

Mortgage Glossary

ADJUSTABLE RATE MORTGAGE (ARM) A mortgage in which the interest rate is adjusted periodically according to a preselected index. Adjustments may occur at different intervals depending upon the loan program. Some adjust yearly while others may stay fixed for a term of one, three, five or seven years then adjust yearly. The terms, adjustment schedule and index that the loan is based upon vary by loan program. To protect the borrower, "caps" are put into place to limit the amount of payment adjustment.

AMORTIZATION A gradual debt reduction of the amount borrowed. This is accomplished by making installment payments (usually monthly) according to a predetermined schedule.

ANNUAL PERCENTAGE RATE (A.P.R.) The total cost of credit on a yearly basis expressed as a percentage. It takes into account the total cost of the loan including origination fee, points, prepaid interest, etc. The APR is typically higher than the note rate.

APPRAISAL A written report made by a licensed person as to the current estimate of value. The term also refers to the process by which this estimate is obtained. The "loan-to-value" is usually based on the appraisal value not the sales price.

BALLOON LOAN The balance of the mortgage that is due in a lump sum at a specified date in the future. Usually three, five or seven years.

BUYDOWNS Temporary - An up front fee paid to the lender (by the borrower, seller or builder) to reduce the monthly payments for a home mortgage. Typically the monthly payment reduction is only the first one to three years.

Permanent - An up front fee paid to the lender (by the borrower, seller or builder) to reduce the monthly payments for a home mortgage for the life of the loan. (Sometimes referred to as points.)

CAP A limit on the amount of adjustment in the interest rate, payment amount or both on an ARM mortgage. Caps may be applied to each adjustment period and/or over the life of the loan. Example, a 2/6 would denote a 2% cap on the rate per adjustment period and 6% over the term of the mortgage.

CLOSING The conclusion of the transaction. Includes but not limited to the delivery of the deed, signing of mortgage note and the disbursement of funds to the seller and other interested parties.

CLOSING COSTS Costs associated with obtaining a mortgage. They include fees such as origination, appraisal, credit report, title insurance, attorney, processing, underwriting, etc. Local custom and loan type dictate what party to the transaction pays which fees.

Prepaid items such as daily interest, property insurance and real estate taxes are not typically considered closing costs.

CONDOMINIUM A form of ownership of real property. The purchaser receives title to a particular unit and a proportionate interest in the common areas. A condominium generally defines each unit as a separately owned space to the interior surfaces of the perimeter walls, floors, and ceilings.

CONVENTIONAL LOAN A mortgage loan which meets the underwriting guidelines of FNMA or FHLMC, as opposed to a government backed loan.

CREDIT SCORE A means in which the lender may evaluate the credit rating of the potential borrower using standardized guidelines. The credit score takes into account such things as the amount of money owed in relationship to the credit limit, the number of open credit lines, the length of the credit history, the number of recent credit inquiries and numerous other factors.

DEBT RATIO The total of all of the borrowers monthly payments including the proposed house payment (PITI), divided by the borrowers gross income.

EQUITY The difference between the fair market value of the property and the total amount of money owed on that property.

ESCROW A transaction in which a third party, acting as the agent for the buyer and seller, carries out instructions of both parties and assumes the responsibilities of handling the paperwork and disbursement of funds.

FHA (Federal Housing Administration) The division of the Department of Housing and Urban Development whose main directive is the insuring of residential mortgage loans made by private lenders. FHA does not lend or provide funds for lending, they only insure the loan.

FEDERAL HOME LOAN MORTGAGE CORPORATION (FHLMC) A private corporation authorized by Congress. It sells participation sales certificates secured by pools of conventional mortgage loans. Also known as Freddie Mac.

FEDERAL NATIONAL MORTGAGE ASSOCIATION (FNMA) A tax paying corporation created by Congress to support the secondary mortgage market. It purchases and sells residential mortgages insured by FHA or guaranteed by VA as well as conventional home mortgages, Also known as Fannie Mae.

FUNDING FEE The fee paid and forwarded to the Veterans Administration to guarantee a VA home loan provided to a Veteran.

GOOD FAITH ESTIMATE A document provided at application that provides estimates for all costs associated with obtaining and closing the home loan.

INDEX An interest rate indicator used to determine changes in the mortgage interest rate for an ARM loan. Commonly used indices include; 6-Month, 1, 3, or 5-Year Treasury Bills.

LTV See LOAN-TO-VALUE

LOAN-TO-VALUE The relationship between the amount of the mortgage loan and the value of the security, expressed as a percentage of the appraised value.

MARGIN The percentage added to the index at each adjustment of an ARM to determine the borrowers new interest rate.

MORTGAGE A conveyance of an interest in real property given as security for the payment of an obligation.

MORTGAGEE A person to whom property is conveyed as security of a loan made by such person or firm.

MORTGAGE BROKER A person or company that originates home loans and sells that mortgage to any one of a number of mortgage lenders. the mortgage broker has the ability to find the best rate and/or program among the many sources available to him. He is usually compensated by the lender whom he places the loan with. there is no extra fees paid by the borrower for this service.

MORTGAGE INSURANCE PREMIUM (MIP) Mortgage insurance on an FHA insured loan. Unlike conventional loans it is required regardless of the loan-to-value.

MORTGAGOR The borrower of money. One who gives as security a mortgage or deed of trust on real property.

NOTE RATE The interest rate on a loan.

ORIGINATION FEE A fee charged to the buyer for work involved in the evaluation, preparation and submission of the mortgage loan. Typically it is 1% of the proposed loan amount.

PITI An acronym for the total monthly payment. Principal, Interest, Taxes and Insurance.

POINTS A fee expressed as a percentage of the loan amount. One point equals one percent. Points are usually collected at closing. Payment of discount points usually results in a lower interest rate on the loan.

PREPAIDS The amounts that are put into an escrow account at closing, usually including real estate taxes and insurance.

PREPAID INTEREST That amount of money collected at closing to cover the interest for the loan from the settlement date to the end of the month..

PRIVATE MORTGAGE INSURANCE (PMI) A private company which insures the mortgage lender on a conventional loan against loss caused by a mortgagor's default. It may cover all or part of the loss. It is usually not required for loan-to-values of 80% or less.

SECONDARY MARKET A system where existing mortgages are bought and sold.

TITLE INSURANCE An insurance policy which insures you and/or the lender against errors in the title search of the property.

UNDERWRITING Where the complete loan package is reviewed and approved or denied based upon standardized guidelines for that particular loan program. Sometimes referred to as the Loan Committee.

VA Veterans Administration. The division of the government that guarantees VA loans made to Veterans.