Equity. Your equity in property is the amount of cash you would keep if you sold property and paid off all of the liens on that property. For example, if you own a house worth $100,000, but you owe $60,000 on your original mortgage and $10,000 on a second mortgage, you have $30,000 in equity. The same principle applies to cars and other types of property.

Escrow. Amounts set aside for a particular purpose. A formal escrow usually requires a legal agreement that covers permissible usage of the escrow and how and where the money is to be kept. One type of escrow is money you pay to your mortgage company to cover taxes and insurance. Escrow is also used when you have a dispute with a creditor. You may choose to set up an escrow to pay the debt in the event you lose the dispute.

Eviction. A legal process terminating the right to occupy a home, apartment, or business property. State law eviction proceedings are required before putting someone out.

Execution. The process of enforcing a court judgment by taking property from the defendant. Execution of a judgment of eviction, for example, involves the sheriff or a public official putting the tenants out. Execution of a judgment lien involves seizing and selling the property subject to the lien.

Exempt Property. Property that the law allows you to keep when you are being faced with collection on an unsecured debt. In bankruptcy, exempt property is protected from sale to satisfy the claims of creditors. Your exemption applies to your equity in the property after deduction for the amounts you owe to pay liens on that property.

Exemptions. These are laws that give you the right to keep your exempt property.

Fair Credit Reporting Act. A federal (national) law that regulates credit bureaus and the use of credit reports.

Fair Debt Collection Practices Act. A federal (national) law that governs the conduct of debt collectors and that prevents many abusive collection tactics.

Federal Law. A law of the United States that applies throughout the country. The bankruptcy law is an example of a federal law.

Finance Company. A company engaged in making loans to individuals or businesses. Unlike a bank, it does not receive deposits from the public.

Force-Placed Insurance. The insurance policy your lender will “force” you to purchase if your insurance is cancelled or if your lender does not have proof of your insurance coverage. Force-placed insurance is very expensive.

Foreclosure. A legal process to terminate your ownership of real estate that is collateral for a debt, based on a mortgage or deed of trust. In some states, foreclosure involves a court proceeding (“judicial foreclosure”), while in others foreclosure occurs by creditor action alone (“non-judicial foreclosure”).

Fraudulent Transfer. Giving away property to keep it out of the hands of creditors. The law allows creditors to sue to get the property back.

Garnishment. A creditor’s seizure, to satisfy a debt, of property belonging to the debtor that is in the possession of someone else. Usually a court has to authorize the seizure in advance. An example would be seizure of money in your bank account to repay a court judgment. Wages owed to you can also be garnished in many states.

Guarantor. A person who agrees to pay another person’s debt in the event that they do not pay. The term guarantor is often used interchangeably with cosigner, even though there are some minor legal distinctions in the collection process.

Hazard Insurance. Insurance that covers property loss or damage, usually paid for by borrowers and required when obtaining a mortgage.

Home Equity Loan. This term is generally used to describe any mortgage loan that is not used to finance the purchase of the home.

Home Ownership and Equity Protection Act (HOEPA). This is a federal (national) law that provides special protection to homeowners when they obtain home mortgage loans at high interest rates or with high fees.
**Homestead Exemption.** The right, available in most states and in the bankruptcy process, to treat your residence as exempt property that cannot be sold to satisfy the claims of unsecured creditors. In most states, the homestead exemption covers a certain dollar amount of your equity in your residence. A home cannot normally be sold to pay claims of your creditors unless your equity in the home exceeds the amount of the exemption. A homestead exemption will not normally protect you from foreclosure when you have voluntarily pledged your home as collateral.

**Insolvent.** A person or business that does not have sufficient assets to pay its debts.

**Interest.** The cost of borrowing money over time. Interest rates are expressed as a percentage.

**Judgment.** A determination by a court as to the outcome of a lawsuit, including any amounts owed.

**Judgment Lien.** A lien that attaches to property as the result of a judgment. For example, if you lose a collection lawsuit, the creditor normally has the right to an attachment on any real estate that you own.

**Judgment-Proof.** See collection-proof.

**Levy.** A process, in some states, for attachment of a judgment lien and/or execution of that lien.

**Lien.** Also called a “security interest,” it is a legal interest taken by creditors in your property to secure repayment of a debt. A lien can be created voluntarily in connection with a loan, such as when you pledge real estate by giving a creditor a mortgage or deed of trust. A lien can also be created without your consent by attachment based on a court order. A creditor with a lien is called a secured creditor.

**Liquidation.** Sale of property to pay creditors. The term is also used as a shorthand name for the chapter 7 bankruptcy process, even though property is not always sold in that bankruptcy process.

**Mortgage.** An agreement in which a property owner grants a creditor the right to satisfy a debt by selling the property in the event of a default.

**Mortgage Broker.** An individual who offers to arrange financing for a consumer. Brokers are supposed to operate as agents for consumers, seeking the best products. States vary as to whether or not the brokers are regulated.

**Mortgage Insurance.** See private mortgage insurance.

**Mortgage Servicer.** A bank, mortgage company, or a similar business that communicates with property owners concerning their mortgage loans. The servicer usually works for another company that owns the mortgage. It may accept and record payments, negotiate workouts, and supervise the foreclosure process in the event of a default.

**Negative Equity.** Negative equity arises when the value of an item of property you own is less than the total you owe on all the liens on that property. For example, if you own a home worth $100,000 and borrow $125,000 to consolidate debts, you have negative equity of $25,000.

**Non-Purchase Money Security Interest.** A non-purchase money security interest arises when you agree to give a lender collateral that was not purchased with money from that loan. For example, a finance company may insist that you give a lawn mower or living room set as collateral for a loan you take out to pay for car repairs.

**Non-Sufficient Funds (NSF).** Fees are charged for non-sufficient funds (NSF) when a checking account is overdrawn. NSF fees are different than overdraft fees, which are charged for the extension of a loan using bank funds to cover the amount you would have overdrawn.

**Note.** This term is commonly used as a name for a contract involving the loan of money.

**Notice of Right to Cancel.** This document explains your right to cancel a loan in some circumstances. You should receive such a notice in connection with most door-to-door sales and for mortgage loans that are not used to buy your residence.

**Notice to Quit.** In most states, this is a notice given by an owner of property (usually a landlord) demanding that a tenant leave within a specified period of time or face eviction proceedings.
Overdraft Loans. Also called “bounce-check protection” or “courtesy overdraft protection,” these are a form of high-cost, short-term credit. With these products, financial institutions cover their customers’ overdrafts when they have a negative balance, and then charge them a fee.

Payday Loan, also called “cash advances,” “deferred presentment,” “deferred deposits,” or “check loans.” Payday loan customers write the lender a post-dated check or sign an authorization for the lender to take money out of an account electronically for a certain amount. The amount on the check equals the amount borrowed plus a fee that is either a percentage of the full amount of the check or a flat dollar amount. The check (or debit agreement) is then held for up to a month, usually until the customer’s next payday or receipt of a government check. At the end of the agreed time period, the customer must either pay back the full amount of the check (more than what the lender gave out), allow the check to be cashed, or pay another fee to extend the loan.

Personal Property. Property other than real estate.

Predatory Lending. A term for a variety of lending practices that strip wealth or income from borrowers. Predatory loans are typically much more expensive than justified by the risk associated with the loan. Characteristics of these loans may include, but are not limited to, excessive or hidden fees, charges for unnecessary products, high interest rates, terms designed to trap borrowers in debt, fraud, and refinances that do not provide any net benefit to the borrower.

Prepayment. Paying off all or part of the loan balance before it is due.

Prepayment Penalty. A fee charged by a lender if the borrower pays the loan off early. The lender’s rationale for imposing prepayment penalties is to cover the loss of costs advanced by the lender at the time the loan is made.

Pre-Sale. Sale of property in anticipation of foreclosure or repossession, usually with the lender’s consent. A pre-sale is likely to lead to a higher sale price than foreclosure or repossession.

Principal. The amount borrowed.

Private Mortgage Insurance (PMI). Insurance provided by non-government insurers that protects lenders against loss if a borrower defaults. This insurance is usually required when a borrower makes less than a 20% down payment. When the borrower’s equity in the property equals 20%, she may request that the insurance be cancelled.

Pro Se, also called “pro per.” Representing yourself (without an attorney) in a legal case or bankruptcy proceeding.

Punitive Damages. Special damages that are sometimes awarded in court to punish a party who is responsible for serious misconduct.

Purchase Money Mortgage. The mortgage loan obtained to purchase a home.

Purchase Money Security Interest. A lien on property that arises when you agree to allow a lender to take as collateral the property you are purchasing with the loan.

Source: National Consumer Law Center, Surviving Debt [50th NCLC Anniversary Edition], updated at www.nclc.org/library
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