Mortgage Dictionary

Adjustable-rate mortgage (ARM)
A mortgage or home equity loan in which your interest rate and monthly payments may change periodically during the life of the loan, based on the fluctuation of an index. Lenders may charge a lower interest rate for the initial period of the loan. Most ARMs have a rate cap that limits the amount the interest rate can change, both in an adjustment period, and over the life of the loan. Also called a variable-rate mortgage.

Amortization
The gradual reduction in the principal amount owed on a debt. During the earlier years, most of each payment is applied toward the interest owed. During the final years of the loan, payment amounts are applied almost exclusively to the remaining principal, unless there has been negative amortization.

Amortization table
A time table or schedule to give you a breakdown of your monthly payments into principal and interest. You can use this schedule to figure out the amount of principal you'll repay during your mortgage term.

Annual fee
An annual amount you pay for having an open line of credit.

Annual adjustment cap
A limit on how much the variable interest rate on a loan can increase or decrease each year.

Annual percentage rate (APR)
The annual cost of a loan to a borrower. Like an interest rate, the APR is expressed as a percentage of the loan amount. Unlike an interest rate, however, it includes other charges or fees to reflect the total cost of the loan. The Federal Truth in Lending Act requires that every consumer loan agreement disclose the APR. Since all lenders must follow the same rules to ensure the accuracy of the APR, borrowers can use the APR as a good basis for comparing certain costs of loans.

Application fees
Non-refundable fees paid when you apply for your loan.

Appraisal or appraised value
An informed estimate of the value of property. When made in connection with an application for a loan secured by a home, it's usually made by a professional appraiser. It's sometimes called a property valuation.

Appraisal fee
The charge for estimating the value of property.

Appreciation
An increase in the value of property over time. Important factors in a home's appreciation are its location and condition, and the selling price of similar homes in the area. Appreciation increases the amount of equity, which may also increase the amount you can borrow for a home equity loan or line of credit. The opposite of depreciation.

Asset
Property or a possession of value that a lender may be willing to accept as collateral to secure repayment of debt. For example, real estate, stocks, mutual funds, cash and automobiles are all assets.

Assumable
When you sell your home, your buyer may be able to qualify to take over your existing mortgage at your current rate. This can be beneficial if interest rates have risen above the rate you're currently paying on your mortgage. The lower-interest rate benefit may make your home more affordable to prospective homebuyers.

Available funds
The total amount of funds available to you from your own funds and/or other sources that can be used for your down payment and the closing costs associated with a loan.

Balance sheet
A dated financial statement (in table form) that shows your assets, liabilities and net worth.

Balloon loan
A short-term loan with smaller payments for a certain period of time, and one or more large payments for the remaining principal amount, due at a specified time.

Balloon payment
A lump-sum payment, which is larger than your regular periodic payment, that's paid at the end of your loan repayment period.

Bankruptcy
A proceeding in federal court altering or eliminating an eligible individual's obligations to repay some or all of his or her creditors. A borrower may relieve debts by transferring his or her assets to a trustee. Different chapters or types of bankruptcy exist. If a person files bankruptcy, a record of the filing appears on the borrower's credit report for up to 10 years.

Base rate
The underlying interest rate used as a benchmark, or index, for pricing variable-rate loans such as adjustable-rate mortgages, auto loans or credit cards.

Basis point
An amount equal to 1/100th of a percentage point. For example, a fee calculated as 50 basis points of $200,000 would be 0.50% or $1000.

Breach
A violation of any legal obligation or contract.

Buy down
A buydown is the prepayment by a lender or homebuilder of a portion of the interest that will become due on your promissory note during the buydown period, thereby reducing your monthly payments. The buydown period may be one, two or three years, during which time your monthly payments will increase annually, in accordance with a predetermined schedule, ending with the monthly payment specified in your note.

Cap
A limit on how much a variable interest rate can increase. Many adjustable rate mortgages have both annual (or semi-annual) rate caps and lifetime caps. They limit the amount your payments can increase in an adjustment period and over the life of the loan.

Closing
The time and place, at which all documents for your loan are signed, dated and notarized. Also called a settlement.

Closing costs
Fees paid at or prior to the closing of your loan. They may include attorneys' fees, as well as fees for preparing and filing a mortgage, and for taxes, title search, and insurance. They include the expenses incurred in obtaining the loan and in transferring the ownership of any collateral property from the seller to the buyer. Generally closing costs range from 2% to 6% of the mortgage amount.

Co-borrower
An additional person who assumes equal responsibility for repayment of a loan and is fully obligated under the terms of the loan. This person also has equal rights to the proceeds of the loan.

Collateral
An asset, such as a car or a home, used for securing the repayment of a loan. The borrower risks losing the asset if the loan is not repaid.

Combined liens
The outstanding balance of all mortgages held on a property. Used to determine the total available equity when considering the appraised value of the property less total combined or outstanding liens.

Combined loan-to-value ratio (CLTV)
The ratio between the unpaid principal amount of your first mortgage, plus your home equity loan - or your credit limit in the case of a line of credit - and the appraised value of your home. Expressed as a percentage.

Commission

The fee charged by a broker or agent for negotiating a real estate or loan transaction. A broker commission is generally a percentage of the price of the property or loan.

Conforming loan

A mortgage loan that has the standard features as defined by and is eligible for sale to Fannie Mae and Freddie Mac.

Contingency

A specified condition that the sales contract requires must be satisfied before the home sale can occur. When buying a home, the two most common contingencies are that the house must pass inspection and that the borrower must be approved for a loan.

Contract

An oral or written agreement to do, or not to do, a certain thing.

Cost benefit analysis

A dollar-value analysis that compares the benefits of owning a home to the costs. Some home ownership benefits may include: tax savings you may receive on the mortgage interest and property taxes you pay; and the appreciation that may occur in the value of your home over time, building your home equity. Home ownership costs may include: interest you pay on the loan; closing costs, including any mortgage points; property taxes and homeowner's insurance premiums; private mortgage insurance premiums; and maintenance costs including those associated with normal wear and tear and weathering.

Credit reporting agency or credit bureau

An organization that gathers, records, updates and stores financial and public records of individuals who have been granted credit and provides this information to lenders and other authorized users for a fee.

Credit history

A record of an individual's debts and payment habits over time. It helps a lender determine whether or not a potential borrower is a good business risk.

Credit limit

The maximum amount you can borrow under a line of credit.

Credit report

A record of an individual's debts and payment habits. It helps a lender determine whether or not a potential borrower is a good business risk.

Credit score

A number, rating the quality of an individual's credit. Lenders calculate this number, often with the assistance of computer systems, as part of the process of assigning rates and terms to the loans they make.

Creditor

A person or business from whom you borrow or to whom you owe money.

Debt
An amount of money owed by one person, company, organization or other entity to another.

Debt consolidation
A single loan to pay off multiple debts, usually over a longer term. This is a popular use of home equity loan or line of credit.

Debt-to-income ratio
The percentage of your total debt compared to your total income before taxes. Many lenders like to see your debt (including your mortgage payments) be no more than 36% of your total income.

Deed (warranty or quit-claim)
A document that legally transfers ownership of real estate from a seller to a buyer. It's delivered to the buyer at closing. Before making a loan, a lender will usually require a title search or a title report to make sure the real estate that is to secure the loan is legally owned by the borrower.

Default
Failure to make mortgage payments on time or to meet other terms of a loan. Default can lead to foreclosure.

Delinquency
Failure to make payments on time.

Depreciation
A decline in the value of property due to wear and tear or any other reason. The opposite of appreciation.

Disclosures
Information given to consumers about their loans

Discount points
Typically, an amount paid at closing to the lender in conjunction with a mortgage loan in order to lower the interest rate. One discount point equals one percentage point of the loan amount.

Document preparation fee
Fee required to cover the cost of preparing the necessary documents for closing.

Down payment
The amount of cash you pay toward the purchase of your home to make up the difference between the purchase price and your mortgage loan. Down payments often range between 5% and 20% of the sales price depending on many factors, including your loan, your lender, your credit history and so forth.

Draw
The process of obtaining an advance against your available credit under your line of credit.

Draw period
The period during which a borrower can obtain advances from the available line of credit. At the end of the draw period, borrowers may be able to renew the credit line or may be required to pay the outstanding balance in full or in monthly installments.

Equal Credit Opportunity Act (ECOA)
A federal law that requires lenders and other creditors to make credit available without discrimination based on race, color, religion, national origin, age, sex, marital status or receipt of income from public assistance programs.

Equity
The difference between the fair market value (appraised value) of your home and your outstanding mortgage balances and other liens.

Escrow
The process of placing an amount of money and documents with a neutral third party, called an escrow agent, who's given the authority to deposit, disburse and distribute to the proper parties all the money and documents involved in a real estate transaction. The purpose is to protect both the buyer and seller in the transaction from the other side's unauthorized use of funds and ensures an arm's-length transaction between both sides. Also commonly used to mean an escrow account or impound account, required by many lenders and held by the lender during the term of the loan. This deposit is used to hold the borrower's advance payments toward insurance and property taxes until they become due.
Fair Credit Reporting Act (FCRA) Congress passed this act to give consumers certain rights when dealing with consumer reporting agencies, or CRAs. CRAs are required to provide accurate credit histories to authorized businesses for use in evaluating applications for insurance, employment, credit or loans.

Fair market value
The likely selling price of a home between a willing buyer and a willing seller on the open market. In a mortgage or a home equity loan, the fair market value is usually determined by an appraisal

Fannie Mae
Federal National Mortgage Association, a government-sponsored enterprise that buys and securitizes mortgages for re-sale in the secondary market.

FHA
An acronym for Federal Housing Administration, which is an agency of the Department of Housing and Urban Development. The FHA provides mortgage insurance for certain residential mortgages. It sets standards for underwriting these mortgages and for construction of homes secured by these mortgages.

FICO

An acronym for Fair Isaac Company, Inc., which develops the mathematical formulas used to produce credit scores for assessing credit risk.

Finance charge

The finance charge is the cost of consumer credit expressed as a dollar amount. It includes the amount of interest you will pay during the terms of the loan, origination points and certain other items. Some closing costs are not treated as finance charges.

First mortgage

A mortgage that is the senior lien against a property.

Fixed-rate mortgage

A home loan with a predetermined fixed interest rate for the entire term of your loan. This means that the interest rate will never change for as long as you have the loan.

Flood certification

A determination by a reputable source about whether property is located within a special flood hazard zone.

Flood insurance

Insurance that protects against loss due to floods. When available, this type of insurance is required by law when a property is located within a special flood hazard zone.

Foreclosure

A legal procedure in which property securing a defaulted loan is sold by the lender in order to repay a borrower's loan. The amount paid by a buyer at the foreclosure may not be enough to fully repay the loan and the borrower may continue to owe the lender the difference.

Freddie Mac

A government-sponsored enterprise which buys and securitizes mortgages for resale in the secondary market.

Funding date

The date on which the proceeds from a loan are available to, or disbursed for the benefit of, the borrowers.

Gift funds

The funds a borrower receives that do not have to be paid back.

Good faith estimate (GFE)

An itemized, detailed list of certain estimated costs associated with a home loan that the lender is required to provide to the borrower within three business days of the application.

Gross annual income
The total amount of income from all sources (not just salary) that a borrower receives per year before deductions.

Home equity line of credit (HELOC)
A line of credit secured by the equity in a borrower's residence. It can be used for home improvements, debt consolidation and other major purchases or expenses. Interest on these loans may be tax deductible. (Consult a tax advisor about tax deductibility of interest.) At closing, a credit limit is established. In most cases, the borrower can access the line of credit by a variety of access devices, such as convenience checks, debit cards and credit cards.

Home equity loan
An installment loan secured by the equity in a borrower's residence. It can be used for home improvements, debt consolidation and other major purchases or expenses. Interest on these loans may be tax deductible. (Consult a tax advisor regarding tax deductibility of interest.) On the funding date, all of the principal is advanced for the benefit of the borrower(s).

Home inspection
An inspection of the condition of a property. It's conducted by a third party who knows what to look for, including all major appliances and structural elements. If an inspector finds something wrong, and your sales contract allows you to, you can request that the seller pay for the repairs. If the seller refuses, and your sales contract allows you to, you may not have to proceed with the purchase of the home.

Homeowners' association
An organization of property owners that administers the rules and upholds the covenants of a subdivision, development or condominium complex.

Homeowners' insurance
Insurance to protect your home against damage from fire, hurricanes and other catastrophes. Usually, homeowners' insurance also covers you against theft and vandalism, as well as personal liability in case someone is hurt or injured on your property. A lender will likely require you to name it as a payee under the insurance if you need to make a claim.

HUD
An acronym for the U.S. Department of Housing and Urban Development. HUD is a governmental agency responsible for the implementation and administration of housing and urban development programs.

Impound account or escrow account
An account specifically set up by a lender to hold funds that are set aside for the payment of property taxes and insurance. These funds are held in escrow until disbursed on behalf of the borrower to the appropriate parties.

Index

When used in a note or credit agreement, the measurement used to decide how much the annual percentage rate will change at the beginning of each adjustment period. Generally, the index plus or minus margin equals the new rate that will be charged, subject to any caps. Different lenders use different index rates (cost of funds index, prime rate and so forth).

Inflation rate
The increase in price of consumer goods, usually expressed as a percentage over a specific period of time.

Initial rate
The starting interest rate. Some people call this a teaser rate, because it gives you low interest and low monthly payments at the beginning, but may adjust up at the next adjustment period (it will usually adjust even if the index doesn't go up, since it's lower than index plus margin for the initial period).

Interest
A charge paid for borrowing money.

Interest-only payments
Some lenders permit you to pay only the interest due on a loan for a portion of the loan term, which lowers your periodic payment, but does not decrease your principal balance on the loan. See balloon loan and balloon payment.

Interest rate
Cost for the use of a loan, usually expressed as a percentage of the loan, paid over a specific period of time. The interest rate does not include fees charged for the loan. See annual percentage rate.

Interest rate cap
A limit on how much the variable interest rate can increase at any one time. Many real estate loans have both annual (or semi-annual) caps and lifetime caps, which limit the amount your payments can increase in an adjustment period and over the life of the loan.

Investment property
Property that is purchased to generate rental income, or to be sold once it's appreciated in value.

Jumbo loan
Also known as a non-conforming loan. The amount of the loan exceeds standards that would make it eligible for sale to Fannie Mae and Freddie Mac.

Late charge
The penalty charged to the borrower when a payment is made past the due date and any allowable grace period.

Lender
An individual or business entity making a loan.

Lien
A legal claim of a creditor on the property of another as security for a debt.

Lien holder
An individual or entity that has placed a lien on real property.

Lifetime adjustment cap
A limit on how much the variable interest rate can increase during the term of a loan.

Line of credit
An agreement by a lender to extend credit up to a maximum amount for a specified time. In a home equity line of credit, the line of credit is secured by the borrower's home.

Listing price
The asking price of the home, or the price the home is listed for.

Liquidate
To sell assets for the purpose of accumulating cash.

Loan amount
The amount of debt, not including interest.

Loan term
The period of time during which a loan must be repaid. For example, a 30-year fixed loan has a term of 30 years. Also called term. See maturity date.

Loan-to-value ratio (LTV)
The ratio between the unpaid principal amount of your loan, or your credit limit in the case of a line of credit, and the appraised value of your collateral. Expressed as a percentage.

Lock-in
A lock period refers to the amount of time prior to closing that you can secure an interest rate for your loan. Generally, lock periods range from 30 days to more than 90 days. Generally, the longer the lock period, the more you pay in points or interest.

Manufactured housing
A structure that has been partially or entirely constructed at another location and moved onto the property (on a permanent foundation). A manufactured home may or may not be a mobile home.

Margin
The number of percentage points the lender adds to or subtracts from the index rate to determine the interest rate.

Market value
The likely selling price of a home between a willing buyer and a willing seller on the open market. In a mortgage or a home equity loan, the fair market value is usually determined by an appraisal. Also called fair market value.

Maturity date
The day on which all-outstanding principal, interest and fees must be repaid.

Minimum payment
The minimum amount you must pay (usually monthly) on your account to avoid a delinquency. Some loans may permit a minimum payment of interest only. Other loans may require a minimum payment of principal and interest. Many other variations of minimum payments exist.

Monthly payment
The amount paid each month toward the principal and interest amount of a loan. The monthly payment may or may not include taxes and insurance.

Mortgage
A legal document giving a lender a lien on real estate to secure repayment of a loan. Mortgage loans generally run from 10 to 30 years, after which the loan is required to be paid off. Also called deed of trust and/or security deed.

Mortgage insurance
Insurance that protects the lender if you default on your loan. This insurance usually costs from 0.15% to 2.5% of the loan amount. If your down payment is less than 20%, most lenders will require you to get mortgage insurance. Also called private mortgage insurance (PMI).

Mortgage points
A point is equal to 1% of the principal amount of your loan. Mortgage points are usually collected at closing. Also called points.

Mortgagee
The lender or other party named in the mortgage as the party who's entitled to receive repayment of the home loan.

Mortgagor
The borrower, or other party named in the mortgage as the party obligated to repay the home loan.

Negative amortization
The result when monthly payments don't cover all the interest due on the loan. The unpaid interest is added to the unpaid balance, which means the homebuyer will owe increasingly more than the original amount of the loan.

Non-conforming loan

A mortgage loan that's not eligible for sale to Fannie Mae and Freddie Mac due to non-standard features. These loans are often sold on the secondary market to private investors or held in the lender's portfolio as an asset.

Non-owner occupied
Properties in which the owner does not live.

Note
A written agreement in which the signer promises to pay to a named person or company a specific sum of money at a specified date or on demand.

Origination date
The date on which a loan was closed. See closing.

Origination fee
A fee imposed by a lender to cover certain processing expenses in connection with making a loan. Usually a percentage of the amount loaned (often 1%).

Owner-occupied
A property that the owner occupies either as a principal residence or second home.

Payment
The periodic amount of money to be paid by the borrower to reduce the balance of a loan. Sometimes referred to as principal and interest or P& I.

Payment cap
A limit on how much a monthly payment can increase at any one time. Some adjustable-rate mortgages have payment caps in addition to annual (or semi-annual) interest rate caps and lifetime interest rate caps. Payment caps don't limit the amount of interest charged and may cause negative amortization. Also called a cap.

P and I
An acronym meaning principal and interest. Principal and interest accounts for the majority of your mortgage payment, but doesn't include escrow payments for taxes, insurance, and any other costs that are paid monthly, or fees that periodically come due.

Per Diem interest
The amount of interest that accrues daily on a loan. This is calculated by multiplying the outstanding loan balance by the annual rate of interest and then dividing the result by 365.

PITI
An acronym for principal, interest, taxes and insurance. Also referred to as the monthly housing expense.

PMI

An acronym for private mortgage insurance. If your down payment is less than 20%, most lenders will require you to get private mortgage insurance. This is insurance that protects the lender if you default on your loan. This insurance usually costs from 0.15% to 2.5% of the loan amount. Also called mortgage insurance.

Points

Each point is equal to 1% of the loan amount (for example, two points on a $100,000 mortgage would cost $2,000). Points, if charged, are usually collected at settlement with all other closing costs. Negative points reflect the amount that will be credited to you and reduce the amount of closing costs you will pay. Also referred to as discount points.

Prepaid expenses

The expenses that are usually paid in advance, such as escrows for taxes and insurance, which are paid at closing.

Prepaid interest

The interim interest that's collected at closing of a first mortgage, covering the period from the date of disbursement to the first of the next month.

Prepayment penalty

A penalty assessed by some lenders if a loan is paid off early. This is a lump-sum amount due and payable in addition to the loan balance, and is usually limited to the early years of a mortgage. Not all loans have prepayment penalties.

Prequalification

The process of providing financial and other information (such as employment history and proposed collateral) by a prospective borrower in conjunction with determining how much loan the borrower can obtain for the purchase of a home.

Previous balance

The amount you owed at the end of the previous payment period. If your credit card company calculates your finance charge using the previous balance method, you pay interest on that amount. Any payments, credits or new purchases made during the current payment period are not counted.

Primary applicant

The applicant whose name appears first on the application.

Primary residence

This is the home in which a borrower resides most of the time.

Prime rate

The interest rate that banks charge to their most creditworthy customers on short-term loans.

Principal

The amount of money borrowed on a loan.

Processing fee
A fee charged to cover the administrative costs of processing your loan request.

Property tax
A fixed percentage based on the appraised value of your home that you pay to the county in which the home is located. The specific percent varies dramatically from county to county in every part of the country. You pay this tax annually, semi-annually or as part of your monthly mortgage payments. Depending on when you actually close your loan, some of this property tax may be due at the time of closing. The local county assessor's office can give you the rate for your county.

Rate
The rate of interest on a loan, expressed as a percentage of 100.

Rate cap
A limit on how much the interest rate can change, either per adjustment period or over the term of the loan.

Rate Information
Rate includes a .50% discount available for automatic payment from a Bank of America relationship account. Rate requires minimum Home Equity Line of $250,000 and a loan-to-value ratio of 80% or less on owner-occupied collateral in Washington. Please see assumptions for further terms and conditions and additional rate information.

Refinancing
Paying off one loan with the proceeds from another loan, generally using the same property as collateral.

Repayment period
In a line of credit, the period when no advances of principal are available and during which the line must be fully repaid, according to the payment terms. In a home equity line of credit, the repayment period is the portion of the loan term that follows the draw period.

Rescission
The cancellation of a contract. In certain real estate-secured transactions that involve the refinance of a primary residence, applicants have three business days to cancel the transaction.

Real Estate Settlement Procedures Act (RESPA)
The federal law that defines the rules for proper disclosure of fees and information related to residential real estate transactions.

Revolving line of credit
A line of credit that allows up to the credit limit amount to be re-borrowed in repeated transactions once it's been repaid. A home equity line of credit is a type of revolving line of credit.

Savings rate
The rate of return you receive on your investments, stated as a yearly percentage rate. Also called the rate of return.

Secondary market
The market in which lenders and investors buy and sell existing mortgages or mortgage-backed securities, which in turn provides greater availability of funds to lenders for additional mortgage lending.

Second mortgage
The traditional term for a home loan that's a subordinate lien and not a first mortgage, such as a home equity loan or line of credit.

Secured loans
Loans for which you've given the lender a lien on property such as an auto, boat or other personal property or real estate that will serve as collateral for the loan.

Security interest
The legal right an owner gives to a lender to use the owner's property as collateral for repayment of a debt to either the owner or another borrower.

Settlement
The completion of a property's sale or purchase, or the completion of all steps necessary to receive the proceeds of and create an obligation to repay a loan. Also called a closing.

Settlement costs
Fees paid at, or prior to, the closing of your loan. They may include attorneys' fees, as well as fees for preparing and filing a mortgage, and for taxes, title search, and insurance. They're all the expenses incurred in obtaining the loan and in transferring the ownership of property from the seller to the buyer. Generally, settlement costs range from 2% to 5% of the mortgage amount. Also called closing costs.

Tax rate
The percentage of your income that you owe in income taxes.

Tax savings
The amount you may save in taxes by itemizing deductions on income tax returns. Mortgage interest and property taxes are two expenses that you may realize tax savings on, since you may be able to deduct these expenses from your income. Always check with your tax advisor for advice on tax deductibility.

Term
The number of years it will take to pay off a loan. The loan term is used to determine the payment amount, repayment schedule and total interest paid over the life of the loan. For example, at the following terms a loan of $200,000 with a 7.500% APR would have the following payments and total interest paid:

- 15-year mortgage: 180 monthly payments of $1,854 each and total interest paid of $133,724.

• 20-year mortgage: 240 monthly payments of $1,611 each and total interest paid of $186,886.
• 30-year mortgage: 360 monthly payments of $1,398 each and total interest paid of $303,435.
Example assumes an 80% loan-to-value ratio, based on an APR of 7.500% and no points. Amounts may be rounded up. Closing costs apply. If the down payment is less than 20%, mortgage insurance may be needed, which could increase the monthly payment and APR. For adjustable rate loans, rates are subject to increase after the initial fixed-rate period. Loans are subject to credit approval. Flood and/or property insurance may be required. Rates and terms are subject to change without notice and may vary depending upon your credit history.
A 15-year mortgage compared to a 30-year mortgage, using this information, would save you $169,711 in interest.

Third-party fees
Fees charged for services rendered by parties other than the borrower or the lender. Such fees may include appraisal, credit report, title and flood certifications.

Title
Written evidence of ownership in property.

Title insurance
Insurance that protects an interested party, either the owner or the lender, against defects that would affect legal ownership of the property.

Title search
An examination of records used to determine the legal ownership of property and all liens and encumbrances on it. Usually performed by a title company or attorney.

Titleholder
The legal owner of real property, including a home or automobile.

Total cash required to close
The total of all closing costs, points, prepaid expenses, down payment and any other fees or adjustments due at closing.

Total housing expense
The total of all of your combined expenses due to the ownership of property, including: principal, interest, property taxes, homeowners' insurance, mortgage insurance, homeowners' association dues and any special assessments.

Transaction fee
The fee that may be charged each time you draw on your credit line.

Truth-in-Lending Act
A federal law requiring disclosure of credit terms using a standard format. This is intended to facilitate comparisons between the lending terms of different financial institutions.

Types of loans

Major types of loans include:

• Mortgage loans. Loans you take out to pay for your home.

• Home equity loans and lines of credit. Loans you take out using the equity in your home as collateral.

• Consolidation loans and refinancing. Loans you take out to repay other loans.

• Personal property secured loans. Loans you take out to pay for an auto, boat or other personal property that will serve as collateral for the loan.

Underwriting

The lender's process of deciding whether to make a loan to a potential borrower based on credit, employment, assets and other factors, and the matching of this risk to an appropriate rate, term and loan amount.

Unsecured lines of credit

Revolving line of credit that is not secured, typically accessed with a check or credit card.

Upfront costs

The costs you must pay when applying for a loan. Typically these include loan application fees. Some lenders require some of your closing costs also be paid when you apply.

VA

An acronym for the Veterans Affairs, a branch of the federal government that provides home loan guarantees for qualified veterans of U.S. military forces.

Variable rate

An interest rate that may fluctuate or change periodically, often in relation to an index, such as the prime rate or other criteria. Payments may increase or decrease accordingly.