

## GLOSSARY

**Acceleration.** Demand for immediate repayment of the entire balance of a debt if the security instruments are breached.

**Adjusted income.** Used to determine whether an applicant is income-eligible. Adjusted income is based on annual income and provides for deductions to account for varying household circumstances and expenses.

**Adjustment.** An agreement to release a debtor from liability generally upon receipt of an initial lump sum representing the maximum amount the debtor can afford to pay and periodic additional payments over a period of up to 5 years.

**Administrator.** The official of the Rural Housing Service within the Rural Development mission area (or official of its successor agency) delegated authority by the Secretary of the U.S. Department of Agriculture to administer the Agency and its programs.

**Adverse decision.** An administrative decision made by an officer, employee or committee of the Agency that has a negative impact on the applicant or borrower.

**Affordable Housing Product.** Any form of participating funds which have limited restrictions and repayment terms. These can include subordinate liens, grants, silent mortgages, forgivable loans and community land trusts.

**Agency.** The Rural Housing Service within the Rural Development mission area of the U.S. Department of Agriculture or its successor agency, which administers Section 502 loans and Section 504 loans and grants.

**Allowable excess costs.** The cost of the appraisal fee, tax service fee, homeownership education fee, and initial contribution to the escrow account. These costs can be financed even if they cause the total loan amount to exceed the area loan limit or the property's market value.

**Amortized payment.** Equal monthly payments under a fully amortized mortgage loan that provides for the scheduled payment of principal and interest over the term of the loan.

**Annual Income.** Used to determine an applicant's eligibility for assistance. All amounts, monetary or not, of the applicant's household not specifically excluded by regulations, and amounts derived from assets any members of the family have access to.

**Applicant.** An adult member of the household who will be responsible for repayment of the loan.

**Assumption.** The procedure whereby the transferee becomes liable for all or part of the debt of the transferor. An assumption may be at the same rates and terms or at new rates and terms, depending on the circumstances.

**Borrower.** A recipient who is indebted under the Section 502 or 504 programs.

**Cancellation.** A decision to cease collection activities and release the debtor from personal liability for any remaining amounts owed.

**Case File.** A file established for each application to contain all documents used for loan origination.

**Certificate of Eligibility.** A document issued by the Agency to an applicant that confirms that the applicant is eligible for Agency assistance and shows the maximum loan amount for which the applicant qualifies.

**Closing costs.** Various fees required to conclude a real estate transaction.

**Colonia.** Any identifiable community that:

- A. is in the State of Arizona, California, New Mexico, or Texas;
- B. is in the area of the United States within 150 miles of the border between the United States and Mexico, except that the term does not include any standard metropolitan statistical area that has a population exceeding 1,000,000;
- C. is determined to be a colonia on the basis of objective criteria including lack of potable water supply, lack of adequate sewage systems, lack of decent, safe, and sanitary housing, and inadequate roads and drainage; and
- D. was in existence and was generally recognized as a colonia before November 28, 1990.

Note that this definition differs from that of the 306C WWD Grants described in Appendix 6 of this handbook. See the Direct Loan Origination System Manual, Chapter 5 for 502 and 504 coding of these loans and grants.

**Community land trust.** A not-for-profit organization that acquires land and transfers it to eligible low- and moderate-income households, retaining for itself a pre-emptive option to purchase the land upon sale in order to transfer it to another low- or moderate-income household.

**Compensating factors.** Information that indicates that an applicant may be able to make larger regular loan payments than a ratio analysis indicates.

**Compromise.** An agreement to release a debtor from liability upon receipt of a specified lump sum that is less than the total amount due.

**Conditional commitment.** A determination that a proposed dwelling will qualify as a program-eligible property. The conditional commitment does not reserve funds, nor does it ensure that a program-eligible applicant will be available to buy the dwelling.

**Consummation:** An event that occurs when the consumer becomes contractually obligated to the creditor on the loan. Consummation is not the same as closing or settlement.

**Cosigner.** An individual or entity that joins in the execution of a promissory note to compensate for any deficiency in the applicant's repayment ability. The cosigner becomes jointly liable to comply with the terms of the promissory note in the event of the borrower's default but is not entitled to any interest in the security or borrower rights.

**Cross-collateralized loan.** A situation in which a single property secures both Agency and Farm Service Agency (FSA) loans.

**Custodial property.** Borrower-owned real property that serves as security for a loan that has been taken into possession by the Agency to protect Government's interest.

**Daily simple interest.** A method of establishing borrower payments based on daily interest charged on the outstanding principal balance of the loan. Principal is reduced by the amount of payment in excess of the accrued interest.

**Dealer-contractor.** A person, firm, partnership, or corporation in the business of selling and servicing manufactured homes and developing sites for manufactured homes. A person, firm, partnership, or corporation not capable of providing the complete service is not eligible to be a dealer-contractor.

**Debarment.** A determination that a party is ineligible to participate in, or receive assistance under, the Agency's programs. A person who is debarred by another Agency also is ineligible.

**Debt instrument.** A collective term encompassing obligating documents for a loan, including any applicable promissory note, assumption agreement, or a grant agreement.

**Debt settlement.** Actions undertaken to collect at least a portion of debt owed to the Agency in conjunction with a voluntary liquidation, forced liquidation, or after the debt is fully matured. Debt settlement, when complete, closes the account.

**Declaration page.** A short form provided by an insurance company outlining pertinent information about an insurance policy, such as the insured party's name and address, amount of coverage, terms, and additional provisions.

**Dedicated Loan Origination and Servicing System (DLOS).** The overall automated system used by the Agency for originating and servicing loans, which includes UniFi and LoanServ. It is designed to expedite loan making, standardize information collection and record keeping, and facilitate communication between the Field Office and Servicing Office.

**Deed in lieu of foreclosure.** A method of liquidation by which title to the security property is conveyed to the Agency by the borrower.

**Deficient housing.** A dwelling that lacks complete plumbing; lacks adequate heating; is dilapidated or structurally unsound; has an overcrowding situation that will be corrected with loan funds; or that is otherwise uninhabitable, unsafe, or poses a health or environmental threat to the occupant or others.

**Deficiency judgment.** A personal judgment against a debtor for the amount remaining due after foreclosure.

**Delinquency workout agreement.** An agreement establishing a new repayment plan for a borrower who has delinquent Agency debt.

**Do Not Pay (DNP) portal.** The Presidential Memorandum dated June 18, 2010, on enhancing payment accuracy through a “Do Not Pay List” led to the creation of the Department of Treasury’s DNP portal. The Improper Payments Elimination and Recovery Improvement Act of 2012 further intensified the effort to identify, prevent, and recover payment error, waste, fraud, and abuse within Federal spending by requiring that certain databases be reviewed prior to issuing any payment and award. For the direct single family housing programs, the following databases will be checked through the DNP portal: 1) Social Security Administration’s Death Master File, 2) General Services Administration’s Excluded Parties List System, 3) Department of the Treasury’s Debt Check Database of the Department of the Treasury, and 4) Department of Housing and Urban Development’s Credit Alert System. The DNP portal allows users to check the above databases using a single-entry point web-based application.

**Draw schedule.** A schedule of payments agreed to by the borrower, Agency and contractor under which the contractor will receive payments for work completed.

**Due Diligence.** The process of inquiring into the environmental condition of real estate in the context of a real estate transaction to determine the presence of contamination from hazardous substances, hazardous wastes, and petroleum products, and what impact such contamination may have on the market value of the property.

**Easement.** The legal right to use land, or a portion of land, owned by another for a limited purpose.

**Elderly family.** An elderly family consists of one of the following:

- A. A person who is the head, spouse, or sole member of a family and who is 62 years of age or older, or who is disabled, and is an applicant or borrower; or
- B. Two or more persons who are living together, at least one of whom is age 62 or older, or disabled, and who is an applicant or borrower; or
- C. In the case of a family where the deceased borrower or spouse was at least 62 years old or disabled, surviving household members shall continue to be classified as an elderly family for the purpose of determining adjusted income, even though the surviving members may not meet the definition of elderly family on their own, provided:
  - 1. They occupied the dwelling with the deceased family member at the time of the death;
  - 2. If one of the surviving family members is the spouse of the deceased family member, the family shall be classified as an elderly family only until the remarriage of the surviving spouse; and
  - 3. At the time of the death of the deceased family member, the dwelling was financed under title V of the Housing Act of 1949.

**Environmental review.** An analysis of the potential for environmental impacts from a proposed action by the Agency and an examination of alternatives to avoid or minimize adverse impacts on the environment.

**Equivalent interest rate (EIR).** The interest rate charged by the Agency to program borrowers who receive payment assistance via method 1. The interest rate varies according to the borrower's income.

**Escrow account.** An account to which the borrower contributes monthly payments to cover the anticipated costs of real estate taxes, hazard and flood insurance premiums, and other related costs.

**Existing dwelling or unit.** A dwelling or unit that has either been previously owner-occupied or has been completed for more than 1-year as evidenced by an occupancy permit, certificate of occupancy or similar document issued by the local authority.

**False information.** Information that the recipient knew was incorrect or should have known was incorrect that was provided or omitted for the purposes of obtaining assistance for which the recipient was not eligible.

**Fee simple ownership.** A form of ownership under which the owner has absolute title to a piece of property.

**Field Office.** An Agency office that originates loans.

**First-time homebuyer.** Any individual who (and whose spouse) has had no present ownership in a principal residence during the 3-year period ending on the date of purchase of the property acquired with a Section 502 direct loan. A first-time homebuyer includes displaced homemakers and single parents even though they might have owned or resided in a dwelling with a spouse.

**Floor payment.** A minimum amount that the borrower must pay for Principal, Interest, Taxes, and Insurance (PITI) when payment assistance method 1 is used. The payment amount is determined by the borrower's adjusted income, and its relation to the applicable adjusted median income in the area in which the security property is located.

**Full-time student.** A person who carries at least the minimum number of credit hours considered to be full-time by the college or vocational school in which the person is enrolled.

**Hazard.** A condition of the property that jeopardizes the health or safety of the occupants or members of the community, that does not make it unfit for habitation (see also the definition of major hazard).

**Household.** All persons expected to be living in the dwelling, except for live-in aids, foster children, and foster adults.

**Housing Act of 1949, as amended.** The Act which provides the authority for the direct single family housing programs. It is codified at 42 U.S.C. 1471, et seq.

**HUD.** The U.S. Department of Housing and Urban Development.

**Inaccurate information.** Incorrect information inadvertently provided, used, or omitted without intent to obtain benefits for which the applicant was not eligible.

**Indian reservation.** All land located within the limits of any Indian reservation under the jurisdiction of the United States notwithstanding the issuance of any patent and including rights-of-way running through the reservation; trust or restricted land located within the boundaries of a former reservation of a Federally recognized Indian tribe in the State of Oklahoma; or all Indian allotments, the titles to which have not been extinguished if such allotments are subject to the jurisdiction of a Federally recognized Indian tribe.

**Interest credit.** A payment subsidy available to certain eligible Section 502 borrowers that reduces the effective interest rate of the loan. Borrowers receiving interest credit will continue to receive it on all current and future loans for as long as they remain eligible for and continue to receive a subsidy. Borrowers who cease to be eligible for interest credit can never receive interest credit again but may receive payment assistance method 2 if they again qualify for a payment subsidy.

**Junior lien.** A security instrument or a judgment against the security property to which the Agency debt instrument is superior.

**Legal alien.** For the purposes of these programs, legal alien refers to any person lawfully admitted to the country who meets the criteria in Section 214 of the Housing and Community Development Act of 1980, as amended, 42 U.S.C. 1436a.

**Leveraged loan.** An affordable housing product loan or grant to an Agency borrower property, closed simultaneously with an RHS loan. Affordable leveraged loans are characterized by long term (not less than 30 years), amortized payments with a note interest rate equal to or less than 3 percent.

**Liquidation.** A forced sale or voluntary disposition of the security property to obtain funds to repay outstanding debt. The proceeds from the sale are given to lien holders in order of priority, with any remaining funds returned to the borrower.

**Live-in aide.** A person who lives with an elderly person or disabled person and is essential to that person's care and well-being, not obligated for the person's support, and would not be living in the unit except to provide the support services.

**Loan Approval Official.** An Agency employee who has the authority to approve loans. Unless otherwise indicated, each State Director may determine which approval actions may be made by the Loan Approval Official, and which must come to the State Office for approval.

**Loan docket.** The legal documents and forms developed during loan origination that must be provided to Servicing Office for servicing purposes.

**Loan Originator.** An Agency employee who works with the loan applicant, conducts the basic underwriting analysis, and makes the loan approval or credit denial recommendation to the Loan Approval Official.

**Loan-to-Value (LTV) Ratio.** LTV ratio is the relationship between the amount to be financed and the market value of the security property.

**LoanServ.** The mainframe-based computer application that is used by the Field Office to electronically communicate with, and transmit information to Servicing Office, and by Servicing Office to service and track a borrower's loan.

**Lockbox.** The service that receives and processes borrower payments.

**Loss draft.** A payment from an insurance company to a borrower to cover the borrower's adjusted losses due to damages covered under the insurance policy.

**Low income.** An adjusted income developed in consultation with HUD under 42 U.S.C. 1437a(b)(2)(D).

**Major hazard.** A condition so severe that it makes the property unfit for habitation. (See also the definition of hazard.)

**Manufactured home.** A structure that is built to Federally Manufactured Home Construction and Safety Standards (FMHCSS) established by HUD and found at 24 CFR part 3280. It is transportable in one or more sections, which in the traveling mode is 10-body feet (3.048 meters) or more in width, and when erected on site is 400 or more square feet (37.16 square meters), and which is built on a permanent chassis and designed to be used as a dwelling with or without a permanent foundation when connected to the required utilities. It is designed and constructed for permanent occupancy by a single family and contains permanent eating, cooking, sleeping, and sanitary facilities. The plumbing, heating, and electrical systems are contained in the structure. A permanent foundation is required.

**Market value.** The most probable price which a property should bring in a competitive and open market under all conditions requisite to a fair sale, the buyer and seller each acting prudently and knowledgeably, and assuming the price is not affected by undue stimulus. Implicit in this definition is the consummation of a sale as of a specified date and the passing of title from seller to buyer under conditions whereby:

1. Buyer and seller are typically motivated;
2. Both parties are well informed or well advised, and acting in what they consider their own best interests;
3. A reasonable time is allowed for exposure in the open market;
4. Payment is made in terms of cash in U.S. dollars or in terms of financial arrangements comparable thereto; and
5. The price represents the normal consideration for the property sold unaffected by special or creative financing or sales concessions granted by anyone associated with the sale.

**Metropolitan Statistical Area (MSA).** MSA is a county or group of counties of 50,000 people or more, or "twin cities" with a combined population of at least 50,000. In addition to the county containing such a city, contiguous counties are included in a metro area according to commuting patterns. In New England states, metro areas consist of towns and cities instead of counties, otherwise the rules are similar.

**Mineral lease.** A granting of rights to a third party to mine, drill or otherwise access oil, gas or other valuable natural resources on a property.

**Mobile home.** A manufactured unit often referred to as a “trailer,” designed to be used as a dwelling, but built prior to the enactment of Pub. L. 96-399 (October 8, 1980).

**Moderate income.** An adjusted income that does not exceed the moderate income limit for the guaranteed single family housing loan program authorized by Section 502(h) of the Housing Act of 1949, as amended.

**Modest housing.** A property that is considered modest for the area, with a market value that does not exceed the applicable area loan limit as established by RHS in accordance with §3550.63. In addition, the property must not be designed for income producing activities. Existing properties with in-ground pools may be considered modest; however, in-ground pools with new construction or with properties which are purchased new are prohibited.

**Modular or panelized home.** Housing, constructed of one or more factory-built sections or panels which, when completed, meets or exceeds the requirements of the recognized development standards (model building codes) for site-built housing, and which is designed to be permanently connected to a site-built foundation.

**Moratorium.** A period of up to two years during which scheduled payments are not required but are subject to repayment at a later date.

**Mortgage.** A form of security instrument or consensual lien on real property including a real estate mortgage or deed of trust.

**National Appeals Division (NAD).** The organization within the United States Department of Agriculture that is responsible for the Department’s administrative appeals procedures which must be followed by participants who desire to appeal an adverse decision made by the Agency.

**National Office.** The headquarters of the Agency including the Administrator’s office and the national policy-making staff.

**Net family assets.** The value of assets available to a household that could be used towards housing costs. Net family assets are considered in the calculation of annual income and are used to determine whether the household must make additional cash contributions to improve or purchase the property.

**Net recovery value.** The market value of the security property minus anticipated expenses of liquidation, acquisition, and sale as determined by the Agency.

**New dwelling or unit.** A dwelling that is to be constructed, or a dwelling that is less than one year old as evidenced by an occupancy permit, certificate of occupancy or similar document issued by the local authority and has never been occupied.



**New rates and terms assumption.** A transfer of Agency debt whereby a new borrower agrees to take responsibility for repaying the debt of an existing Agency borrower according to a new amortization schedule.

**Nonprogram interest rate.** The interest rate offered by the Agency for loans made on nonprogram terms.

**Nonprogram property.** Property that does not meet the program's requirements.

**Nonprogram terms.** Credit terms available from the Agency when the applicant or property is not program-eligible.

**Note only loan.** See "unsecured loan."

**Note rate.** See "promissory note rate."

**Offset.** Deductions to pay a debt owed to the Agency from a borrower's retirement benefits, salary, income tax refund, or payments from other Federal agencies to the borrower. Deductions from retirement benefits and salary generally apply only to current and former Federal employees.

**Overcrowding.** An occupancy situation in which a household has more than 2 people per bedroom.

**Packager.** An individual or organization that assembles and prescreens application packages.

**Partial release of security.** An action by the Agency under which it releases a portion of the security property from the security instrument.

**Participant.** For the purpose of reviews and appeals, a participant is any individual or entity who has applied for or whose right to participate in or receive a payment, loan, or other benefit is affected by an Agency decision.

**Payment assistance.** A payment subsidy available to eligible Section 502 borrowers that reduces the effective interest rate of a loan.

**Payment shock.** A term representing the applicant's projected increase in housing expenses.

**Payment subsidy.** A general term for subsidies which reduce the borrower's scheduled payment. It refers to either payment assistance method 1 or 2, or interest credit.

**Person with a disability.** Any person who has a physical or mental impairment that substantially limits on or more major life activities, including functions such as caring for one's self, performing manual tasks, walking, seeing, hearing, speaking, breathing, learning and working; has a record of such an impairment; or is regarded as having such an impairment.

**PITI ratio.** The amount paid by the borrower for principal, interest, taxes, and insurance, divided by repayment income.

**Preliminary Application (Pre-App).** A general term which includes the required information to complete the pre-qualification process.

**Principal reduction attributable to subsidy (PRAS).** Accelerated principal reduction that may occur when a borrower receives a reduced interest rate through interest credit assistance.

**Principal Residence.** The home domicile physically occupied by the owner on a permanent basis (i.e. lives there for the majority of the year and is the address of record for such activities as Federal income tax reporting, voter registration, occupational licensing, etc.).

**Prior lien.** A security instrument or a judgment against the security property that is superior to the Agency's debt instrument.

**Program-eligible applicant.** Any applicant meeting the eligibility requirements of the Section 502 or Section 504 programs.

**Program-eligible property.** A property eligible to be financed under the Section 502 or Section 504 programs.

**Program terms.** Credit terms that are available only to program-eligible applicants for program-eligible properties.

**Promissory note rate.** The unsubsidized interest rate offered by the Agency for loans made on program terms.

**Property.** The land, dwelling, and related facilities for which the applicant will use Agency assistance.

**Protective advances.** Costs incurred by the Agency to protect the security interest of the Government that are charged to the borrower's account.

**Real Estate Owned (REO).** Property for which the Agency holds title (formerly known by the Agency as "inventory property").

**Real estate taxes.** Taxes and the annual portion of assessments estimated to be due and payable on the property, reduced by any available tax exemption.

**Reamortization.** The establishment of a new, revised schedule of equal monthly payments of principal and interest over the remaining term of a mortgage loan.

**Recapture amount.** An amount of subsidy to be repaid by the borrower upon disposition or non-occupancy of the property.

**Recipient.** An individual who has received an Agency loan or grant.

**Refinancing with private credit.** An Agency requirement under which program borrowers who appear to qualify for private credit must seek such credit (formerly known by the Agency as “graduation”).

**Repayment income.** Used to determine whether an applicant has the ability to make monthly loan payments. Repayment income is based only on the income attributable to parties to the note and includes some income sources excluded for the purpose of adjusted income.

**Rural area.** An area defined in section 520 of the Housing Act of 1949, as amended.

**Same rates and terms assumption.** A transfer of Agency debt whereby a new party agrees to continue to repay the debt of the initial borrower according to the same amortization schedule.

**Scheduled payment.** The monthly or annual installment on a promissory note plus escrow (if required), as modified by any payment subsidy agreement, delinquency workout agreement, other documented agreements between the Agency and the borrower, or protective advances.

**Secured loan.** A loan that is collateralized by property so that in the event of a default on the loan, the property may be sold to satisfy the debt (see also “unsecured loan”).

**Security instrument.** The written instrument that legally records the Agency’s security interest in the property.

**Security property.** All the property that serves as collateral for an Agency loan.

**Servicing and Asset Management Office (Servicing Office).** The Agency branch located in St. Louis, Missouri that is responsible for servicing Section 502 and 504 loans.

**Special Flood Hazard Area (SFHA).** An area having special flood, mudslide and/or flood related erosion hazards as shown on Federal Emergency Management Agency (FEMA) floodplain maps.

**State Director.** The highest Agency decision making official at the State level.

**State Supplement.** Additional guidance provided by the State Director when State, local or tribal laws affect how Agency requirements are implemented in a particular State.

**Subordination.** Moving a lien position to a lower priority.

**Subsequent loans.** Additional Agency credit that is extended to an existing program borrower.

**Subsidy.** Interest credit, payment assistance method 1, payment assistance method 2, or deferred mortgage assistance received by a borrower under the Section 502 program.

**Subsidy repayment agreement.** An agreement under which a borrower agrees to repay to the Agency any subsidy received under the Section 502 program upon disposition or non-occupancy of the security property.

**Supervised funds.** Funds deposited in an Agency supervised bank account on behalf of a borrower.

**Tax service.** A contractor hired by the Agency to secure tax information about borrower properties.

**Total debt ratio.** The amount paid by the borrower for principal, interest, taxes, and insurance and any recurring monthly debt, divided by repayment income.

**Tribal allotted land.** Tribal land allotted to individual tribal members which is held in trust.

**Tribe.** Any Federally recognized tribe, band, pueblo, group, community, or nation of Indians or Alaska natives.

**Trust land.** Land held in trust by the United States on behalf of an Indian tribe.

**Unauthorized assistance.** Any loan, payment subsidy, deferred mortgage payment, or grant for which there was no regulatory authorization or for which the recipient was not eligible.

**UniFi.** A personal computer-based application located in each Field Office that is used by Loan Originators. It retains applicant information, calculates maximum loan amounts, and generates loan approval and closing forms.

**United States (U.S.) citizen.** An individual who resides as a U.S. citizen in any of the 50 states, the District of Columbia, the Commonwealth of Puerto Rico, the U.S. Virgin Islands, Guam, American Samoa, the Commonwealth of the Northern Marinas, the Federated States of Micronesia, the Republic of Palau, or the Republic of the Marshall Islands.

**Unsecured loan.** A loan, also known as a “note only loan,” evidenced only by the borrower’s promissory note (see also “secured loan”).

**Very low income.** An adjusted income limit developed in consultation with HUD under 42 U.S.C. 1437a(b)(2)(D).

**Veterans’ preference.** A preference extended to a veteran applying for a loan or grant under this part, or the families of deceased servicemen, who meet the criteria in 42 U.S.C. 1477.