Short Sale Glossary

Accrued: expenses incurred but not yet paid (i.e. accrued mortgage interest or property taxes).

Addendum: any addition or change to a contract.

Appraisal: a professional appraiser's opinion of a property's current market value.

Arm's Length Transaction Affidavit: form lenders often require buyers, sellers and realtors to sign during the course of a short sale to prove that all parties are unrelated and do not share a business interest.

BPO (Broker's Price Opinion): valuation usually performed by a licensed realtor on behalf of a bank to determine the current market value of a property.

Closing: process of finalizing a real estate transaction where final documents pertaining to the sale or purchase of a piece of property are reviewed by the interested parties, signed as required and funds conveyed to complete the transaction.

Closing Costs: costs or expenses associated with buying or selling real estate, including transfer taxes, realtor commissions, loan, title, appraisal or attorney fees etc.

Cloud on Title: defect in the title like a lien, claim, judgment or encumbrance that impairs the owner's ability to market the property.

Collateral: asset like real estate or personal property pledged as security for a debt.

Credit Report: A report compiled by a credit bureau that details credit history, credit inquiries and facts about all accounts ever opened with respective to credit lines and on-time or late payment behavior used to evaluate a credit risk.

Credit Score: a three digit number calculated using a formula that indicates a borrower's ability to repay a loan based on the person's credit report information, typically sourced from credit bureaus.

Deed: a written instrument that when executed and delivered conveys title to or interest in real estate.

Deed In Lieu of Foreclosure (DIL): occurs when a homeowner borrower voluntarily deeds their property to their lender in exchange for cancellation of the mortgage debt.

Deed of Reconveyance: an instrument that releases and discharges a deed of trust in some U.S. states, when the mortgage has been paid.

Deed of Trust (Trust Deed): a type of security instrument in some U.S. states conveying title in trust to a third party covering a particular piece of property.

Deficiency Balance: amount left over when the money realized from the sale of a foreclosed property is insufficient to pay off the full loan amount.

Deficiency Judgement: a court order that makes borrowers personally liable for unpaid debt. Occurs when a borrower is sued by a creditor and has lost the court case and the judge has issued an order.

Delinquent Mortgage: a mortgage for which the borrower has failed to make payments as required in the loan documents. If the borrower can't bring the payments current within a certain time period, the lender may initialize foreclosure proceedings.

Demand Letter (Letter of Demand or L.O.D. or Breach Letter): notice to the borrower that he is in "breach" of the terms of a mortgage note.

Escrow: The holding of assets by a third party (i.e. a bank). An escrow account is one that is established to hold separate funds for the purpose of paying bills such as homeowner's insurance and property taxes.

Fair Credit Reporting Act (FCRA): is a United States federal law that regulates the collection, dissemination, and use of consumer information, including consumer credit information.

Fair Market Value: an estimate of the market value of a property based on what a knowledgeable, willing and unpressured buyer would probably pay to a knowledgeable, willing and unpressured seller.

Fannie Mae (FNMA): Federal National Mortgage Association (FNMA) commonly known as Fannie Mae is a federally chartered corporation that buys mortgages that meet its standards from mortgage lenders then pools them and sells them as mortgage-backed securities to investors on the open market. Fannie guarantees the monthly principal and interest payments on the mortgage-backed securities it issues.

FHA (Federal Housing Administration): federal agency that provides mortgage insurance for residential loans with very low down payments. The borrower pays the insurance premium and the lender is the beneficiary. In the event of borrower default, FHA pays the lender an amount covering some or all of the outstanding loan balance.

Financial Hardship: a situation or circumstance where a debtor cannot afford repayments on a debt, where illness, unemployment or other reasonable cause is the reason for that hardship. Normally, borrowers applying for a short sale must demonstrate a financial hardship to secure a lender's approval.

First Mortgage: a mortgage that has priority over all mortgages and liens except those imposed by law.

Forced Placed Insurance: Insurance purchased by a bank or creditor on an uninsured debtor's behalf.

Foreclosure: the repossession of a home and/or property by a lender in the event of borrower loan default or the borrower's inability to meet mortgage agreements.

Freddie Mac (FHLMC): Federal Home Loan Mortgage Corporation commonly known as Freddie Mac is a quasi-governmental agency that purchases conventional mortgages from insured depository institutions and HUD- approved mortgage bankers.

HAFA (Home Affordable Foreclosure Alternative Program): HAFA provides incentives in connection with a short sale or a deed-in-lieu of foreclosure (DIL) used to avoid foreclosure on a loan eligible for modification under the HAMP program.

HAMP (Home Affordable Modification Program): as part of the federal government's Making Home Affordable program, HAMP is a loan modification program designed to reduce at-risk borrowers' monthly mortgage payments.

Hardship Letter: a lender required letter written by a borrower applying for a short sale that describes why the borrower can't pay his or her mortgage payments.

Hazard Insurance: is insurance protection for the borrower and lender against property loss due to fire, wind or natural hazards.

HELOC (Home Equity Line Of Credit): normally a junior or secondary mortgage loan.

Hud-1 (aka settlement statement or net sheet): a statement that details the monies paid out and received by the buyer and seller at the closing of a real estate transaction.

Inspection Period: a specific period of time for the purchaser, the purchaser's agents and inspectors to examine a property prior to closing.

Installment Account: is an account that has a set regular payment, typically every month.

Instrument: a legal written document.

IRS Publication 982: IRS form that under certain circumstances may exclude the discharge of certain debt (like mortgage debt) from income thereby eliminating tax consequences from doing a short sale.

Judgment: the financial decision of a court resolving a dispute and determining the rights and obligations of parties.

Judicial Foreclosure: a type of foreclosure proceeding used in some U.S. states that is handled as a civil lawsuit in a court of law.

Junior Mortgage: a mortgage that takes a subordinate position to another loan.

Lender: party from whom something of value (i.e. money) is borrowed.

Lien: a claim by a creditor on property of a debtor in which the property may be held as security or sold to repay the debt.

Lienholder: a person or corporation with a financial interest in a property or who places a lien against a piece of property because of non-payment of a debt.

Lis Pendens: a Latin phrase meaning “suit pending”; a formal notice that starts the foreclosure process in some U.S. states.

Listing Agreement/Contract: a legal contract between a real estate broker (or his agent representatives, acting in the broker's name) and a seller or sellers of real property to give the broker the right to offer the property for sale for a commission generally payable to the broker upon closing.

Loan Modification: is a procedure in which a loan's terms, such as the interest rate, monthly payment or term are altered with the approval of a lender.

Material Fact: includes information about a property that should be disclosed to a property buyer. A material fact may influence a buyer's decision to purchase property or negatively impact the buyer's decision. It might also alter the price and terms a buyer is willing to pay.

MI Company: a mortgage insurance company that issues private mortgage insurance (PMI).

Moral Hazard: occurs when a party insulated from risk behaves differently than it would behave if it were fully exposed to the risk.

Mortgage: a loan secured by a property and paid in installments over a set period of time. A mortgage secures the promise that the money borrowed will be repaid.

Mortgage Default: is a failure to meet a condition in a mortgage agreement, most commonly failure to make payments on time.

Net Sheet (aka Hud-1 or settlement statement): a statement that details the monies paid out and received by the buyer and seller at the closing of a real estate transaction.

Note: a written promise to repay a specific amount on a specific date.

Performing Loan: is a loan whose interest payments are current and paid up to date.

Piggyback Loan: a second mortgage "piggybacked" onto a first mortgage used in lieu of mortgage insurance.

PMI (Private Mortgage Insurance): insurance designed to pay the lender a portion of the outstanding balance of a loan in the event that a homeowner defaults on a mortgage. PMI is normally charged when a mortgage loan exceeds 80% of the property value and allows borrowers with less cash to buy a home.

Power Of Attorney (POA): a legal document allowing one person to act in a legal matter on another's behalf in financial or real estate transactions.

Profit & Loss Statement (P&L): financial statement that shows a company or individual's income and expenses. Lenders often require self-employed borrowers applying for a short sale to submit a P&L as a substitute for pay stubs.

Promissory Note: the personally guaranteed promise to pay. Sometimes as a condition of approving a short sale, a lender will ask a seller to agree to accept a promissory note.

Redemption: is the right of a borrower to pay off a mortgage following a default by paying the amount due to the lender, along with certain other costs.

Redemption Period: time period in a foreclosure that a borrower who is in default cannot be evicted or be divested of his legal title. This time period allows the borrower to repay his debt in full.

REO (Real Estate Owned): a property owned by a bank after the property has been foreclosed on.

Revolving Account: is an account created by a lender to represent debts where the outstanding balance does not have to be paid in full every month by the borrower to the lender.

Sales Comparables (aka comps, comparables, sale comps): data regarding sales of recently sold properties similar in condition, style, size and location to a property being evaluated to determine its fair market value.

Sales Contract (aka Purchase Contract): a contract signed by a buyer and seller detailing the terms of a property purchase.

Second Mortgage: a mortgage that is subordinate to a first mortgage.

Seller's Concession: an agreement between buyer and seller normally written into a sales contract that gives the buyer a credit toward the purchase of a property.

Senior Mortgage: first mortgage on a property, payment of which takes priority over the other (junior) mortgage(s) on the same property.

Settlement Statement (aka Hud-1 or net sheet): a statement that details the monies paid out and received by the buyer and seller at the closing of a real estate transaction.

Short Sale: is a sale of property in which the sale proceeds are lower than the balance owed on the property's loans.

Strategic Default: the decision by a borrower to stop making payments (i.e. default) on a debt despite having the financial ability to make the payments.

Subordination: a clause in an agreement which states that the current claim on any debts will take priority over any other claims formed in other agreements made in the future. Subordination is the act of yielding priority. For example, real estate taxes and municipal liens normally subordinate mortgage liens which incentivizes primary lienholders to pay property taxes when a borrower stops paying his mortgage.

Tax Lien: is a lien on real estate that may be foreclosed for nonpayment in favor of a state or local government.

Title: legal evidence of right of ownership of real property (real estate).

Title Company: examines property title and issues title insurance.

Title Insurance: insurance issued against the loss or damage from defects of title to real property.

Title Report: the written analysis of the status of title to real estate, including a property description, names of titleholders and how title is held (joint tenancy, etc.), tax rate, encumbrances (mortgages, liens, deeds of trusts, recorded judgments) and real property taxes due.

Title Search: a search performed within public records to determine ownership as well as claims or liens against a property.