



Mortgage Terms Glossary

Adjustable-Rate Mortgage (ARM)

A mortgage where the interest rate is not fixed, but changes during the life of the loan in line with movements in an index rate. You may also see ARMs referred to as AMLs (adjustable mortgage loans) or VRMs (variable-rate mortgages).

Affordability

A consumer's ability to afford a house. It is usually expressed as the maximum price for which a consumer could be approved for a mortgage.

Amortization

The repayment of principal from scheduled mortgage payments that exceed the interest due. Amortization is the amount of principal paid as part of a scheduled mortgage payment. It equals the scheduled payment minus the interest.

Amortization schedule

A table showing the mortgage payment (broken down by interest and principal paid), the loan balance, any tax and insurance payments made by the lender, and the balance of the tax/insurance escrow account.

Amount financed

The amount financed is the loan amount, less any lender fees paid at closing, i.e. "prepaid finance charges" indicated on the Truth in Lending form.

Annual Percentage Rate (APR)

A measure of the cost of credit, expressed as a yearly rate. It includes interest as well as other charges. Because all lenders follow the same rules to ensure the accuracy of the annual percentage rate, it provides consumers with a good basis for comparing the cost of loans, including mortgage plans.

Application

A request for a loan. It includes information about the potential borrower, the property and the type of loan requested from the lender.

Appraisal

A written estimate of a property's current market value prepared by an appraiser.

Appraiser

A professional with knowledge of real estate markets and skilled in the practice of appraisal. Generally, the appraiser is selected by the lender, but the appraisal fee is usually paid by the borrower outside of closing.

Approval

Acceptance of the borrower's loan application. Approval means that the borrower meets the lender's qualification and underwriting requirements and the loan is accepted by the lender.

Assumability

When a home is sold, the seller may be able to transfer the mortgage to the new buyer. This means the mortgage is assumable. Lenders generally require a credit review of the new borrower and may charge a fee for the assumption. Some mortgages contain a due-on-sale clause, which means that the mortgage may not be transferable to a new buyer. Instead, the lender may make you pay the entire balance that is due when you sell the home. Assumability can help you attract buyers if you sell your home.

Assumption

A method of selling real estate where the buyer of the property agrees to become responsible for the repayment of an existing loan by the seller on the property.

Assumable mortgage

A mortgage contract that allows a creditworthy buyer to assume the mortgage contract of the seller.

Balance

The amount of the original loan remaining to be paid. It is equal to the loan amount less the sum of all prior payments of principal.

Balloon mortgage

A mortgage which is payable in full after a period that is shorter than the term. In most cases, the balance is refinanced with the current or another lender. Balloon mortgages are similar to ARMs in that the borrower trades off a lower rate in the early years against the risk of a higher rate later.

Bridge loan

A short-term loan that bridges the period between the closing date of a home purchase and the closing date of a home sale.

Buy-down

A permanent buy-down is the payment of points in exchange for a lower interest rate.

Cap

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

Cash-out refinance

Refinancing for an amount in excess of the balance on the old loan plus settlement costs. The borrower takes "cash-out" of the transaction.

Cash-in refinance

Paying down the loan balance as part of a refinance transaction in order to reduce the loan-to-value (LTV) ratio and qualify for a lower interest rate and/or reduced mortgage insurance premium.

Closing

The final step in the loan process of where the seller transfers ownership to the buyer; funds are disbursed from the buyer and lender to the seller; and all documents associated with the sale and loan are executed.

Closing costs

Fees paid by the borrower at closing. These include charges for originating and processing the loan.

Conventional mortgage

A home mortgage that is neither FHA-insured nor VA-guaranteed.

Conversion Clause

A provision in some ARMs that allows you to change the ARM to a fixed-rate loan at some point during the term. Usually conversion is allowed at the end of the first adjustment period. At the time of the conversion, the new fixed rate is generally set at one of the rates then prevailing for fixed rate mortgages. The conversion feature may be available at extra cost.

Credit report

A report from a credit bureau containing detailed information about an individual's credit history and activity.

Credit score

A numerical score, based on an individual's credit history, that reflects a borrower's credit worthiness. The most widely used credit score is called FICO (Fair Isaac Co.)

Debt-to-income ratio (DTI)

The ratio of the monthly debt to the pre-tax gross monthly income.

Default

Failure of a borrower to honor the terms of the loan agreement. Lenders (and the law) usually view borrowers delinquent 90 days or more as in default.

Delinquency

A mortgage payment that is more than 30 days late.

Discount

In an ARM with an initial rate discount, the lender gives up a number of percentage points in interest to give you a lower rate and lower payments for part of the mortgage term (usually for one year or less). After the discount period, the ARM rate will probably go up depending on the index rate.

Down payment

The amount of cash which the home buyer pays towards the purchase price at closing. Down payment is the difference between the value of the property and the loan amount.

Equity

The difference between the value of the home and the balance of outstanding mortgage loans on the home.

Escrow

An agreement that money (or other objects of value) be placed with a third party for safe keeping and future use, such as the payment of taxes. A mortgage may include an escrow account where the borrower deposits a specified amount for taxes and hazard insurance, in addition to the regular monthly mortgage payment.

Fannie Mae and Freddie Mac

Two Federal agencies that purchase home loans from lenders.

FHA mortgage

A mortgage on which the lender is insured against loss by the Federal Housing Administration, with the borrower paying the mortgage insurance premium. Both down payment and loan limits are relatively low with an FHA mortgage.

Fixed rate mortgage (FRM)

A mortgage on which the interest rate and monthly mortgage payment remain unchanged throughout the life of the loan.

Foreclosure

The legal process by which a lender acquires possession of the property securing a mortgage loan when the borrower defaults.

Good faith estimate

The form that lists the settlement charges the borrower must pay at closing. The lender must provide the borrower with a Good Faith Estimate within three business days of receiving the loan application.

HARP Program

The Home Affordability Refinance Program (HARP) offers refinancing options to borrowers with loans guaranteed by Fannie Mae or Freddie Mac, who have loan-to-value ratios greater than 80 percent or who are underwater on their mortgages.

Homeowners insurance

Insurance purchased by the borrower, and required by the lender, to protect the property against loss from fire and other hazards.

Housing Ratio

The ratio of the monthly housing costs to the pre-tax gross monthly income.

Index

The index is a measure of interest rate changes that the lender uses to decide how much the interest rate on an ARM will change over time. No one can be sure when an index rate will go up or down. Some index rates tend to be higher than others, and some more volatile. (But if a lender bases interest rate adjustments on the average value of an index over time, your interest rate would not be as volatile.) You should ask your lender how the index for any ARM you are considering has changed in recent years, and where it is reported.

Interest rate

The rate charged the borrower each period for the loan of money, quoted on an annual basis. An annual rate of 6 percent, for example, means a rate of $\frac{1}{2}$ percent per month.

Jumbo mortgage

A mortgage larger than \$453,100, the maximum eligible for purchase by Fannie Mae and Freddie Mac. (Loan limits vary by county.)

Lien

The lender's right to claim the borrower's property in the event the borrower defaults.

Loan amount

The amount the borrower promises to repay, as indicated in the mortgage contract.

Loan officer

Employees of lenders or mortgage brokers who find borrowers, sell and counsel them, and take applications.

Loan-to-value ratio (LTV)

The loan amount, divided by the lesser of the selling price or the appraised value.

Lock

A written commitment, exercised by the borrower, to "lock in" a fixed rate and points for a loan for a certain time period before closing.

Margin

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

Minimum down payment

The minimum allowable ratio of down payment to sale price. Down payment is generally expressed as a percentage of the price of a home.

Mortgage

A loan secured by real property (real estate) through a mortgage note, usually issued by a financial institution such as a bank or other lender. Mortgage loans vary greatly by size, maturity, interest rate, method of payoff and other characteristics.

Mortgage banker

A mortgage banker offers the loan products of multiple lenders and also retains control of underwriting, ordering the appraisals, preparing the closing packages and funding the loans with their own money. They have the control of a bank with the options available like a mortgage broker. Allen Tate Mortgage is a mortgage banker.

Mortgage broker

An independent contractor who offers the loan products of multiple lenders, takes the loan application and usually processes the loan, but does not underwrite, order the appraisals, prepare the closing package, or self-fund the loan.

Mortgage company

A mortgage lender who sells all loans in the secondary market. Mortgage companies may or may not service the loans they originate.

Mortgagee and Mortgagor

The mortgagee is the lender offering the loan and the mortgagor is the borrower.

Mortgage insurance

Insurance against loss provided to a mortgage lender in the event of borrower default. In most cases, the borrower pays the premiums.

Mortgage lender

The party who disburses funds to the borrower at the closing table. The lender receives the note evidencing the borrower's indebtedness and obligation to repay, and the mortgage which is the lien on the subject property.

Mortgage modification

A change in the terms of a loan, usually the interest rate and/or term, in response to the borrower's inability to make the payments under the existing contract.

Mortgage note

Your written promise to pay off the loan amount on certain terms and conditions. It also mentions what the lender is likely to do if you default on your loan.

Mortgage payment

The monthly payment of interest and principal made by the borrower.

Negative amortization

A rise in the loan balance when the mortgage payment is less than the interest due. Negative amortization arises most frequently on Adjustable Rate Mortgages (ARMs).

Origination fee

An upfront fee charged by some lenders, usually expressed as a percent of the loan amount. Unlike points, an origination fee does not vary with the interest rate.

PITI

Short for principal, interest, taxes and insurance, which are the components of the monthly housing expense.

Points

An upfront cash payment required by the lender as part of the charge for the loan, expressed as a percent of the loan amount. For example, 3 points means a charge equal to 3 percent of the loan balance.

Pre-approval

A commitment by a lender to make a mortgage loan to a specified borrower, prior to the identification of a specific property. Unlike pre-qualification, pre-approval requires extensive documentation and a credit check.

Prepayment

A payment made by the borrower over and above the scheduled mortgage payment.

Primary residence

The house in which the borrower will live most of the time.

Principal

The portion of the monthly payment that is used to reduce the loan balance.

Private Mortgage Insurance (PMI)

Insurance policy that protect the lender from losses if the borrower defaults on payments.

Qualification

The process of determining whether a prospective borrower has sufficient assets and income to repay a loan. Qualification (also known as pre-qualification) is different than approval (or pre-approval) as it does not consider the credit history of the borrower and his willingness to repay a loan.

Refinance

Paying off an old loan while simultaneously taking a new one. Refinancing a loan may help a borrower reduce monthly payment and life-of-loan costs by securing a lower interest rate, reducing the term of the loan, or obtaining cash as an alternative to a home equity loan.

Reverse mortgage

A loan to an elderly home owner on which the balance increases over time, and which is not repaid until the owner dies, sells the house, or moves out permanently.

Second mortgage

A loan with a second-priority claim against a property in the event that the borrower defaults. The lender who holds the second mortgage gets paid only after the lender holding the first mortgage is paid.

Seller contribution

A contribution to a borrower's down payment or settlement costs made by a home seller, as an alternative to a price reduction.

Settlement costs

Costs that the borrower must pay at the time of closing, in addition to the down payment.

Short sale

An agreement between a mortgage borrower in distress and the lender that allows the borrower to sell the house and remit the proceeds to the lender. It is an alternative to foreclosure.

Term

The period used to calculate the monthly mortgage payment.

Title insurance

Insurance against loss arising from problems connected to the title of the property.

Truth-in-Lending (TIL) Statement

Form that discloses information to borrowers regarding their loan and is required by Federal law.

Underwriting

The process of examining all the data about a borrower's property and transaction to determine whether the mortgage applied for by the borrower should be issued. The person who does this is called an underwriter.

Sources: U.S. Department of Housing and Urban Development, Allen Tate Mortgage

