Department of Commerce
Innovation is in our nature.

Glossary of Foreclosure Fairness Mediation Terminology

Adjustable-Rate Mortgage (ARM)
Mortgage repaid at the rate of interest that increases or decreases over the life of the loan based on market conditions. The interest charged is recalculated on predetermined dates by adding the current value of a specified financial index to a fixed amount or margin.

Appraisal
A document from a professional that gives an estimate of a property's fair market value based on the sales of comparable homes in the area and the features of a property. An appraisal is generally required by a lender before a loan approval to ensure that the mortgage loan amount does not exceed the value of the property.

Bankruptcy
The United States Bankruptcy Code allows Washington residents, both individuals and other entities to discharge debt and obtain a fresh start by filing a Petition for Relief with the United States Bankruptcy Courts located in the state of Washington. An individual or couple filing jointly is allowed to keep all of their exempt assets, and cancel all of their dischargeable debt by filing a Chapter 7 bankruptcy. All foreclosures in process for property located in the state of Washington are automatically stayed (stopped).

Beneficiary
As defined in the Deed of Trust Act/Foreclosure Fairness Act (RCW 61.24), the holder of the instrument or document evidencing the obligations secured by the deed of trust, excluding persons holding the same as security for a different obligation.

Borrower
A person (or persons) or a general partner in a partnership, including a joint venture, that is liable for all or part of the obligations secured by the deed of trust under the instrument or other document that is the principal evidence of such obligations, or the person's successors if they are liable for those obligations under a written agreement with the beneficiary.

Closing Costs
Fees incurred in addition to the purchase price of a home. The fees include excise tax, loan-processing costs, and title insurance that buyers and sellers pay at closing. Typically estimates of closing costs are 2 to 5 percent of the purchase price of the home. Buyers and sellers can sometimes negotiate over who pays which fees.

Continuance of Sale
A pause in a trustee sale process. The trustee has no obligation to, but may, for any cause the trustee deems advantageous, continue the sale for a period or periods not exceeding a total of one hundred twenty days.

Deed of Trust
Is an instrument that identifies the original loan amount, legal description of the property being used as security for the mortgage, the parties, inception and maturity date of the loan, provisions of the mortgage and requirements, late fees, legal procedures, acceleration and alienation clauses, and riders, if any.

Deed-in-Lieu
A deed in lieu of foreclosure is a title-transferring document signed by the borrower, notarized by a notary public and eventually recorded in the public records. It delivers title from the borrowers to the bank that holds the mortgage.

Default
Failure to make the mortgage payment within a specified period of time.

Depreciation
Decline in the value of a property or other asset.

Equity
A borrower's financial interest in a property. Equity is the difference between the fair market value of the property and the amount still owed on its mortgage and other liens.

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 earnest money deposit is put into escrow until delivered to the seller when the transaction is closed.

Fixed-Rate Mortgage
A mortgage in which the interest rate and payments remain the same for the life/term of the loan.

Fannie Mae (FNMA)
The Federal National Mortgage Association, which is a congressionally chartered, shareholder-owned company that is the nation's largest supplier of home mortgage funds.

Federal Housing Administration (FHA)
An agency of the United States Department of Housing and Urban Development (HUD). Its main activity is the insuring of residential mortgage loans made by private lenders. The FHA sets standards for construction and underwriting but does not lend money, plan or construct housing.

Forbearance
A temporary postponement or reduction in mortgage payments for a predetermined period of time. To become eligible for forbearance, the value of the property and the borrower’s current financial situation and hardship are considered by the beneficiary. Because of the long-term implications, this option is generally only available in severe hardship cases. Forbearance may be offered to a borrower who suffered a financial hardship, but who can demonstrate a solution and plan for maintaining home ownership. During the forbearance, the loan continues to accrue interest.

Foreclosure
The legal process by which a borrower in default under a mortgage is deprived of his or her interest in the mortgaged property. This usually involves a forced sale of the property at public auction with the proceeds of the sale being applied to the mortgage debt.

Government National Mortgage Association (Ginnie Mae)
A government-owned corporation within the U.S. Department of Housing and Urban Development (HUD). Created by Congress on September 1, 1968, GNMA performs the same role as Fannie Mae and Freddie Mac in providing funds to lenders for making home loans. The difference is that Ginnie Mae provides funds for government loans (FHA and VA).

Housing Counselor
A qualified person approved by the United States Department of Housing and Urban Development and/or the Washington State Housing Finance Commission to assist homeowners (borrowers) with credit, budgeting, mortgage readiness, savings plans, and default and foreclosure prevention.

Investor
The entity that owns the loan. After a new mortgage loan is closed, it is common for the original lender to sell the loan to other entities ("investors"). Consequently, the investor is often different than the servicer or the original lender. A loan servicer must follow the investor's guidelines for servicing a loan.

Lender
Any person or institution that lends money to a borrower.

Lien
A legal claim against property that must be satisfied when the property is sold. A claim of money against a property, wherein the value of the property is used as security in repayment of a debt. A lien is a defect on the title and needs to be settled before transfer of ownership. A lien release is a written report of the settlement of a lien and is recorded in the County public record as evidence of payment.

Loan Modification
Changing of a note to restructure a mortgage for a borrower who faces a long-term financial problem but can demonstrate the ability to meet the modified payment terms. The modification can include lowering the original interest rate or extending the loan term in which the borrower has to repay the entire amount of the loan. A loan modification may add delinquent interest and escrow dues into the loan; reset the payment due date, or extending the maturity date so the loan becomes current. A loan modification immediately brings the account current. Loan modification results in permanent, contractual changes in one or more mortgage terms. Certain financial information will be required and must be verifiable. Additional loan fees may be involved based on the type of mortgage and the investor. Certain conditions of title may not allow this option. Investor approval is required.

Market Value
Price at which an asset (e.g., real property) will sell in a fair market. Also, the current value of a security.

Modification
See Loan Modification.

Mortgage
A lien on the property that secures the promise to repay a loan. It is a security agreement between the lender and the buyer in which the property is collateral for the loan. The mortgage gives the lender the right to collect payment on the loan and to foreclose if the loan obligations are not met.

Note
Also known as Promissory Note. A legal document obligating a borrower to repay a mortgage loan at a stated interest rate over a specified period of time.

Notice of Default (NOD)
A notice sent by the beneficiary to the borrower stating that he/she has not made a payment based on a predetermined deadline. The Notice of Default usually itemizes the amount of money owed, including all attorney fees if not made current. The beneficiary may begin to foreclose on the property if the loan is not made current. The Notice of Default is given at least 30 days before a Notice of Trustee Sale can be recorded or served.

Notice of Pre-Foreclosure Options (NOPFO)
The first notice that the beneficiary is required by law to send a borrower is a notice informing the borrower of their right to "meet and confer," which means that the borrower can request an in-person meeting with their beneficiary. If the borrower does not request a meeting with the beneficiary, the beneficiary must wait 30 days before it can continue on to the next step and send a Notice of Default. If the borrower requests a meeting with the beneficiary and a resolution is not reached, then the beneficiary must wait 90 days before it can send the borrower a Notice of Default.

Notice of Trustee Sale (NOTS)
A notice stating that the trustee will sell at public auction a property that is in foreclosure. The trustee must record, mail, and serve or post the Notice of Trustee Sale. The Notice of Trustee Sale is recorded in the office of the auditor in the county in which the deed of trust is recorded at least 120 days before the sale date. This is the first notice related to the foreclosure that is a public record. *Also see Trustee Sale.*

Owner- Occupied
Property that is the principal residence of the borrower.

Power of Attorney
A legal document that authorizes another person to act on one's behalf. A power of attorney can grant complete authority or can be limited to certain acts and/or certain periods of time

Principal
The amount borrowed or remaining unpaid. The part of the monthly payment that reduces the remaining balance of a mortgage.

Quitclaim Deed
A deed transferring ownership of a property, without making any guarantee of clear title.

Reconveyance
The transfer of real property that takes place when a mortgage is fully paid off and the land is returned to the owner free from the former debt.

Refinance
A new mortgage on the loan with no change in ownership. The ability to refinance a loan requires that the borrower not be delinquent and that there be equity in the home.

Reinstatement
Restoring (to the same terms) a mortgage loan after the beneficiary filed foreclosure against a borrower for not making loan payments. The borrower pays the full amount owing on the loan (past due monthly payments plus any fees) in a lump sum by a specific date.

Release a Lien
A deed of trust creates a "lien," a legal right of another besides the owner to sell the property in order to repay a debt. "Release a lien" means to eliminate that right of another to sell the property.

Relief from Stay
The process used by creditors to override the automatic stay described above. Once the creditor obtains a Relief from Stay Order from the court, the creditor is allowed to do whatever the order provides. The order usually provides that the creditor can begin foreclosure or repossession of an asset such as a car or house.

Repayment Plan
Plan where the total amount of delinquent payments is distributed over a period of time, usually no more than 12 months. The monthly amount is added to the regular mortgage payment, resulting in a higher payment until the delinquent amount has been repaid. This repayment plan brings the account current within a pre-determined period of time.

Residential Real Property
Property consisting solely of a single-family residence, a residential condominium unit or a residential cooperative unit.

Second Mortgage
A mortgage that has a lien position subordinate to the first mortgage.

Servicer
An organization that collects principal and interest payments from borrowers and manages borrowers' escrow accounts.

Short-Sale
The process in which a lender works with a delinquent borrower to sell the property by a real estate agent prior to a foreclosure sale. A short sale occurs when a property is sold and the lender agrees to accept a discounted payoff, meaning the lender will release the lien that is secured to the property upon receipt of less money than is actually owed.

Title
A legal document evidencing a person's right to or ownership of a property. Title may be acquired through purchase, inheritance, gift, or through foreclosure of a mortgage. The deed is recorded on public record (in the county where the property is located) with the property description and the owner's signature.

Trustee
The person designated as the trustee in the deed of trust or appointed under RCW 61.24.010(2).

Trustee's Sale
A non-judicial sale under a deed of trust. The auction sale process conducted by a trustee to sell a foreclosed property. The sale must occur on a Friday. If Friday is a legal holiday, it may occur on the following Monday. Also see Notice of Trustee Sale.