Debt Glossary

Creditor vs. other creditors

Mortgage (security interest)	The creditor (e.g., a lender) has a security interest in designated property of the debtor (e.g., a borrower). The property covered by this interest of the creditor is known as the "collateral." In case of default, the creditor can repossess the collateral (keeping it or selling it) to the exclusion of other creditors.
Mortgagor	The debtor and owner of the collateral.
Mortgagee	The creditor and secured party (e.g., the bank).
Unsecured debt	The creditor has no mortgage or security interest in the debtor's property (a.k.a. no collateral). If the debtor defaults, the creditor's rights are the same as those of any other unsecured creditor. If the debtor defaults on multiple debts or declares bankruptcy, any secured creditors will be able to repossess the debtor's property (keeping it or selling it) first, leaving the unsecured creditors with that much less from which to satisfy their debts. Secured creditors are said to be "senior," or to have "priority." Unsecured creditors are "junior" or "subordinate."

Creditor vs. debtor

Recourse loan (may be secured or unsecured)	The debtor is *personally liable* for the debt, that is, upon any default the creditor can collect from any of the borrower's assets (within the bounds of local law). If the recourse debt is also *secured*, the creditor can first repossess the collateral, to the exclusion of other creditors, selling it for its value. If the proceeds of the foreclosure sale are insufficient to satisfy the debt in full, the secured creditor can get a "deficiency judgment" and collect the unsatisfied amount from the debtor's other assets (within the bounds of local law).
Nonrecourse loan (always secured)	The borrower is *not personally liable* for the debt, that is, upon any default the creditor's only remedy is to repossess the collateral, keeping it or selling it at a foreclosure sale. If the value of the collateral is less than the outstanding balance on the debt, the difference is the creditor's loss. The creditor has no "recourse" to the debtor's other assets.

"Due on sale" clause	If a mortgage loan agreement contains this type of clause and the collateral is sold, the principal balance on the loan (whether recourse or nonrecourse) immediately becomes due and payable in full.
"Assumable" mortgage	If there is no "due on sale" clause, then generally the mortgage is "assumable" –- that is, the debtor can sell the property without rendering the entire loan balance due and payable. The buyer and seller might prefer that option -- for example, if the loan bears a low interest rate.

Buyer vs. seller of property with "assumable" mortgage

Assumption of debt	The buyer agrees with the seller that the buyer will pay the identified debt of the seller. If the buyer fails to pay the debt when due and the seller is harmed as a result, the buyer must make the seller whole. Note that the assumption does not relieve the original debtor from continuing personal liability to the creditor on a recourse debt. Such relief occurs only if the creditor affirmatively agrees to it –- a transaction known as a *novation*.
Taking property subject to a mortgage	The buyer acknowledges that the property being acquired is subject to a mortgage, and the buyer agrees that it will not complain to the seller if the mortgage is not paid and the creditor repossesses. Thus, as an economic matter, the buyer takes on the burden of the mortgage; the buyer needs to see that the mortgage debt is satisfied in order to avoid losing the property to the secured creditor (mortgagee). However, if the buyer fails to pay the debt when due and the seller is harmed as a result (which might happen with a recourse debt), the buyer is not required to make the seller whole. Here again, the sale does not relieve the original debtor from continuing personal liability to the creditor on a recourse debt (unless the creditor agrees to a novation).