GLOSSARY

Fair Housing:
It's Not an Option;
It's the Law

Adjustable rate mortgages(**ARMs**) – Adjustable rate mortgages (ARMs) usually start with a lower interest rate than a fixed rate mortgage, therefore lowering monthly payments. This allows the borrower to qualify for a larger mortgage than would be possible with a fixed-rate mortgage. The interest rate on an ARM is adjusted periodically based on an index that reflects changing market interest rates. When the interest rate is adjusted, the monthly payment goes up or down.

Amortization – The gradual repayment of a mortgage loan by making regular payments over time. To be "fully amortizing," payments must cover both the principal amount and interest due on the mortgage loan for the given period. An amortization schedule is an established timetable for making payments.

Annual percentage rate (**APR**) – Measured as the percentage of a mortgage loan's principal that would be paid in finance charges if the mortgage loan was carried for one year. APR includes both interest costs and fees charged on a mortgage loan. Disclosure of the APR of mortgage loans is necessary so that borrowers can better understand the cost of the credit.

Applicant – A person who has completed the paperwork for a mortgage loan.

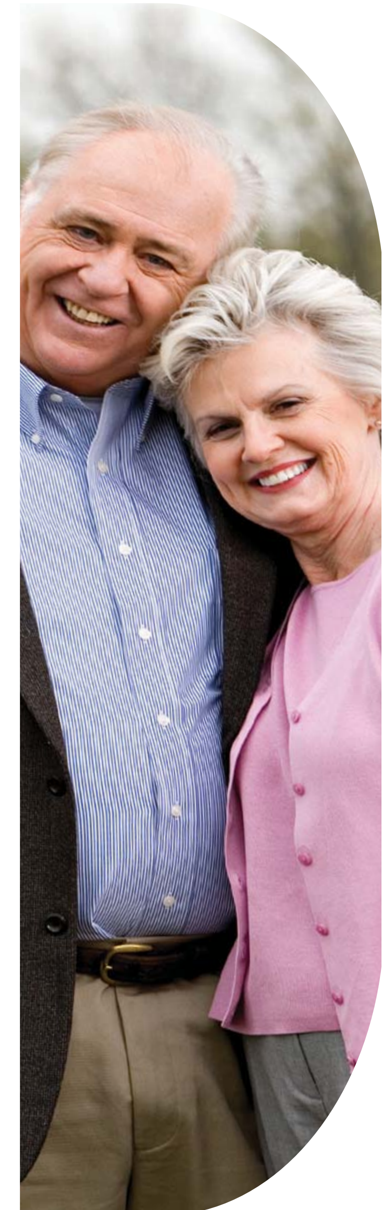
Balloon mortgages – Type of mortgage loan in which the final payment is significantly larger than the payments that are made over the mortgage term. Borrowers might choose a balloon mortgage if they anticipate refinancing at the end of the term or if they have enough money to pay off the balance of a mortgage loan in a lump sum.

Borrower – A person who has been approved to receive a mortgage loan and is then obligated to repay it and any additional fees according to the mortgage loan terms.

Collateral – An item of value that a lender can take as compensation if a borrower fails to repay a mortgage loan as scheduled. Borrowers generally are required to secure a mortgage loan with real or personal property as collateral. On mortgage loans, the property that the borrower purchases usually serves as collateral.

Credit history – A borrower's record of various debts (including credit cards and other consumer debt) and whether payments of those debts were timely. Mortgage lenders examine borrowers' credit histories to help determine the kind of mortgage loan and terms of credit for which they are eligible.

Credit score – A credit rating established according to an independent statistical evaluation of your ability to repay debt based on your



borrowing and repayment history. Credit grantors use a point system to evaluate your credit history, sometimes on a scale of 300 to 850. If you always pay your bills on time, you are more likely to have good credit and therefore may receive favorable terms on a mortgage loan or credit card, such as relatively low interest rates. If your credit rating is poor because you have paid bills late or have defaulted on a loan, you are likely to get less favorable terms or may be denied credit altogether.

Debt to income ratio – the ratio of debt payments to income, including both a borrower's housing debt and other debts. Lenders calculate this ratio during the mortgage loan underwriting process and use the result as one major factor in determining whether a borrower qualifies for a mortgage loan. A higher ratio means a greater debt burden and generally indicates a greater risk of default.

Equal Credit Opportunity Act (**ECOA**) – Federal law requiring creditors to make credit equally available without discrimination based on race, color, religion, national origin, age, sex, marital status, or because all or part of the applicant's income is derived from any public assistance program, or because the applicant has, in good faith, exercised any right under the Consumer Credit Protection Act. ECOA can be found in U.S. Code Title 15, chapter 41, sub-chapter IV.

Fair Credit Reporting Act (**FCRA**) – A consumer protection law that regulates the disclosure of consumer credit reports by consumer credit reporting agencies and establishes procedures for correcting mistakes on one's credit record. FCRA can be found in 15 U.S. Code section 1681, et seq.

Fair lending – The prohibition against unlawful discrimination in lending. The Fair Housing Act prohibits discrimination on the basis of race, color, religion, national origin, sex, familial status, or disability. In addition, the Equal Credit Opportunity Act (which is not administrated by HUD) prohibits discrimination because of age, receipt of public assistance, marital status, and the good faith exercise of rights under the Consumer Protection Act.

Fee – Any cost that the borrower(s) must pay for services.

Foreclosure – The legal proceedings initiated by a lender to repossess the collateral for the mortgage loan that is in default.

Good Faith Estimate (**GFE**) – Is an estimate of charges or range of charges that a prospective borrower is likely to incur in connection with financing a home.

HUD–1 Settlement Statement – A disclosure form provided to the borrower during closing or settlement of a residential real estate transaction that itemizes all actual settlement costs of all mortgage loan transactions.

Income – Money earned or received from various sources, such as employment, investments, trusts, and child support.

Interest – The fee charged by lenders for extending credit, usually a percentage of the mortgage loan amount. Even a small difference in an interest rate can make a big difference in how much a borrower pays over time. Responsible lenders adjust interest rates according to their level of risk in a mortgage loan.

Loan term – The loan term is the length of time before the mortgage loan is due to be repaid in full. Most mortgage loans have 15, 20, or 30-year terms.

Points – Prepaid interest on the borrower's mortgage, charged by the lender at the time of the closing. Each point is one percent of the mortgage loan amount. For example, 2 points on a $100,000 mortgage loan would be $2,000.

Predatory lending – The use of abusive and exploitive lending practices that extracts the equity out of a homeowner's home and/or increase indebtedness. This type of lending violates federal fair lending laws if it targets members of protected classes for harsher treatment and conditions.

Prepayment – Additional payments made by the borrower which may reduce interest costs by lowering the balance and thereby shortening the time to pay off the mortgage loan.

Prepayment penalty – A penalty that may be imposed for paying off a mortgage loan before it reaches the end of its term.

Principal – The balance of money lent, excluding interest.

Redlining – The refusal to offer credit or insurance in certain neighborhoods.

Refinance – The payoff of an existing mortgage loan with a new mortgage loan using the same property as security. Homeowners may refinance to get cash drawn from existing home equity or to obtain a new mortgage loan with a better interest rate and/or payment terms.

Reverse Mortgage – A special type of mortgage loan that borrows against the equity built up over years of prior mortgage payments. The borrower must be a homeowner, 62 years of age of older, live in the home, and own their home outright or have a low mortgage balance that can be paid off at the closing with proceeds from the reverse mortgage loan. The homeowner can receive either a lump sum or monthly payments for an agreed time frame, exhausting the equity from the house. This type of mortgage loan does not include any repayment terms and is satisfied when the homeowner or his or her representative sells the house or pays off the mortgage loan.

Reverse redlining – A practice in which lenders specifically market high cost or predatory loans to potential customers based on factors such as race or ethnicity. Reverse redlining is a form of discrimination not because it excludes minorities and other vulnerable populations, but because it targets and exploits them by offering loans with abusive terms and conditions.

Subprime – Is a segment of the lending market that extends credit to borrowers who either cannot or perceive they cannot qualify for a prime rate mortgage loan. This type of mortgage loan has higher interest rates than prime mortgage loans.

Truth In Lending Act (**TILA**) – A federal law designed to protect consumers in credit transactions by requiring clear disclosure of key terms of the lending arrangement and all costs. TILA can be found in 15 U.S. Code section 1601, et seq.

Underwriting – The process of evaluating a mortgage loan application to determine the risk involved for the lender. Underwriting involves an analysis of the borrower's creditworthiness and the quality of the property.

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