

Glossary of Terms

Amortization

Repayment of a mortgage debt with periodic payments of both principal and interest, calculated to retire the obligation at the end of a fixed period of time.

Capitalized Arrearage

Delinquent amounts owed on your mortgage that are added to the principle balance to bring your loan current.

Deed-in-Lieu of Foreclosure (DIL)

The borrower voluntarily deeds the property to the servicer as satisfaction for the mortgage.

Deferred Payments

Payments that are authorized to be postponed as part of the workout process.

Equity

In the case of real estate, the difference between the present value of the property and the mortgage amount on that property.

Escrow

An item of value, money or documents deposited with a third party to be delivered upon the fulfillment of a condition. For example, the deposit by a borrower with the lender of funds to pay taxes and insurance premiums when they become due or the deposit of funds or documents with an attorney or escrow agent to be disbursed upon the closing of a sale of real estate. In some parts of the country, escrows of taxes and insurance premiums are called impounds or reserves.

Forbearance

The act of refraining from taking foreclosure action despite the fact that the mortgage is delinquent. It is usually granted only when a borrower makes satisfactory arrangements to pay the amount owed at a future date.

Foreclosure

The legal process in which a mortgaged property is taken to pay the outstanding debt in case of default.

Imminent Default

A condition where a borrower is currently paying his or her mortgage, but has a reasonable expectation that they will soon be unable to make their full mortgage payment.

Informal Forbearance Plans

Short-term postponements or reductions in payments with a typical duration of three months, followed by repayment of the arrearage over time.

Loan Modification

Modification results in permanent changes to one or more of the original loan terms, such as the interest rate and/or duration of the loan. A modification often provides an immediate resolution to the delinquency by taking the amount of arrearage and adding it to the balance of the modified loan (e.g. *capitalized arrearage*) and re-amortizing the payments. The duration of the loan can also be extended to reduce monthly payments. This option is generally not preferred for borrowers experiencing a temporary financial problem.

Mortgage Debt-to-Income Ratio

The percentage of a borrower's gross (pre-tax) income that goes toward housing (principal, interest, taxes, property insurance and, if applicable, homeowners association/condo fees).

Net Present Value Test

A method by which the present value of future earnings based on the modified terms is compared with present market value of an investment.

Pre-Foreclosure Sale (PFS) or Short Sale

Proceeds from a sale of the borrower's home are accepted as satisfaction for the mortgage, even though they represent less than the amount owed.

Repayment Plan

An arrangement by which a borrower agrees to make additional payments to pay down past due amounts while still making regularly scheduled payments.

Servicer

A mortgage banking function which includes the receipt of payments, escrow administration, investor accounting, collections and foreclosures. Also called "loan administration."

Special Forbearance Plans

These plans are longer-term forbearance plans that typically combine a period of postponed or reduced payments followed by repayment of the arrearage over an extended time frame. There can be a cap on the amount of PITI (principle, interest, taxes and insurance) payments that can be deferred.

Work-Out

An alternative action to foreclosure for the benefit of the lender and the borrower. Includes loan modification, short sales and various forms of forbearance. Also called a "restructure."