortization schedule · Promissory note

EXAMPLE

On $400,000 at 6.5%, monthly interest = $400,000 × 6.5% ÷ 12 = about $2,167.

COMMON MISUNDERSTANDING

Simple interest doesn't mean lower cost by default — how it's applied and compounded within a specific loan structure determines the actual cost.

See also: interest, interest rate, amortization, per diem interest

Soft Costs

Construction and Renovation

Non-construction costs of a build — permits, design, engineering, legal, and financing.

Soft costs typically run 10–20% of a project. Lenders include them in the total project cost when calculating LTC.

WHY IT MATTERS

Underestimating soft costs is a common cause of construction shortfalls.

WHERE YOU MAY SEE IT

Construction budget · Loan Estimate · Draw schedule

EXAMPLE

On a $500,000 build, soft costs of $75,000 (15%) cover permits, architect, engineer, and loan fees.

COMMON MISUNDERSTANDING

Soft costs aren't optional line items to skip — permits, design, and financing costs are often required parts of a construction budget.

See also: hard costs, loan to cost, contingency reserve, construction loan

Source of Funds

Credit and Qualification

Source of funds is the documented origin of money used for a down payment, closing costs, or reserves during mortgage underwriting.

Lenders require borrowers to show where their money came from — such as savings, a gift, sale of an asset, or a retirement account — to confirm funds are legitimate and not an undisclosed loan. Documentation requirements vary by lender and program.

WHY IT MATTERS

Unexplained large deposits can delay or jeopardize approval, so understanding what documentation is expected helps borrowers prepare.

WHERE YOU MAY SEE IT

Bank statements · Gift letters · Underwriting conditions

EXAMPLE

For illustration, a borrower might need to provide a letter explaining a $5,000 deposit that came from selling a car.

COMMON MISUNDERSTANDING

Source of funds review is not intended to question a borrower's finances personally — it is a standard step to verify funds are not undisclosed debt.

See also: seasoning, verification of assets, underwriting condition, gift letter

Special Assessment

Ownership and Real Estate

A special assessment is a one-time or temporary fee charged by an HOA or condo association to cover unexpected or major expenses beyond regular dues.

When a community faces a large repair, capital improvement, or budget shortfall, the association may levy a special assessment on owners in addition to normal fees. Amounts and payment terms vary by association and situation.

WHY IT MATTERS

Special assessments can be significant unplanned costs, and some lenders factor pending or recent assessments into underwriting decisions for the property.

WHERE YOU MAY SEE IT

HOA meeting minutes · Condo questionnaires · Association budgets

EXAMPLE

For illustration, a condo association might levy a $3,000 special assessment per unit to replace a roof.

COMMON MISUNDERSTANDING

A special assessment is not part of regular monthly HOA dues — it is an additional, often one-time charge.

See also: hoa, warrantable condominium, reserves

Streamline Refinance

Refinancing

A simplified refinance offered on FHA, VA, and USDA loans with reduced documentation.

FHA and VA streamlines (IRRRL) generally skip a new appraisal and full income verification when the refinance reduces payment or rate.

WHY IT MATTERS

Streamlines are the fastest, lowest-friction way to lower a rate on a government loan.

WHERE YOU MAY SEE IT

Loan program disclosures · Refinance application · Closing Disclosure

EXAMPLE

A VA borrower drops from 7.0% to 5.5% via an IRRRL with limited documentation and no new appraisal.

COMMON MISUNDERSTANDING

A streamline refinance isn't available to every borrower — eligibility generally requires an existing FHA, VA, or USDA loan, and other program conditions apply.

See also: refinance, rate and term refinance, va loan, fha loan

Subordinate Financing

Home Equity

Any lien on the property that sits behind the first mortgage in priority.

HELOCs, home equity loans, and DPA seconds are common examples. Subordinate liens must often be resubordinated when the first is refinanced.

WHY IT MATTERS

Ignoring subordinate financing during a refi can derail closing at the last minute.

WHERE YOU MAY SEE IT

Title commitment · Loan Estimate · Underwriting conditions

EXAMPLE

Your HELOC lender signs a subordination agreement so your refinance can close in first position.

COMMON MISUNDERSTANDING

Subordinate financing doesn't refer to the loan amount or interest rate — it refers strictly to the lien's priority behind the first mortgage.

See also: first mortgage, second mortgage, heloc, home equity loan, piggyback loan

Survey

Closing and Settlement

A drawing that shows a property's exact boundaries, structures, and easements.

Some lenders and jurisdictions require a survey to confirm the improvements are within the property lines and encroachments are known.

WHY IT MATTERS

Undiscovered encroachments or boundary disputes can affect title and future use of the property.

WHERE YOU MAY SEE IT

Title commitment · Closing package · Loan Estimate

EXAMPLE

A survey reveals a fence three feet over the property line, which the parties resolve before closing.

COMMON MISUNDERSTANDING

A survey isn't the same as a title search — a survey shows physical boundaries and structures, while a title search examines ownership and legal claims.

See also: title, title insurance, easement, encumbrance

T

Tax Escrow

Insurance and Property Costs

The portion of an escrow account that holds funds specifically for property tax payments.

Servicers estimate the annual tax bill, collect 1/12 monthly, and pay when due. Annual reconciliation adjusts the deposit for actual bills.

WHY IT MATTERS

It smooths large tax bills into predictable monthly amounts.

WHERE YOU MAY SEE IT

Mortgage statement · Escrow analysis · Closing Disclosure

EXAMPLE

A $6,000 annual tax bill collects at $500/month in escrow throughout the year.

COMMON MISUNDERSTANDING

Tax escrow isn't optional on every loan — many loan programs and lenders require it, especially with lower down payments.

See also: escrow account, escrow analysis, property taxes, piti

Tax Lien

Credit and Qualification

A tax lien is a legal claim placed against a property or a person's assets due to unpaid taxes, which can affect the ability to sell or refinance.

Tax liens can be filed by federal, state, or local taxing authorities when taxes go unpaid. They attach to property or assets and generally must be resolved, released, or subordinated before a home can be sold or refinanced.

WHY IT MATTERS

An unresolved tax lien can delay or prevent closing, since it typically must be paid off or addressed as part of the transaction.

WHERE YOU MAY SEE IT

Title search results · Credit reports · Public records

EXAMPLE

For illustration, a title search might reveal a state tax lien from several years earlier that needs to be paid off at closing.

COMMON MISUNDERSTANDING

A tax lien is not automatically removed by selling the property — it typically must be satisfied or otherwise resolved as part of the closing process.

See also: title search, title commitment, underwriting condition

Temporary Buydown

Mortgage Basics

A temporary buydown lowers a borrower's monthly payment for an initial period by using upfront funds to subsidize the interest rate before it steps up to the note rate.

Common structures include 2-1 buydowns, where the rate is reduced by 2% in year one and 1% in year two before returning to the full note rate. Funds for the buydown may come from the seller, builder, or lender, and availability varies by program and lender.

WHY IT MATTERS

A temporary buydown can ease the transition into homeownership with lower initial payments, but borrowers should plan for the payment increase once the subsidy period ends.

WHERE YOU MAY SEE IT

Loan estimate · Buydown agreement · Closing disclosure

EXAMPLE

For illustration, on a 2-1 buydown with a 7% note rate, the borrower's effective rate might be 5% in year one and 6% in year two before reaching 7% in year three.

COMMON MISUNDERSTANDING

A temporary buydown does not change the actual note rate of the loan — it subsidizes payments for a limited period only.

See also: buydown, discount points, seller credit, fixed rate mortgage

Tenancy in Common

Ownership and Real Estate

A form of co-ownership in which each owner holds a separate, transferable share with no automatic survivorship.

TIC shares can be unequal and can be sold or willed to heirs. It contrasts with joint tenancy's right of survivorship.

WHY IT MATTERS

It's often used by unrelated co-owners, investors, and estate-planning arrangements.

WHERE YOU MAY SEE IT

Deed · Title commitment · Co-ownership agreement

EXAMPLE

Two investors hold 60/40 TIC interests in a property; on death, each interest passes per will.

COMMON MISUNDERSTANDING

Tenancy in common doesn't include automatic survivorship rights — an owner's share passes to their estate, not automatically to the other co-owners, unlike joint tenancy.

See also: joint tenancy, title, deed, quitclaim deed

Term (Loan Term)

Mortgage Basics

The length of time you have to repay a loan — commonly 15, 20, or 30 years for mortgages.

Shorter terms build equity faster and reduce total interest but require higher monthly payments. Longer terms spread payments out and lower monthly cost.

WHY IT MATTERS

Term is one of the most important levers for shaping monthly cost and total interest.

WHERE YOU MAY SEE IT

Mortgage note · Loan Estimate · Amortization schedule

EXAMPLE

A 15-year loan at $400,000 costs more monthly than a 30-year but saves ~$200,000+ in interest over the life of the loan.

COMMON MISUNDERSTANDING

The loan term isn't the same as the time it actually takes to pay off a loan — extra payments or refinancing can shorten the effective payoff time.

See also: amortization, fixed rate mortgage, principal, interest

Title

Ownership and Real Estate

Legal ownership of a property, evidenced by a chain of recorded documents.

Clear title means no unresolved claims. Title issues discovered before closing are typically fixed during escrow; issues discovered after are covered by title insurance.

WHY IT MATTERS

You want title free of encumbrances that could challenge your ownership.

WHERE YOU MAY SEE IT

Deed · Title commitment · Title insurance policy

EXAMPLE

A title company clears an old paid-off mortgage that was never released before your closing.

COMMON MISUNDERSTANDING

Holding title isn't the same as being on the mortgage — a person can be on title without being obligated on the loan, and vice versa.

See also: chain of title, abstract of title, title insurance, title search, deed, lien

Title Commitment

Closing and Settlement

A title commitment is a document from a title company stating the conditions under which it will issue title insurance for a property.

The title commitment outlines the current owner of record, any liens or encumbrances, and requirements that must be met before title insurance is issued at closing. Buyers and lenders review it to identify issues that need to be resolved.

WHY IT MATTERS

Reviewing the title commitment early can surface problems — like unresolved liens — that need time to clear before closing.

WHERE YOU MAY SEE IT

Closing package · Title company disclosures

EXAMPLE

For illustration, a title commitment might list an old lien that must be released before the policy can be issued.

COMMON MISUNDERSTANDING

A title commitment is not the final title insurance policy — it is a promise to issue one once listed requirements are satisfied.

See also: title search, title insurance, tax lien

Title Insurance

Insurance and Property Costs

A policy that protects against losses from defects in a property's title that existed before closing.

Two types exist: lender's (required, protects the loan amount) and owner's (optional, protects your equity). Coverage is one-time premium at closing.

WHY IT MATTERS

Owner's title insurance protects you from an undiscovered claim, forged deed, or missed lien.

WHERE YOU MAY SEE IT

Closing Disclosure · Title commitment · Owner's policy

EXAMPLE

A previously undiscovered heir claims interest in the property; your title insurance defends and covers the loss.

COMMON MISUNDERSTANDING

Title insurance isn't the same as homeowners insurance — it protects against past title defects, not future damage to the property.

See also: title, title search, chain of title, abstract of title, closing costs

Title Search

Closing and Settlement

An examination of public records to trace ownership and identify liens or encumbrances on a property.

The title company reviews deeds, mortgages, judgments, tax liens, and easements to identify anything that must be cleared before closing.

WHY IT MATTERS

It surfaces problems in time to fix them before you become the owner.

WHERE YOU MAY SEE IT

Title commitment · Closing package

EXAMPLE

The search finds an unpaid contractor lien; it's satisfied from seller proceeds at closing.

COMMON MISUNDERSTANDING

A title search doesn't guarantee a title is free of all issues — it's why title insurance exists to cover risks a search might miss.

See also: title, title insurance, chain of title, abstract of title, lien, judgment

Total Interest Percentage (TIP)

Mortgage Markets and Rates

Total Interest Percentage is the total amount of interest a borrower will pay over the life of the loan, expressed as a percentage of the loan amount.

TIP is disclosed on the Closing Disclosure and shows the cumulative interest cost relative to the loan amount, assuming all payments are made as scheduled for the full term. It helps borrowers see the long-term cost of borrowing beyond the monthly payment.

WHY IT MATTERS

Comparing TIP across loan offers can highlight how term length and interest rate affect total cost over time, not just the monthly payment.

WHERE YOU MAY SEE IT

Closing Disclosure

EXAMPLE

For illustration, a loan with a TIP of 90% means the borrower would pay approximately 90 cents in interest for every dollar borrowed if the loan runs its full term.

COMMON MISUNDERSTANDING

TIP is not the same as APR — it reflects total interest paid rather than an annualized cost including certain fees.

See also: closing disclosure, amortization, principal and interest

Treasury Yield

Mortgage Markets and Rates

Treasury yield is the return investors earn on U.S. government bonds, which serves as a benchmark that can influence mortgage rate movements.

Mortgage rates, particularly for fixed-rate loans, tend to track loosely with longer-term Treasury yields, since both compete for the same investor capital. Many other factors also affect the specific rate a borrower is offered.

WHY IT MATTERS

Watching Treasury yield trends can offer context for why mortgage rates rise or fall, though it is only one of many influencing factors.

WHERE YOU MAY SEE IT

Financial news · Rate-lock discussions

EXAMPLE

For illustration, if the 10-year Treasury yield rises noticeably over a few weeks, mortgage rates often move in a similar direction, though not always by the same amount.

COMMON MISUNDERSTANDING

Treasury yield is not the same number as a mortgage rate — mortgage rates typically run higher and are influenced by additional factors like servicing costs and investor demand.

See also: index arm, rate lock, margin arm

TRID (TRID)

Closing and Settlement

TILA-RESPA Integrated Disclosure — the rules that produce the Loan Estimate and Closing Disclosure.

TRID standardized mortgage disclosures in 2015, requiring the LE within 3 business days of application and the CD at least 3 business days before closing.

WHY IT MATTERS

TRID timelines protect borrowers from last-minute surprises and enable apples-to-apples shopping.

WHERE YOU MAY SEE IT

Loan Estimate · Closing Disclosure · Compliance disclosures

EXAMPLE

The lender re-issues the CD after a fee change; the 3-day waiting period restarts before closing.

COMMON MISUNDERSTANDING

TRID isn't a loan program or a type of mortgage — it's a set of disclosure timing and format rules lenders must follow.

See also: loan estimate, closing disclosure, closing, truth in lending

Trust

Ownership and Real Estate

A trust is a legal arrangement where a trustee holds and manages property or assets on behalf of beneficiaries according to specific terms.

Property can be titled in the name of a trust for estate planning or asset management purposes. Financing or refinancing property held in trust involves additional documentation, and requirements vary by lender and the type of trust involved.

WHY IT MATTERS

Borrowers using a trust for vesting should expect extra paperwork and should confirm with their lender and legal advisor how the trust affects financing.

WHERE YOU MAY SEE IT

Vesting deed · Trust certification documents · Loan application

EXAMPLE

For illustration, a married couple might title their home in a revocable living trust for estate planning purposes, then work with their lender on trust-specific documentation when refinancing.

COMMON MISUNDERSTANDING

A trust does not automatically avoid taxes or eliminate the need for a lender's underwriting review; specific tax and legal effects depend on individual circumstances and should be discussed with a qualified advisor.

See also: trustee, vesting, deed

Trustee

Ownership and Real Estate

A trustee is the person or entity that holds legal title to a property or manages assets on behalf of beneficiaries under a trust or deed of trust.

In estate planning, a trustee manages trust property according to the trust document. In many states, a deed of trust also names a trustee who holds a security interest in the property until the loan is paid off, distinct from the borrower and lender.

WHY IT MATTERS

Understanding a trustee's role clarifies who has legal authority over a property in trust arrangements or in the event of default under a deed of trust.

WHERE YOU MAY SEE IT

Deed of trust · Trust documents

EXAMPLE

For illustration, a deed of trust might name a title company as trustee, holding legal title as security until the loan is repaid.

COMMON MISUNDERSTANDING

A trustee is not the same as the beneficiary or the borrower — they hold and manage the asset according to the governing document, not for personal benefit.

See also: trust, deed of trust, vesting

Truth in Lending (TIL) (TIL)

Closing and Settlement

The federal law requiring standardized disclosure of consumer credit terms, including APR and total finance charge.

TIL is now largely delivered via TRID's Loan Estimate and Closing Disclosure. It exists to make credit terms comparable and transparent.

WHY IT MATTERS

TIL disclosures are how you compare offers accurately, not just on the note rate.

WHERE YOU MAY SEE IT

Closing Disclosure · Loan Estimate · Truth in Lending disclosure

EXAMPLE

Your Loan Estimate discloses APR, finance charge, and total of payments under TIL requirements.

COMMON MISUNDERSTANDING

Truth in Lending disclosures don't replace the Closing Disclosure or Loan Estimate — the required information is now largely incorporated into those TRID forms.

See also: trid, loan estimate, closing disclosure, annual percentage rate

U

Underwriter

Credit and Qualification

The person or system that evaluates a loan file and issues the approval decision.

Underwriters verify income, assets, credit, property, and program eligibility. They issue conditions the file must clear before final approval.

WHY IT MATTERS

The underwriter is the ultimate gatekeeper; loan officers and processors advocate to them.

WHERE YOU MAY SEE IT

Underwriting conditions · Approval letter · Loan file notes

EXAMPLE

The underwriter approves your file conditional on updated pay stubs and a paid receipt for homeowners insurance.

COMMON MISUNDERSTANDING

An underwriter isn't the same as a loan officer — the underwriter evaluates and decides on the file rather than originating or selling the loan.

See also: underwriting, automated underwriting, loan officer, clear to close

Underwriting

Credit and Qualification

The lender's process of evaluating whether a loan meets guidelines and can be approved.

Underwriting reviews credit, income, assets, the property, and program rules. Files may pass through an AUS, a human underwriter, or both.

WHY IT MATTERS

Clean documentation and a well-structured file speed underwriting and reduce surprises.

WHERE YOU MAY SEE IT

Underwriting conditions · Approval letter · Automated findings report

EXAMPLE

Underwriting requests two additional bank statements and an explanation for a large deposit, then issues a conditional approval.

COMMON MISUNDERSTANDING

Underwriting isn't a single quick check — it's a full review of credit, income, assets, and the property that can involve multiple rounds of conditions.

See also: underwriter, automated underwriting, compensating factors, clear to close

Underwriting Condition

Credit and Qualification

An underwriting condition is a specific document or clarification an underwriter requires before issuing final loan approval.

After reviewing a loan file, underwriters often issue a list of conditions — such as updated bank statements, letters of explanation, or insurance documentation — that must be satisfied before the loan can move to clear to close. Conditions vary by borrower, file, and lender.

WHY IT MATTERS

Responding quickly and completely to underwriting conditions is one of the biggest factors in keeping a closing on schedule.

WHERE YOU MAY SEE IT

Conditional approval letter · Loan status updates

EXAMPLE

For illustration, an underwriter might request a letter of explanation for a recent large deposit as a condition of final approval.

COMMON MISUNDERSTANDING

Receiving underwriting conditions does not mean a loan has been denied — it is a normal part of most loan files before clear to close.

See also: clear to close, underwriting, source of funds

Uniform Residential Loan Application (URLA)

Mortgage Basics

The Uniform Residential Loan Application is the standardized form borrowers complete to apply for most residential mortgages.

Also known as Fannie Mae Form 1003, the URLA collects information about income, assets, debts, and the property being financed. Its standardized format allows lenders and investors to evaluate applications consistently.

WHY IT MATTERS

Understanding what the URLA asks for helps borrowers gather documentation and answer questions accurately, which can smooth the underwriting process.

WHERE YOU MAY SEE IT

Loan application · Online application portals

EXAMPLE

For illustration, a borrower completing the URLA lists their employer, monthly income, and outstanding debts as part of the application.

COMMON MISUNDERSTANDING

Completing the URLA is not the same as being approved — it starts the process, and the information is subject to verification during underwriting.

See also: underwriting, verification of assets, verification of mortgage

USDA Loan

Loan Programs

A government-backed mortgage for eligible rural and suburban buyers, offering 0% down.

USDA loans have income limits and property-eligibility rules based on the USDA's rural map. They include upfront and annual guarantee fees in place of PMI.

WHY IT MATTERS

For qualifying buyers in eligible areas, USDA can be a powerful 0-down option.

WHERE YOU MAY SEE IT

Loan program disclosures · Property eligibility map · Closing Disclosure

EXAMPLE

A first-time buyer in an eligible rural area uses a USDA loan to purchase with $0 down.

COMMON MISUNDERSTANDING

USDA loans aren't only for farms — they're available for eligible primary residences in qualifying rural and suburban areas.

See also: fha loan, va loan, government backed loan, mortgage insurance

V

VA Appraisal

Loan Programs

A VA appraisal is a property valuation required for VA-guaranteed loans that also checks the home against VA minimum property requirements.

In addition to estimating market value, a VA appraisal evaluates whether the property meets minimum property requirements for health and safety set by the VA. The appraisal is completed by a VA-approved appraiser and results in a Notice of Value.

WHY IT MATTERS

Because it combines valuation with a property condition check, a VA appraisal can flag repair items that need to be addressed before closing.

WHERE YOU MAY SEE IT

Notice of Value · VA loan file

EXAMPLE

For illustration, a VA appraiser might note peeling paint or a safety hazard that needs repair before the loan can close.

COMMON MISUNDERSTANDING

A VA appraisal is not the same as a home inspection — it focuses on value and minimum property requirements, not a comprehensive condition review.

See also: appraisal, home inspection, va entitlement, va loan

VA Entitlement

Loan Programs

VA entitlement is the amount the Department of Veterans Affairs guarantees on a VA loan, which helps determine how much a veteran can borrow without a down payment.

Entitlement is tied to a veteran's Certificate of Eligibility and can be full or partial depending on prior VA loan use. Available entitlement affects how much a lender may allow without a down payment, and specifics vary by lender and circumstances.

WHY IT MATTERS

Understanding remaining entitlement is important for veterans who have used a VA loan before and want to use the benefit again.

WHERE YOU MAY SEE IT

Certificate of Eligibility · VA loan disclosures

EXAMPLE

For illustration, a veteran with a prior VA loan might have partial remaining entitlement, which could affect the loan amount available without a down payment.

COMMON MISUNDERSTANDING

VA entitlement is not a cash benefit paid to the veteran — it is a guarantee that supports the lender in offering favorable loan terms.

See also: certificate of eligibility, va loan, veteran, va funding fee

VA Funding Fee (VA Funding Fee)

Loan Programs

A one-time fee charged on most VA loans that funds the VA loan program.

The fee varies by down payment, first-vs-subsequent use, and service type. It can be financed into the loan and is waived for eligible disabled veterans.

WHY IT MATTERS

It's the trade-off for the VA's $0-down, no-mortgage-insurance benefit.

WHERE YOU MAY SEE IT

Loan Estimate · Closing Disclosure · VA loan disclosures · Certificate of Eligibility

EXAMPLE

A first-use VA purchase with 0% down carries a funding fee of a small percentage of the loan, typically financed into the balance.

COMMON MISUNDERSTANDING

It isn't mortgage insurance and doesn't recur monthly. It also isn't charged to every veteran — some are exempt due to disability status.

See also: va loan, certificate of eligibility, residual income, mortgage insurance

VA IRRRL (IRRRL)

Refinancing

A VA IRRRL is a streamlined refinance option for existing VA loan holders designed to lower the interest rate or move to a more stable loan type.

The Interest Rate Reduction Refinance Loan generally requires less documentation than a standard refinance because the borrower already has a VA loan. It is typically used to reduce the rate or switch from an ARM to a fixed rate, and eligibility rules vary by lender and current circumstances.

WHY IT MATTERS

The reduced documentation requirements can make an IRRRL a faster path to a lower rate for eligible veterans, though terms and eligibility still depend on the lender and file specifics.

WHERE YOU MAY SEE IT

VA refinance disclosures · Loan estimate

EXAMPLE

For illustration, a veteran with an existing VA loan might use an IRRRL to move from an adjustable rate to a fixed rate with reduced documentation.

COMMON MISUNDERSTANDING

An IRRRL is not available for cash-out purposes in the same way a standard VA cash-out refinance is — it is generally intended for rate or term improvements.

See also: va loan, va funding fee, veteran, certificate of eligibility

VA Loan

Loan Programs

A mortgage guaranteed by the U.S. Department of Veterans Affairs for eligible service members, veterans, and surviving spouses.

VA loans offer $0 down, no monthly mortgage insurance, and competitive rates. A one-time funding fee applies (and can be financed) unless waived.

WHY IT MATTERS

The VA benefit is one of the most powerful mortgage programs in the U.S.

WHERE YOU MAY SEE IT

Certificate of Eligibility · Loan Estimate · Closing Disclosure

EXAMPLE

A veteran buys a $400,000 home with $0 down using their full VA entitlement.

COMMON MISUNDERSTANDING

A VA loan isn't issued directly by the VA in most cases — it's originated by private lenders and guaranteed by the

Department of Veterans Affairs.

See also: certificate of eligibility, va funding fee, residual income, streamline refinance, government backed loan

Vacancy Rate

Investment Property

The percentage of time a rental property is unoccupied during the year.

Underwriters commonly apply a 5–10% vacancy factor when calculating rental income. Investors should model realistic vacancy for their market.

WHY IT MATTERS

Assuming 100% occupancy overstates cash flow and DSCR.

WHERE YOU MAY SEE IT

Rent roll · Operating statement · DSCR loan underwriting

EXAMPLE

A property renting at $2,500/month with 5% vacancy generates $28,500/year (versus $30,000 at 0% vacancy).

COMMON MISUNDERSTANDING

Vacancy rate isn't the same as turnover — a property can have low turnover but still register vacancy days between tenants.

See also: cash flow, net operating income, cap rate, long term rental, short term rental

Valuation

Homebuying

Valuation is the process of estimating a property's market worth, commonly through an appraisal, automated model, or comparative market analysis.

Lenders rely on some form of valuation to confirm a property supports the requested loan amount. Methods include traditional appraisals, appraisal waivers, automated valuation models, and desktop or hybrid appraisals, with the method used varying by lender, program, and transaction.

WHY IT MATTERS

The valuation method used can affect timelines and, in some cases, whether an in-person appraisal is required at all.

WHERE YOU MAY SEE IT

Loan file · Appraisal or valuation report

EXAMPLE

For illustration, a lender might use an automated valuation model instead of a full appraisal for a refinance with strong equity, depending on program rules.

COMMON MISUNDERSTANDING

Valuation is not always synonymous with a full traditional appraisal — several different methods can be used depending on the lender and loan type.

See also: appraisal, va appraisal, title commitment

Variable Rate

Mortgage Markets and Rates

An interest rate that can change over the life of a loan based on an index.

HELOCs and ARMs use variable rates. Payments can move as the underlying index moves.

WHY IT MATTERS

Variable rates expose you to interest-rate risk in exchange for potentially lower starting rates.

WHERE YOU MAY SEE IT

HELOC disclosures · ARM documents · Rate change notices

EXAMPLE

A HELOC at prime + 1% moves whenever prime moves; a 5/6 ARM has a fixed period, then variable adjustments.

COMMON MISUNDERSTANDING

A variable rate isn't identical to an ARM in every case — variable-rate features also appear in products like HELOCs with their own adjustment rules.

See also: adjustable rate mortgage, heloc, prime rate, index arm

Verification of Assets (VOA)

Credit and Qualification

Verification of Assets is the process lenders use to confirm a borrower has the funds needed for a down payment, closing costs, and reserves.

Lenders typically verify assets through bank statements, investment account statements, or a third-party verification service. The documentation required and the number of months reviewed vary by lender and loan program.

WHY IT MATTERS

Accurate and complete asset documentation helps avoid delays, since undocumented or unexplained funds can trigger additional underwriting conditions.

WHERE YOU MAY SEE IT

Bank statements · Underwriting conditions · Loan application

EXAMPLE

For illustration, a lender might request two months of statements from each account listed on the loan application to verify available funds.

COMMON MISUNDERSTANDING

Verification of assets is not a one-time snapshot check only — some programs review account activity over multiple months for large or unusual deposits.

See also: source of funds, seasoning, reserves, underwriting condition

Verification of Employment (VOE) (VOE)

Credit and Qualification

A lender's confirmation of employment and income directly with the borrower's employer.

Written VOE requests document employment history and income; verbal VOEs typically confirm continued employment shortly before closing.

WHY IT MATTERS

A last-minute VOE is standard — job changes right before closing can derail an approval.

WHERE YOU MAY SEE IT

Underwriting conditions · Loan file · Closing conditions

EXAMPLE

Two days before closing, the lender performs a verbal VOE and confirms you're still employed.

COMMON MISUNDERSTANDING

A VOE isn't a one-time step early in the process only — many lenders re-verify employment shortly before closing to confirm nothing has changed.

See also: underwriting, gross monthly income, compensating factors

Verification of Mortgage (VOM)

Credit and Qualification

Verification of Mortgage is a document confirming a borrower's payment history on an existing mortgage, often used when credit report data is insufficient.

A lender may request a VOM directly from a current or prior mortgage servicer to confirm payment history, especially for borrowers with limited credit history reflected on standard credit reports.

WHY IT MATTERS

A clean VOM can help demonstrate reliable payment history, which is one factor underwriters weigh during file review.

WHERE YOU MAY SEE IT

Underwriting conditions · Loan file documentation

EXAMPLE

For illustration, an underwriter might request a VOM directly from a private mortgage holder not reporting to the credit bureaus.

COMMON MISUNDERSTANDING

A VOM is not the same as a credit report — it specifically confirms payment history on a particular mortgage, often outside standard credit reporting.

See also: verification of rent, underwriting condition, credit score

Verification of Rent (VOR)

Credit and Qualification

Verification of Rent is documentation confirming a borrower's on-time rental payment history, often used by first-time buyers without a mortgage history.

Lenders may obtain a VOR from a landlord or property management company, or review canceled checks and bank statements, to establish a pattern of on-time housing payments. Requirements vary by lender and loan program.

WHY IT MATTERS

A strong rental payment history can support an application for borrowers who don't yet have a mortgage payment history to reference.

WHERE YOU MAY SEE IT

Underwriting conditions · Loan file documentation

EXAMPLE

For illustration, a first-time buyer's lender might request twelve months of canceled rent checks to document consistent on-time payments.

COMMON MISUNDERSTANDING

Verification of rent is not required on every loan — its use depends on the borrower's credit profile and the specific program guidelines.

See also: verification of mortgage, underwriting condition, credit score

Vesting

Ownership and Real Estate

Vesting describes how title to a property is legally held, such as by an individual, joint tenants, tenants in common, or a trust.

How a property is vested affects ownership rights, how the property passes upon death, and how it can be transferred or refinanced. Choosing a vesting type often involves legal and tax considerations specific to the buyer's situation.

WHY IT MATTERS

Vesting decisions can have significant long-term implications for estate planning and ownership rights, so many buyers consult an attorney or tax advisor before finalizing their choice.

WHERE YOU MAY SEE IT

Deed · Title documents · Closing paperwork

EXAMPLE

For illustration, a married couple might choose to vest title as joint tenants with right of survivorship rather than as tenants in common.

COMMON MISUNDERSTANDING

Vesting is not simply a formality — it carries real legal consequences, and choosing the right option often depends on individual legal and tax circumstances best discussed with a qualified advisor.

See also: trust, trustee, deed

Veteran

Loan Programs

A veteran, in the context of VA loans, is a service member or former service member who meets eligibility requirements for VA loan benefits, as confirmed by a Certificate of Eligibility.

Eligibility for VA loan benefits depends on factors like length of service, discharge status, and type of service, and can also extend to certain surviving spouses. A Certificate of Eligibility documents whether an individual meets the requirements set by the VA.

WHY IT MATTERS

Confirming eligibility early through a Certificate of Eligibility helps determine whether VA loan benefits, including no-down-payment options, may be available.

WHERE YOU MAY SEE IT

Certificate of Eligibility · VA loan application

EXAMPLE

For illustration, a service member separating after a qualifying period of active duty might request a Certificate of Eligibility to confirm VA loan eligibility.

COMMON MISUNDERSTANDING

Eligibility for VA loan benefits is not automatic for every person who served — specific service length and discharge status requirements apply and vary by individual circumstances.

See also: certificate of eligibility, va entitlement, va loan

W

W-2 Income (W-2)

Credit and Qualification

W-2 income is earnings from an employer reported annually on IRS Form W-2, commonly used to document income for salaried and hourly employees.

Lenders typically review recent pay stubs, W-2 forms, and sometimes a verbal or written verification of employment to confirm stable W-2 income. This differs from self-employment income, which relies more heavily on tax returns.

WHY IT MATTERS

W-2 income is often considered more straightforward to document than self-employment or variable income, though additional documentation may still be requested depending on the file.

WHERE YOU MAY SEE IT

Pay stubs · W-2 forms · Verification of employment

EXAMPLE

For illustration, a salaried employee might provide their most recent 30 days of pay stubs and two years of W-2s to document income.

COMMON MISUNDERSTANDING

Having W-2 income does not guarantee automatic approval — lenders still evaluate stability, consistency, and how it fits with overall qualification factors.

See also: verification of mortgage, underwriting condition, credit score

Warrantable Condominium

Loan Programs

A warrantable condominium is a condo project that meets specific eligibility guidelines set by mortgage investors, allowing broader access to conventional financing.

Warrantability criteria typically look at factors like owner-occupancy rates, HOA financial health, litigation status, and the percentage of units owned by a single entity. Requirements vary by investor and lender, and non-warrantable condos may require different financing options.

WHY IT MATTERS

Whether a condo is warrantable can affect which loan programs and rates are available, making it an important early question when buying a condo.

WHERE YOU MAY SEE IT

Condo questionnaire · HOA financial documents · Underwriting review

EXAMPLE

For illustration, a condo project with high owner-occupancy and no pending litigation might qualify as warrantable, opening up more conventional financing options.

COMMON MISUNDERSTANDING

Non-warrantable does not mean a condo cannot be financed at all — it typically means the buyer may need a different loan program or lender.

See also: hoa, special assessment, reserves

Warranty Deed

Ownership and Real Estate

A deed in which the seller guarantees clear title and defends against past claims.

General warranty deeds provide the strongest protection to buyers. Special warranty deeds cover only the seller's period of ownership.

WHY IT MATTERS

It's the standard buyer-protective conveyance in most arm's-length transactions.

WHERE YOU MAY SEE IT

Closing package · Title records · Title commitment

EXAMPLE

The seller signs a general warranty deed at closing, guaranteeing clear title against all prior claims.

COMMON MISUNDERSTANDING

A warranty deed doesn't guarantee the property is free of physical defects — it guarantees clear legal title, not the condition of the home.

See also: quitclaim deed, deed, title insurance, chain of title

Wire Fraud

Closing and Settlement

Wire fraud in real estate refers to scams where criminals impersonate a title company, lender, or agent to trick buyers into wiring closing funds to a fraudulent account.

Fraudsters often intercept email communications and send fake wiring instructions that appear legitimate, directing funds to accounts they control. Once a wire is sent, recovering the funds is often difficult or impossible.

WHY IT MATTERS

Because wired funds are typically unrecoverable once sent, verifying wiring instructions by phone using a known, independently sourced number is one of the most important steps in a real estate closing.

WHERE YOU MAY SEE IT

Closing instructions · Title company communications · Consumer protection notices

EXAMPLE

For illustration, a buyer might receive an email that looks like it's from their title company with new wiring instructions — always confirming by phone before sending funds helps prevent fraud.

COMMON MISUNDERSTANDING

Wire fraud protections are not automatic just because you're working with a reputable title company — buyers must proactively verify instructions themselves.

See also: closing, title commitment, escrow account

Wraparound Mortgage

Loan Programs

A financing structure where the seller keeps the existing mortgage and holds a new, larger loan that 'wraps' around it.

Wraps are seller-financing arrangements. They can conflict with due-on-sale clauses and carry legal risk if not documented carefully.

WHY IT MATTERS

Wraps can facilitate a sale in specific scenarios but require experienced counsel to structure.

WHERE YOU MAY SEE IT

Seller financing agreement · Promissory note · Title commitment

EXAMPLE

A seller with a $200,000 mortgage sells for $350,000, holding a $325,000 wrap note while continuing to pay the underlying loan.

COMMON MISUNDERSTANDING

A wraparound mortgage doesn't pay off or replace the original loan — the seller keeps their existing mortgage in place and layers a new loan on top of it.

See also: acceleration clause, subordinate financing, portfolio loan, second mortgage

Y

Yield Curve

Mortgage Markets and Rates

The chart of interest rates on bonds of different maturities — a key indicator for mortgage pricing.

Mortgage rates track long-term bond yields, especially 10-year Treasury and MBS. An inverted curve (short rates above long) often precedes economic slowdowns.

WHY IT MATTERS

Understanding the curve helps borrowers time locks and refinances in shifting markets.

WHERE YOU MAY SEE IT

Market commentary · Rate lock confirmation · Secondary market disclosures

EXAMPLE

When 10-year Treasury yields rise 0.25%, mortgage rates typically rise a similar amount within days.

COMMON MISUNDERSTANDING

The yield curve doesn't directly set mortgage rates — it's a broader bond-market indicator that can influence, but not fully determine, mortgage pricing trends.

See also: mortgage backed securities, federal reserve, interest rate, rate lock

Yield Spread Premium (YSP) (YSP)

Mortgage Markets and Rates

Historically, a payment from a wholesale lender to a broker for delivering a loan at a rate above par.

Post-2010 regulation restricts how YSP can be used and requires clear disclosure. Today it typically appears as a lender credit that offsets closing costs when the borrower chooses a higher rate.

WHY IT MATTERS

It's the mechanism behind lender credits at higher rates.

WHERE YOU MAY SEE IT

Loan Estimate · Compensation disclosure · Closing Disclosure

EXAMPLE

You choose a rate 0.25% above the par rate to receive a $3,000 lender credit toward closing costs.

COMMON MISUNDERSTANDING

A yield spread premium isn't a hidden fee charged to the borrower directly — it's compensation paid by the lender to the originator, disclosed as part of loan pricing.

See also: discount points, annual percentage rate, closing costs, mortgage broker

Z

Zoning

Ownership and Real Estate

Local rules that govern how land can be used — residential, commercial, mixed-use, or otherwise.

Zoning affects what you can build, how you can rent (including short-term rentals), and future value. Non-conforming uses may be grandfathered.

WHY IT MATTERS

Zoning can make or break plans for ADUs, short-term rentals, and expansions.

WHERE YOU MAY SEE IT

Title commitment · Survey · Local zoning ordinance · Appraisal report

EXAMPLE

You buy expecting to add a rental ADU but discover zoning prohibits it in your subdivision.

COMMON MISUNDERSTANDING

Zoning doesn't determine loan eligibility by itself — lenders assess property type and use, but zoning classification is a separate local regulatory matter.

See also: short term rental, long term rental, investment property

Frequently asked questions

How many terms are in the Vabasso mortgage glossary?

The current edition defines 316 terms across 12 categories. Terms are added as products, disclosures, and market language evolve, and the edition date is shown on every page.

Is the glossary free?

Yes. The searchable online glossary and every individual term page are free to read, and the reference guide is free to download.

Do I need to give my email to download the reference guide?

No. The PDF downloads directly.

How often is the glossary updated?

It is reviewed on a recurring editorial cycle and updated when disclosures, program terminology, or common industry usage change. The last reviewed date appears on the glossary hub and on every term page.

Can I link to a specific term?

Yes. Every term has a permanent URL of the form /resources/mortgage-glossary/[term-slug], which is designed to remain stable.

Why do some definitions say requirements vary?

Because they do. Many mortgage terms describe a concept whose specific thresholds are set by the loan program, the investor buying the loan, the property type, or state law.

Is the glossary specific to Florida?

The definitions are general, but examples and cross-references often reference Florida markets because that is where Vabasso Mortgage concentrates. Terms tied to state law are flagged as varying by state.

What is the difference between the online glossary and the PDF?

The content is the same. The online version is searchable, filterable, and cross-linked to calculators and programs; the PDF is arranged for printing and offline reading with an A–Z and category index.

Can I print a single term?

Yes. Every term page has a print action that formats just that entry.

Can I save terms to review later?

Yes. The save action on each term page stores a bookmark locally in your browser. It is not tied to an account and is not sent to Vabasso Mortgage.

Are the examples real transactions?

No. Every example is illustrative and constructed to show the term in a realistic context. Numbers are not quotes.

Does reading the glossary affect my credit?

No. Reading educational content has no effect on your credit. Only a credit inquiry initiated as part of an application can appear on your report.

Why does the glossary include terms I will never encounter?

Because different readers encounter different subsets. An investor financing a fourplex and a first-time buyer using an FHA loan share fewer than half of their relevant terms.

Can real estate agents share this with clients?

Yes. Professionals are welcome to link to the glossary or individual term pages.

Is a definition here the same as my lender's definition?

Usually in substance, sometimes not in detail. When a lender's disclosure or guideline defines a term differently for your loan, that definition governs your transaction.

Does the glossary tell me whether I qualify for a loan?

No. It explains vocabulary. The Mortgage Readiness Assessment and Mortgage Pathway are the tools built to discuss your specific situation.

What should I do if a term is missing?

Use the Ask Vabasso AI panel on the glossary hub. Requests inform which terms are added in the next edition.

Are abbreviations searchable?

Yes. Searching LTV, DTI, PMI, ARM, or CD returns the full term, and abbreviations are shown alongside the term name.

Is the glossary content written by AI?

It is authored and reviewed by the Vabasso Mortgage editorial and licensed advisory teams. The structure is designed so AI assistants can quote it accurately, which is a different thing.

Does the glossary constitute a loan offer?

No. Nothing in this reference is a loan approval, a commitment to lend, a Loan Estimate, or legal or tax advice.

Tools, related pages, and next steps

Calculators

→ Mortgage Payment Calculator vabasso.com/calculators/mortgage-payment
→ Home Affordability Calculator vabasso.com/calculators/home-affordability
→ APR Calculator vabasso.com/calculators/apr
→ Discount Points Calculator vabasso.com/calculators/discount-points
→ Refinance Break-Even Calculator vabasso.com/calculators/refinance-break-even
→ Cash to Close Calculator vabasso.com/calculators/cash-to-close

Keep reading

→ Searchable mortgage glossary vabasso.com/resources/mortgage-glossary
→ Guide library vabasso.com/resources/guides
→ Mortgage Intelligence Center vabasso.com/resources

Next steps

→ Mortgage Readiness Assessment vabasso.com/pre-qualify
→ Mortgage Pathway vabasso.com/mortgage-pathway
→ Talk with a licensed advisor vabasso.com/contact

Sources

Consumer Financial Protection Bureau — Mortgage glossary and disclosure guides
HUD — Housing and FHA program resources
U.S. Department of Veterans Affairs — VA home loan program

Disclosure

This glossary provides general educational information. Mortgage terminology, qualification methods, forms, timelines, fees, program rules, and legal meanings may vary by lender, investor, loan program, property, occupancy, state, and transaction. Definitions do not represent loan approval, legal advice, tax advice, or a commitment to lend.

Vabasso Mortgage · NMLS #2864025 · Equal Housing Lender · https://vabasso.com · Version 1.0 · Last reviewed July 30, 2026