

# Mortgage Glossary of Terms

---

## - A -

- **Acceleration Clause:** allows the lender to speed up the rate at which your loan comes due or even to demand immediate payment of the entire outstanding balance of the loan should you default on your loan.
- **Adjustable Rate Mortgage (ARM):** is a mortgage in which the interest rate is adjusted periodically based on a pre-selected index. Also known as the renegotiable rate mortgage, the variable rate mortgage or the Canadian rollover mortgage.
- **Adjustment Interval:** on an adjustable rate, the time between changes in the interest rate and/or monthly payment, typically one, three or five years, depending on the index.
- **Amortization:** a loan payment made by an equal periodic payment that is calculated to pay off the debt at the end of a fixed period, including accrued interest on the outstanding balance.
- **Annual Percentage Rate:** an interest rate reflecting the cost of a mortgage as a yearly rate. This rate is likely to be higher than the stated note rate, because it takes into account points and other credit costs. This (APR) allows homebuyers to compare different types of mortgages based on the annual cost for each loan.
- **Appraisal:** an estimate of the value of property, made by a qualified professional called an "appraiser".
- **Assumption:** the agreement between the buyer and the seller where the buyer takes over the payments on an existing mortgage from the seller. Assuming a loan can save the buyer money since this is an existing mortgage debt, unlike a new mortgage where closing costs and new, possibly higher, market rate interest charges will apply.

## - B -

- **Balloon Payment Mortgage:** usually a short term fixed-rate loan which involves small payments for a certain period of time and one large payment for the remaining amount of the principle at a time specified in the contract.

- **Broker:** an individual in the business of assisting in arranging funding or negotiating contracts for a client but who does not loan the money himself. Brokers usually charge a fee or receive a commission for their services.
- **Buy-Down:** when the lender and/or the homebuilder subsidizes the mortgage by lowering the interest rate during the first few years of the loan. While the payments are initially low, they will increase when the subsidy expires.

## - C -

- **Caps (interest):** consumer safeguards which limit the amount the interest rate on an adjustable rate mortgage may change per year and/or the life of the loan.
- **Caps (payment) :** consumer safeguards which limit the amount of monthly payments on an adjustable rate mortgage can change.
- **Closing:** the meeting between the buyer, seller and lender or their agents where the property and funds change hands. Also called settlement.
- **Closing Cost:** usually includes an origination fee, discount points, appraisal fee, title search and insurance, survey, taxes, deeds recording fee, credit report charge and other costs assessed at settlement. The cost of closing usually is about 3-6% of the mortgage amount.
- **Commitment:** an agreement, often in writing, between a lender and a borrower to loan money at a future date subject to the completion of paperwork or compliance with stated conditions.
- **Construction Loan :** a short-term loan for financing the cost of construction. The lender advances funds to the builder at periodic intervals as the work progresses.
- **Conventional Loan:** a mortgage not insured by FHA or guaranteed by the VA or Farmers Home Administration (FMHA).
- **Credit Report:** a report documenting the credit history and current status of a borrower's credit standing.

## - D -

- **Debt-to-Income-Ratio:** the ratio, expressed as a percentage, which results when a borrower's monthly payment obligation on long term debts is divided by his or her net effective income (FHA/VA Loans) or gross

monthly income (Conventional Loan ) . See housing expenses to income ratio.

- **Deed of Trust** : in many states, this document is used in place of a mortgage to secure the payment of a note.
- **Default** : failure to meet legal obligation in a contract, specifically, failure to make the monthly payments on a mortgage.
- **Deferred Interest**: see Negative Amortization.
- **Delinquency**: failure to make payments on time. This can lead to foreclosure.
- **Department of Veterans Affairs (VA)**: an independent agency of the federal government which guarantees long term or low or no down payment mortgages to eligible veterans.
- **Discount Points** : see Points.
- **Down Payment** : money paid to make up the difference between the purchase price and the mortgage amount. The down payment usually is 10 to 20 % of sales price on conventional loans, and no money down up to 5 % on FHA / VA loans.
- **Due On Sale Clause**: a provision in a mortgage or deed of trust that allows the lender to demand immediate payment of the balance of the mortgage if the holder sells the home.

## - E -

- **Earnest Money**: money given by the buyer to a seller as part of the purchase price to bind a transaction or assure payment.
- **Equal Credit Opportunity Act (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, sex, marital status or receipt of income from public assistance programs.
- **Equity**: the difference between the fair market value and current indebtedness, also referred to as the owner's interest.
- **Escrow**: refers to a neutral third party who carries out the instructions of both the buyer and seller to handle all the paper work of settlement or "closing ". Escrow may also refer to an account held by the lender into which the homebuyer pays money for tax or insurance payments.

## - F -

- **Fannie Mae** : see Federal National Mortgage.
- **Farmers Home Administration (FHMA)**: provides financing to farmers and other qualified borrowers who are unable to obtain loans elsewhere.
- **Federal Home Loan Bank Board (FHLBB)**: a regulatory and supervisory agency for federally chartered savings institution.
- **Federal Home Loan Mortgage Corporation (FHLMC)**: also called "Fannie Mae" is a quasi- governmental agency that purchases conventional mortgages from insured depository institutions and HUD approved mortgage bankers.
- **Federal Housing Administration (FHA)**: a division of the Department of Housing and Urban Development. Its main activity is insuring of residential mortgage loans made by private lenders. FHA also sets standards for underwriting mortgages.
- **Federal National Mortgage Association (FNMA)**: also known as Fannie Mae. A tax-paying corporation created by Congress that purchases and sells conventional residential mortgages as well as those insured by FHA or guaranteed by VA. This institution, which provides funds for one in seven mortgages, makes mortgage money more available and more affordable.
- **FHA Loan**: a loan insured by the Federal Housing Administration open to all qualified home purchasers. While there are limits to size of FHA loans, they are generous enough to handle moderate priced homes almost anywhere in the country.
- **FHA Mortgage Insurance**: requires a small fee ( up to 3.8% of the amount ) paid at closing or a portion of this fee added to each monthly payment of an FHA loan.
- **Fixed Rate Mortgage**: a mortgage on which the interest rate is set for the term of the loan.
- **Foreclosure**: a legal procedure in which property securing debt is sold by the lender to pay the defaulting borrower's debt.
- **Freddie Mac**: see Federal Home loan Mortgage Corporation.

## - G -

- **Ginnie Mae:** see Government National Mortgage.
- **Government National Mortgage Association (GNMA):** Also known as Ginnie Mae, provides sources of funds for residential mortgages, guaranteed by FHA or VA.
- **Graduated Payment Mortgage (GPM):** a type of flexible payment mortgage where the payments increase for a specified period of time and then level off. This type of mortgage has negative amortization built into it.
- **Gross Monthly Income:** the total amount the borrower earns per month, before any expenses are deducted.

**Good Faith Estimate:** A written estimate provided by the lender of the closing costs a borrower is likely to pay at settlement. This estimate must be provided to all loan applicants within three business days after a loan application is received.

- **Guaranty:** a promise by one party to pay a debt or perform an obligation contracted by another if original party fails to pay or perform according to a contract.

## - H -

- **Hazard Insurance:** a form of insurance in which the insurance company protects the insured from specified losses, such as fire, wind storm and the like.
- **Housing Expenses to Income Ratio:** the ratio, expressed as a percentage, which results when a borrower's housing expenses are divided by his or her net effective income (FHA/VA Loans) or gross monthly income (Conventional Loans) . See debt to income ratio.

## - I -

- **Impound:** that portion of a borrower's monthly payments held by the lender to pay for taxes, hazard insurance, mortgage insurance, lease payments, and other items as they become due . Also known as reserves.
- **Index:** a published interest rate against which lenders measure the difference between the current interest rate on an adjustable rate mortgage, and that earned by other investments ( such as one-three-and-five year U.S. Treasury security yield, the monthly average interest rate on loans closed

by savings and loan institutions, and the monthly average cost-of-funds incurred by savings and loan institutions), which is then used to adjust the interest rate on an adjustable mortgage up or down.

- **Investor:** a money source for a lender.

## - J -

- **Jumbo Loan :** A loan which is larger than the limits set by the Federal National Mortgage Association and the Federal Home Loan Mortgage Corporation. Because jumbo loans cannot be funded by these two agencies, they usually carry a higher interest rate.

## - L -

- **Lien:** a claim upon a piece of property for the payment or satisfaction of debt or obligation.
- **Loan to Value Ratio:** the relationship between the amount of the mortgage loan and appraised value of the property expressed as a percentage.

**Lock or Lock In:** A designated period of time during which a borrower and a lender have agreed to a specific interest rate. Most locks are from 30 to 45 days. This usually involves paying a fee to the lender. Mortgage rates not "locked in" are subject to changing market conditions. Under some conditions, if you lock and the rates drop, the better rate can be obtained.

## - M-

- **Margin:** the amount a lender adds to the index on an adjustable rate mortgage to establish the adjusted interest rate.
- **Market Value :** the highest price that a buyer would pay and the lowest price a seller would accept on a property. Market value may be different from the price a property could actually be sold for at a given time.

**Mortgage-Backed Security (MBS):** A security backed by a group of mortgages issued by the Federal Home Loan Mortgage Corporation (FNMA) and the Federal National Mortgage Association (FHLMC). Investors of

mortgage backed securities receive payments derived from the interest and principal of the underlying mortgages.

- **Mortgage Insurance** : money paid to insure the mortgage when the down payment is less than 20 %. See FHA Mortgage Insurance.
- **Mortgagee**: the lender.
- **Mortgagor** : the borrower or the homeowner.

## - N -

- **Negative Amortization**: occurs when your monthly payments are not large enough to pay all the interest due on the loan. The danger of negative amortization is that the homeowner ends up owing more than the original amount of the loan.
- **Net Effective Income**: the borrower's gross income minus federal income tax.
- **Non-assumption Clause**: a statement in a mortgage contract forbidding the assumption of the mortgage without the prior approval of the lender.

## - O -

- **Origination Fee**: the fee charged by the lender to prepare loan documents, make credit checks, inspect and sometimes appraise a property, usually computed as a percentage of the face value of the loan.

## - P -

- **PITI**: principle, interest, taxes and insurance. Also called monthly housing expense.
- **Points (Loan Discount Points)**: prepaid interest assessed at closing by the lender. Each point is equal to 1% of the loan amount (2) points on a \$100,000 mortgage would cost \$2,000.
- **Power of Attorney**: a legal document authorizing one person to act on behalf of another.
- **Pre-paid** : expenses necessary to create an escrow account or adjust the seller's existing escrow account. Can include taxes, hazard insurance, private mortgage insurance and special assessment.

- **Prepayment:** a privilege in a mortgage permitting the borrower to make payments in advance of their due date.
- **Prepayment Penalty:** money charged for an early repayment of debt. Prepayment penalties are allowed in some form (but not necessarily imposed) in 36 states and the District of Columbia.

## - R -

- **Realtor:** a professional in real estate who subscribes to a strict Code of Ethics. In most cases a realtor is a member of the local Board of Realtors, the State Association, and the National Association of Realtors.
- **Rescission:** the cancellation of a contract. With respect to mortgage refinancing, the law that gives the homeowner three days to cancel a contract in some cases once it is signed if the transaction uses equity in the home as security.
- **Recording Fees:** money paid to lender for recording a home sale with the local authorities, thereby making it part of public record.
- **Renegotiable Rate Mortgage (RRM):** a loan in which the interest rate is adjusted periodically. See adjustable rate mortgage.
- **RESPA:** short for the Real Estate Settlement Procedures Act. RESPA is a federal law that allows consumers to review information on known or estimated settlements cost once after application and once prior to or at settlement. The law requires lenders to furnish the information after application only.
- **Reverse Annuity Mortgage (RAM):** a form of mortgage in which the lender makes periodic payments to the borrower's equity in the home as security.

## - S -

- **Servicing :** all the steps and operation a lender performs to keep a loan in good standing, such as collection of payments, payment of taxes, insurance, property inspections and the like.
- **Settlement/Settlement Cost :** see Closing / Closing Cost.
- **Shared Appreciation Mortgage (SAM):** a mortgage in which a borrower receives a below market interest rate in return for which the lender (or another investor such as family member or other partner) receives a portion of the future appreciation in the value of the property. May also apply to mortgages where the borrower shares the monthly principle and

interest payments with another party in exchange for a part of the appreciation.

- **Survey:** a measurement of land, prepared by a registered land surveyor, showing the location of land with reference to known points, its dimensions, and the location and dimensions of any buildings.

## - T -

- **Term Mortgage :** See Balloon Payment Mortgage.
- **Title :** a document that gives evidence of an individual's ownership of property.
- **Title Insurance:** a policy, usually issued by a title insurance company, which insures a homebuyer against errors in the title search. The cost of the policy is usually based on the value of the property, and is often borne by the purchaser and/or seller.
- **Title Search :** an examination of municipal records usually performed by a title company.
- **Truth In Lending :** a federal law requiring disclosure of the Annual Percentage Rate to homebuyers shortly after they apply for a loan.
- **Two Step Mortgage:** a mortgage in which the borrower receives a below market interest rate for a specified number of years (most often 7-10) and then receives a new interest rate adjusted (within certain limits) to market conditions at that time. The lender sometimes has the option to call the loan due with 30 days notice at the end of 7-10 years. Also called Super Seven or Premier Mortgage

## - U -

- **Underwriting :** the decision to make a loan to a potential homebuyer based on credit, employment, assets and other factors and the matching of this risk to an appropriate rate and term or loan amount.

## - V -

- **VA Loan :** a long term, low or no down payment loan guaranteed by the Department of Veterans Affairs. Restricted to individuals qualified by military services or other entitlements.

- **VA Mortgage Funding Fee:** a premium of up to 1 7/8 % (depending on the size of the down payment) paid on a VA backed loan.
- **Variable Rate Mortgage (VRM):** see Adjustable Rate Mortgage (ARM)

**- W -**

- **Wraparound:** results when an existing assumable loan is combined with a new loan , resulting in an interest rate somewhere between the old one and the current market rate. The payments are made to a second lender or previous homeowner, who then forwards the payments to the first lender after taking the additional amount off the top.