

# GLOSSARY<sup>1</sup>

**adjustable rate mortgage** a mortgage that permits the lender to adjust its interest rate periodically on the basis of changes in a specified index

**amortization** loan payment in equal periodic payments calculated to retire the principal at the end of a fixed period and to pay accrued interest on the outstanding balance.

**amortize** to repay a mortgage with regular payments that cover both principal and interest.

**annual percentage rate (APR)** the total finance charge which includes interest, loan fee and points. The APR is expressed as a percentage of the loan amount. The total yearly cost of a mortgage stated as a percentage of the loan amount; includes such items as the base interest rate, primary mortgage insurance and the loan origination fee (points).

**applicant** the person who applies for a loan from the prospective mortgager.

**appraisal** a report made by a qualified person setting forth an opinion or estimate of value. The term also refers to the process by which this estimate of value is obtained.

**appreciation** increased value of property due to changes in market conditions or other causes such as home improvements or changes in the surrounding community. Contrast with depreciation.

**broker** one who receives a commission or fee for bringing parties together and assisting in the negotiation of contracts between them. In real estate transactions, the broker usually brings together the buyer and the seller. Usually, a license is required to be a broker.

**budget** a detailed plan of income and expenses expected over a certain period of time. A budget can provide guidelines for managing future investments and expenses.

**cash flow** net income plus depreciation; amount of total revenues remaining with the business after all cash expenses have been paid

**closing** the conclusion of a transaction. Includes the delivery of a deed, financial adjustments, the signing of notes, and the distribution of funds necessary to the sale or loan transaction.

**closing costs** money paid to cover legal and administrative costs of the loan. These costs are usually paid at the loan closing.

**collateral** security for a loan such as a house pledged for a home loan.

---

<sup>1</sup> Reword the definitions...taken from Yes You Can

**consumer** person who uses goods and services to satisfy wants and needs

**credit card** magnetic-encoded plastic card entitling the user to borrow funds up to a pre-approved limit

**credit report** a report ordered by a lender from a credit bureau to determine if the borrower has paid his or her bills on time.

**current assets** business property (assets) that will be used up in less than one year

**current liabilities** business obligations(debts) that are due, and must be paid, in less than one year

**debt** an amount that one person owes to another.

**demand** amount of a product that consumers are willing and able to buy at different prices

**demographics** information relating to the growth, density, distribution, age, and other characteristics of a population

**depreciation** allowance made to compensate for the wear and tear on capital goods used in production

**down payment** the amount the buyer pays up front for a property. This is the buyer's own money and not part of the loan.

**economy** organized way that a society provides for the wants and needs of its citizens

**Equal credit opportunity act (ECOA)** ECOA is a federal law that requires lenders and other creditors to make credit equally available, without discrimination based on race, color, religion, national origin, age, gender, marital status receipt of income from public assistance programs and the good faith exercise of rights under the Consumer Credit Protection Act.

**Equity** the difference between fair market value and current indebtedness, usually referring to the owner's interest.

**factors of production** resources required for production—also called **productive resources**; includes **natural resources** (sometimes called “land”), **human resources** (sometimes called “labor”) excluding entrepreneurs, **capital resources** (often called “capital” or “capital goods”), and **entrepreneurs**

**Federal Housing Administration (FHA)** a division of the U.S. Department of Housing and Urban Development. Its main activity is the insuring of residential mortgage loans made by private lenders. It sets standards for construction and underwriting. FHA does not lend money or plan or construct housing.

**Fixed rate mortgage** a home loan with an interest rate that remains the same over the life of the loan.

**goods** tangible products used by consumers to satisfy their wants and needs

**Gross monthly income** total income before taxes and deductions

**Hazard insurance** insurance coverage that compensates for physical damage to a property from fire, wind, vandalism or other hazards.

**Home inspection** a thorough inspection that evaluates the structural and mechanical condition of a property.

**Homeowner's insurance** insurance which protects a homeowner from loss due to fire, theft, wind, but never from flood. Flood insurance is always a separate policy.

**human capital** skills, knowledge, and abilities that people acquire through education, training, and experience

**human resources** workers and other people (excluding entrepreneurs) who are involved in production; one of the factors of production

**interdependence** mutual dependence on others for goods and services; occurs as a result of specialization

**Interest** the amount paid to a lender for use of the money loaned to the borrower.

**labor resources** human effort used to produce goods and services; one of the factors of production, sometimes called "labor" or "human capital"

**leasing** long-term rental agreement that takes the place of an outright purchase

**Loan** the letting out or renting of money by a lender to a borrower, to be repaid with or without interest.

**market** physical location or other arrangement that allows buyers and sellers to exchange identical or very similar goods and/or services; pool or group of consumers that might be interested in a particular product

**market research** process of collecting and analyzing data concerning consumer attitudes towards a company's products and/or the products of its competitors; same as **marketing research**

**market survey** questionnaire or survey instrument designed to discover attitudes concerning a product, company, or other activity

**marketing** broad concept involving all activities required to get goods and services from the producer to the consumer; includes distribution, pricing, and advertising

**marketing research** process of collecting and analyzing data concerning consumer attitudes towards a company's products and/or the products of its competitors; same as **market research**

**Mortgage** a formal document executed by an owner of property, pledging that property has security for payment of debt or performance of some other obligation; the security instrument.

**natural resources** land, water, mineral deposits, forests, and other "gifts of nature" that are part of our natural endowments; one of the factors of production

**net worth** residual after liabilities have been subtracted from a firm's assets; same as **owner's equity**

**opportunity cost** most valuable alternative you give up when you make a choice

**owner's equity** residual after liabilities have been subtracted from a firm's assets; same as **net worth**

**per capita** per person basis

**private property** concept that people have the legal right to own property and use it as they wish

**productive resources** resources required to produce goods and services—also called **factors of production**; includes **natural resources** (sometimes called “land”), **human resources** (sometimes called “labor”) excluding entrepreneurs, **capital resources** (often called “capital” or “capital goods”), and **entrepreneurs**

**products** term referring collectively to goods and services

**Realtor** a real estate broker or an associate holding active membership in a local real estate board affiliated with the National Association of Realtors.

**scarcity** universal economic problem that occurs because there are not enough resources to satisfy people's wants

**service** work or effort that one person does for someone else; an intangible product

**specialization** work arranged so that a worker performs fewer steps in production, same as **division of labor**; the basis for trade and exchange that occurs when a producer makes a narrower range of goods and services

**supply** different quantities of a resource, good, or service offered for sale at various prices

**tax incentives** reductions in taxes or other tax breaks given to encourage a person or a business to undertake certain activities

**want** desire that can be satisfied by consuming a good or service