

## **Mortgage Glossary**

### **Acceleration Clause**

Provision in a mortgage that allows the lender to demand payment of the entire principal balance if a monthly payment is missed or some other default occurs.

### **Additional Principal Payment**

A way to reduce the remaining balance on the loan by paying more than the scheduled principal amount due.

### **Adjustable-Rate Mortgage (ARM)**

A mortgage with an interest rate that changes during the life of the loan according to movements in an index rate. Sometimes called AMLs (adjustable mortgage loans) or VRMs (variable-rate mortgages).

### **Adjusted Basis**

The cost of a property plus the value of any capital expenditures for improvements to the property minus any depreciation taken.

### **Adjustment Date**

The date that the interest rate changes on an adjustable-rate mortgage (ARM).

### **Adjustment Period**

The period elapsing between adjustment dates for an adjustable-rate mortgage (ARM).

### **Affordability Analysis**

An analysis of a buyers ability to afford the purchase of a home. Reviews income, liabilities, and available funds, and considers the type of mortgage you plan to use, the area where you want to purchase a home, and the closing costs that are likely.

### **Amortization**

The gradual repayment of a mortgage loan, both principle and interest, by installments.

### **Amortization Term**

The length of time required to amortize the mortgage loan expressed as a number of months. For example, 360 months is the amortization term for a 30-year fixed-rate mortgage.

### **Annual Percentage Rate (APR)**

The cost of credit, expressed as a yearly rate including interest, mortgage insurance, and loan origination fees. This allows the buyer to compare loans, however APR should not be confused with the actual note rate.

### **Appraisal**

A written analysis prepared by a qualified appraiser and estimating the value of a property.

### **Appraised Value**

An opinion of a property's fair market value, based on an appraiser's knowledge, experience, and analysis of the property.

### **Asset**

Anything owned of monetary value including real property, personal property, and enforceable claims against others (including bank accounts, stocks, mutual funds, etc.).

### **Assignment**

The transfer of a mortgage from one person to another.

### **Assumability**

An assumable mortgage can be transferred from the seller to the new buyer. Generally requires a credit review of the new borrower and lenders may charge a fee for the assumption. If a mortgage contains a due-on-sale clause, it may not be assumed by a new buyer.

### **Assumption Fee**

The fee paid to a lender (usually by the purchaser of real property) when an assumption takes place.

### **Balance Sheet**

A financial statement that shows assets, liabilities, and net worth as of a specific date.

### **Balloon Mortgage**

A mortgage with level monthly payments that amortizes over a stated term but also requires that a lump sum payment be paid at the end of an earlier specified term.

### **Balloon Payment**

The final lump sum paid at the maturity date of a balloon mortgage.

### **Before-tax Income**

Income before taxes are deducted.

### **Biweekly Payment Mortgage**

A plan to reduce the debt every two weeks (instead of the standard monthly payment schedule). The 26 (or possibly 27) biweekly payments are each equal to one-half of the monthly payment required if the loan were a standard 30-year fixed-rate mortgage. The result for the borrower is a substantial savings in interest.

### **Bridge Loan**

A second trust that is collateralized by the borrower's present home allowing the proceeds to be used to close on a new house before the present home is sold. Also known as "swing loan."

### **Broker**

An individual or company that brings borrowers and lenders together for the purpose of loan origination.

### **Buydown**

When the seller, builder or buyer pays an amount of money up front to the lender to reduce monthly payments during the first few years of a mortgage. Buydowns can occur in both fixed and adjustable rate mortgages.

## **Cap**

Limits how much the interest rate or the monthly payment can increase, either at each adjustment or during the life of the mortgage. Payment caps don't limit the amount of interest the lender is earning and may cause negative amortization.

## **Certificate of Eligibility**

A document issued by the federal government certifying a veteran's eligibility for a Department of Veterans Affairs (VA) mortgage.

## **Certificate of Reasonable Value (CRV)**

A document issued by the Department of Veterans Affairs (VA) that establishes the maximum value and loan amount for a VA mortgage.

## **Change Frequency**

The frequency (in months) of payment and/or interest rate changes in an adjustable-rate mortgage (ARM).

## **Closing**

A meeting held to finalize the sale of a property. The buyer signs the mortgage documents and pays closing costs. Also called "settlement."

## **Closing Costs**

These are expenses - over and above the price of the property- that are incurred by buyers and sellers when transferring ownership of a property. Closing costs normally include an origination fee, property taxes, charges for title insurance and escrow costs, appraisal fees, etc. Closing costs will vary according to the area country and the lenders used.

## **Compound Interest**

Interest paid on the original principal balance and on the accrued and unpaid interest.

### **Consumer Reporting Agency (or Bureau)**

An organization that handles the preparation of reports used by lenders to determine a potential borrower's credit history. The agency gets data for these reports from a credit repository and from other sources.

### **Conversion Clause**

A provision in an ARM allowing the loan to be converted to a fixed-rate at some point during the term. Usually conversion is allowed at the end of the first adjustment period. The conversion feature may cost extra.

### **Credit Report**

A report detailing an individual's credit history that is prepared by a credit bureau and used by a lender to determine a loan applicant's creditworthiness.

### **Credit Risk Score**

A credit score measures a consumer's credit risk relative to the rest of the U.S. population, based on the individual's credit usage history. The credit score most widely used by lenders is the FICO® score, developed by Fair, Issac and Company. This 3-digit number, ranging from 300 to 850, is calculated by a mathematical equation that evaluates many types of information that are on your credit report. Higher FICO® scores represents lower credit risks, which typically equate to better loan terms. In general, credit scores are critical in the mortgage loan underwriting process.

### **Deed of Trust**

The document used in some states instead of a mortgage. Title is conveyed to a trustee.

### **Default**

Failure to make mortgage payments on a timely basis or to comply with other requirements of a mortgage.

### **Delinquency**

Failure to make mortgage payments on time.

### **Deposit**

This is a sum of money given to bind the sale of real estate, or a sum of money given to ensure payment or an advance of funds in the processing of a loan.

### **Discount**

In an ARM with an initial rate discount, the lender gives up a number of percentage points in interest to reduce the rate and lower the payments for part of the mortgage term (usually for one year or less). After the discount period, the ARM rate usually increases according to its index rate.

### **Down Payment**

Part of the purchase price of a property that is paid in cash and not financed with a mortgage.

### **Effective Gross Income**

A borrower's normal annual income, including overtime that is regular or guaranteed. Salary is usually the principal source, but other income may qualify if it is significant and stable.

### **Equity**

The amount of financial interest in a property. Equity is the difference between the fair market value of the property and the amount still owed on the mortgage.

### **Escrow**

An item of value, money, or documents deposited with a third party to be delivered upon the fulfillment of a condition. For example, the deposit of funds or documents into an escrow account to be disbursed upon the closing of a sale of real estate.

### **Escrow Disbursements**

The use of escrow funds to pay real estate taxes, hazard insurance, mortgage insurance, and other property expenses as they become due.

### **Escrow Payment**

The part of a mortgagor's monthly payment that is held by the servicer to pay for taxes, hazard insurance, mortgage insurance, lease payments, and other items as they become due.



## **Fannie Mae**

A congressionally chartered, shareholder-owned company that is the nation's largest supplier of home mortgage funds.

## **FHA Mortgage**

A mortgage that is insured by the Federal Housing Administration (FHA). Also known as a government mortgage.

## **FICO Score**

FICO® scores are the most widely used credit score in U.S. mortgage loan underwriting. This 3-digit number, ranging from 300 to 850, is calculated by a mathematical equation that evaluates many types of information that are on your credit report. Higher FICO® scores represent lower credit risks, which typically equate to better loan terms.

## **First Mortgage**

The primary lien against a property.

## **Fixed Installment**

The monthly payment due on a mortgage loan including payment of both principal and interest.

## **Fixed-Rate Mortgage (FRM)**

A mortgage interest that are fixed throughout the entire term of the loan.

## **Fully Amortized ARM**

An adjustable-rate mortgage (ARM) with a monthly payment that is sufficient to amortize the remaining balance, at the interest accrual rate, over the amortization term.

## **GNMA**

A government-owned corporation that assumed responsibility for the special assistance loan program formerly administered by Fannie Mae. Popularly known as Ginnie Mae.

### **Growing-Equity Mortgage (GEM)**

A fixed-rate mortgage that provides scheduled payment increases over an established period of time. The increased amount of the monthly payment is applied directly toward reducing the remaining balance of the mortgage.

### **Guarantee Mortgage**

A mortgage that is guaranteed by a third party.

### **Housing Expense Ratio**

The percentage of gross monthly income budgeted to pay housing expenses.

### **HUD-1 statement**

A document that provides an itemized listing of the funds that are payable at closing. Items that appear on the statement include real estate commissions, loan fees, points, and initial escrow amounts. Each item on the statement is represented by a separate number within a standardized numbering system. The totals at the bottom of the HUD-1 statement define the seller's net proceeds and the buyer's net payment at closing.

### **Hybrid ARM (3/1 ARM, 5/1 ARM, 7/1 ARM)**

A combination fixed rate and adjustable rate loan - also called 3/1,5/1,7/1 - can offer the best of both worlds: lower interest rates (like ARMs) and a fixed payment for a longer period of time than most adjustable rate loans. For example, a "5/1 loan" has a fixed monthly payment and interest for the first five years and then turns into a traditional adjustable rate loan, based on then-current rates for the remaining 25 years. It's a good choice for people who expect to move or refinance, before or shortly after, the adjustment occurs.

### **Index**

The index is the measure of interest rate changes a lender uses to decide the amount an interest rate on an ARM will change over time. The index is generally a published number or percentage, such as the average interest rate or yield on Treasury bills. Some index rates tend to be higher than others and some more volatile.



### **Initial Interest Rate**

This refers to the original interest rate of the mortgage at the time of closing. This rate changes for an adjustable-rate mortgage (ARM). It's also known as "start rate" or "teaser."

### **Installment**

The regular periodic payment that a borrower agrees to make to a lender.

### **Insured Mortgage**

A mortgage that is protected by the Federal Housing Administration (FHA) or by private mortgage insurance (MI).

### **Interest**

The fee charged for borrowing money.

### **Interest Accrual Rate**

The percentage rate at which interest accrues on the mortgage. In most cases, it is also the rate used to calculate the monthly payments.

### **Interest Rate Buydown Plan**

An arrangement that allows the property seller to deposit money to an account. That money is then released each month to reduce the mortgagor's monthly payments during the early years of a mortgage.

### **Interest Rate Ceiling**

For an adjustable-rate mortgage (ARM), the maximum interest rate, as specified in the mortgage note.

### **Interest Rate Floor**

For an adjustable-rate mortgage (ARM), the minimum interest rate, as specified in the mortgage note.

### **Late Charge**

The penalty a borrower must pay when a payment is made a stated number of days (usually 15) after the due date.

### **Lease-Purchase Mortgage Loan**

An alternative financing option that allows low- and moderate-income home buyers to lease a home with an option to buy. Each month's rent payment consists of principal, interest, taxes and insurance (PITI) payments on the first mortgage plus an extra amount that accumulates in a savings account for a downpayment.

### **Liabilities**

A person's financial obligations. Liabilities include long-term and short-term debt.

### **Lifetime Payment Cap**

For an adjustable-rate mortgage (ARM), a limit on the amount that payments can increase or decrease over the life of the mortgage.

### **Lifetime Rate Cap**

For an adjustable-rate mortgage (ARM), a limit on the amount that the interest rate can increase or decrease over the life of the loan. See cap.

### **Line of Credit**

An agreement by a commercial bank or other financial institution to extend credit up to a certain amount for a certain time.

### **Liquid Asset**

A cash asset or an asset that is easily converted into cash.

### **Loan**

A sum of borrowed money (principal) that is generally repaid with interest.

### **Loan-to-Value (LTV) Percentage**

The relationship between the principal balance of the mortgage and the appraised value (or sales price if it is lower) of the property. For example, a \$100,000 home with an \$80,000 mortgage has an LTV of 80 percent.

### **Lock-In Period**

The guarantee of an interest rate for a specified period of time by a lender, including loan term and points, if any, to be paid at closing. Short term locks (under 21 days), are usually available after lender loan approval only. However, many lenders may permit a borrower to lock a loan for 30 days or more prior to submission of the loan application.

### **Margin**

The number of percentage points the lender adds to the index rate to calculate the ARM interest rate at each adjustment.

### **Maturity**

The date on which the principal balance of a loan becomes due and payable.

### **Monthly Fixed Installment**

That portion of the total monthly payment that is applied toward principal and interest. When a mortgage negatively amortizes, the monthly fixed installment does not include any amount for principal reduction and doesn't cover all of the interest. The loan balance therefore increases instead of decreasing.

### **Mortgage**

A legal document that pledges a property to the lender as security for payment of a debt.

### **Mortgage Banker**

A company that originates mortgages exclusively for resale in the secondary mortgage market.

### **Mortgage Broker**

An individual or company that brings borrowers and lenders together for the purpose of loan origination.

### **Mortgage Insurance**

A contract that insures the lender against loss caused by a mortgagor's default on a government mortgage or conventional mortgage. Mortgage insurance can be issued by a private company or by a government agency.

### **Mortgage Insurance Premium (MIP)**

The amount paid by a mortgagor for mortgage insurance.

### **Mortgage Life Insurance**

A type of term life insurance In the event that the borrower dies while the policy is in force, the debt is automatically paid by insurance proceeds.

### **Mortgagor**

The borrower in a mortgage agreement.

### **Negative Amortization**

Amortization means that monthly payments are large enough to pay the interest and reduce the principal on your mortgage. Negative amortization occurs when the monthly payments do not cover all of the interest cost. The interest cost that isn't covered is added to the unpaid principal balance. This means that even after making many payments, you could owe more than you did at the beginning of the loan. Negative amortization can occur when an ARM has a payment cap that results in monthly payments not high enough to cover the interest due.

### **Net Worth**

The value of all of a person's assets, including cash.

### **Non Liquid Asset**

An asset that cannot easily be converted into cash.

**Note**

A legal document that obligates a borrower to repay a mortgage loan at a stated interest rate during a specified period of time.

**Origination Fee**

A fee paid to a lender for processing a loan application. The origination fee is stated in the form of points. One point is 1 percent of the mortgage amount.

**Owner Financing**

A property purchase transaction in which the party selling the property provides all or part of the financing.

**Payment Change Date**

The date when a new monthly payment amount takes effect on an adjustable-rate mortgage (ARM) or a graduated-payment mortgage (GPM). Generally, the payment change date occurs in the month immediately after the adjustment date.

**Periodic Payment Cap**

A limit on the amount that payments can increase or decrease during any one adjustment period.

**Periodic Rate Cap**

A limit on the amount that the interest rate can increase or decrease during any one adjustment period, regardless of how high or low the index might be.

**PITI Reserves**

A cash amount that a borrower must have on hand after making a down payment and paying all closing costs for the purchase of a home. The principal, interest, taxes, and insurance (PITI) reserves must equal the amount that the borrower would have to pay for PITI for a predefined number of months (usually three).

## **Points**

A point is equal to one percent of the principal amount of your mortgage. For example, if you get a mortgage for \$165,000 one point means \$1,650 to the lender. Points usually are collected at closing and may be paid by the borrower or the home seller, or may be split between them.

## **Prepayment Penalty**

A fee that may be charged to a borrower who pays off a loan before it is due.

## **Pre-Approval**

The process of determining how much money you will be eligible to borrow before you apply for a loan.

## **Prime Rate**

The interest rate that banks charge to their preferred customers. Changes in the prime rate influence changes in other rates, including mortgage interest rates.

## **Principal**

The amount borrowed or remaining unpaid. The part of the monthly payment that reduces the remaining balance of a mortgage.

## **Principal Balance**

The outstanding balance of principal on a mortgage not including interest or any other charges.

## **Principal, Interest, Taxes, and Insurance (PITI)**

The four components of a monthly mortgage payment. Principal refers to the part of the monthly payment that reduces the remaining balance of the mortgage. Interest is the fee charged for borrowing money. Taxes and insurance refer to the monthly cost of property taxes and homeowners insurance, whether these amounts that are paid into an escrow account each month or not.

## **Private Mortgage Insurance (PMI)**

Mortgage insurance provided by a private mortgage insurance company to protect lenders against loss if a borrower defaults. Most lenders generally require MI for a loan with a loan-to-value (LTV) percentage in excess of 80 percent.

### **Qualifying Ratios**

Calculations used to determine if a borrower can qualify for a mortgage. They consist of two separate calculations: a housing expense as a percent of income ratio and total debt obligations as a percent of income ratio.

### **Rate Lock**

A commitment issued by a lender to a borrower or other mortgage originator guaranteeing a specified interest rate and lender costs for a specified period of time.

### **Real Estate Agent**

A person licensed to negotiate and transact the sale of real estate on behalf of the property owner.

### **Real Estate Settlement Procedures Act (RESPA)**

A consumer protection law that requires lenders to give borrowers advance notice of closing costs.

### **Real Estate Agent®**

A real estate broker or an associate who is an active member in a local real estate board that is affiliated with the National Association of Real Estate Agents.

### **Recording**

The noting in the registrar's office of the details of a properly executed legal document, such as a deed, a mortgage note, a satisfaction of mortgage, or an extension of mortgage, thereby making it a part of the public record.

### **Refinance**

Paying off one loan with the proceeds from a new loan using the same property as security.

### **Revolving Liability**

A credit arrangement, such as a credit card, that allows a customer to borrow against a pre-approved line of credit when purchasing goods and services.

### **Secondary Mortgage Market**

Where existing mortgages are bought and sold.

### **Security**

The property that will be pledged as collateral for a loan.

### **Seller Carry-back**

An agreement in which the owner of a property provides financing, often in combination with an assumable mortgage. See Owner Financing.

### **Servicer**

An organization that collects principle and interest payments from borrowers and manages borrowers' escrow accounts. The servicer often services mortgages that have been purchased by an investor in the secondary mortgage market.

### **Standard Payment Calculation**

The method used to determine the monthly payment required to repay the remaining balance of a mortgage in substantially equal installments over the remaining term of the mortgage at the current interest rate.

### **Step-Rate Mortgage**

A mortgage that allows for the interest rate to increase according to a specified schedule (i.e., seven years), resulting in increased payments as well. At the end of the specified period, the rate and payments will remain constant for the remainder of the loan.

### **Third-party Origination**

When a lender uses another party to completely or partially originate, process, underwrite, close, fund, or package the mortgages it plans to deliver to the secondary mortgage market.

### **Total Expense Ratio**

Total obligations as a percentage of gross monthly income including monthly housing expenses plus other monthly debts.



### **Treasury Index**

An index used to determine interest rate changes for certain adjustable-rate mortgage (ARM) plans. Based on the results of auctions that the U.S. Treasury holds for its Treasury bills and securities or derived from the U.S. Treasury's daily yield curve, which is based on the closing market bid yields on actively traded Treasury securities in the over-the-counter market.

### **Truth-in-Lending**

A federal law that requires lenders to fully disclose, in writing, the terms and conditions of a mortgage, including the annual percentage rate (APR) and other charges.

### **Two-step Mortgage**

An adjustable-rate mortgage (ARM) with one interest rate for the first five or seven years of its mortgage term and a different interest rate for the remainder of the amortization term.

### **Underwriting**

The process of evaluating a loan application to determine the risk involved for the lender. Underwriting involves an analysis of the borrower's creditworthiness and the quality of the property itself.

### **VA Mortgage**

A mortgage that is guaranteed by the Department of Veterans Affairs (VA). Also known as a government mortgage.

### **"Wrap Around" Mortgage**

A mortgage that includes the remaining balance on an existing first mortgage plus an additional amount requested by the mortgagor. Full payments on both mortgages are made to the "Wrap Around" mortgagee, who then forwards the payments on the first mortgage to the first mortgagee. These mortgages may not be allowed by the first mortgage holder, and if discovered, could be subject to a demand for full payment.