



Glossary of Mortgage Terms

Adjustable Rate Mortgage (ARM)

A mortgage in which the interest rate is adjusted periodically according to a pre-selected index.

Amortization

Payment of a debt in regular, periodic installments of principal and interest as opposed to interest only payments.

Annual Percentage Rate (APR)

A term used in the Truth-in-Lending Act to represent the percentage relationship of the total finance charge to the amount of the loan. The APR reflects the cost of your mortgage loan as a yearly rate. It will be higher than the interest rate stated on the note because it includes (in addition to the interest rate) loan discount points, fees and mortgage insurance.

Application

A printed form used by a mortgage lender to record necessary information concerning a prospective mortgage.

Application Fee

A sum of money paid towards estimated initial mortgage processing expenses such as the appraisal and credit report.

Appraisal

A report made by a qualified person setting forth an opinion or estimate of property value. The term also refers to the process by which this estimate is obtained.

Assessment

A charge against a property for purpose of taxation. This may take the form of a levy for a special purpose or a tax in which the property owner pays a share of the cost of community improvements according to the valuation of his or her property.

Borrower

A person (also known as the mortgagor) who receives funds in the form of a loan with an obligation to repay the principal with interest.

Buydown

Money advanced by an individual (builder, seller, etc.) to reduce the monthly payments for a home mortgage either during the entire term or for an initial period of years.

Cash to Close

Liquid assets that are readily available to be used to pay the closing costs involved in a closing of a mortgage transaction.

Closing

The consummation of a real estate transaction. The closing includes the delivery of a deed, financial adjustments, the signing of notes and the disbursement of funds necessary to complete the sale and loan transaction.

Closing Costs

Money paid by the borrower in connection with the closing of a mortgage loan. This generally involves an origination fee, discount points, appraisal, credit report, title insurance, attorney's fees, survey and pre-paid items such as tax and insurance escrow payments.

Closing Statement

A form used at closing that gives an account of the funds received and paid at the closing (these include the escrow deposits for taxes, hazard insurance and mortgage insurance).

Co-Borrower

Additional borrower(s) whose income contributes to qualifying for a loan and whose name(s) appears on documents with equal legal obligations.

Collateral

Property pledged as security for a debt, such as the real estate pledged as security for a mortgage.

Conforming Loan

Conventional home mortgages eligible for sale and delivery to either the Federal National Mortgage Association (FNMA) or the Federal Home Loan Mortgage Corporation (FHLMC). These agencies generally purchase first mortgages up to loan amounts mandated by Congressional directive.

Conventional Mortgage

A mortgage not obtained under a government insured program (such as FHA or VA).

Credit Report

A report detailing an individual's credit history.

Deed of Trust

An instrument used in many states in place of a mortgage. Property is transferred to a trustee by the borrower (trustor), in favor of the lender (beneficiary) and reconveyed upon payment in full.

Default

The failure to perform an obligation as agreed in a contract.

Delinquency

A loan payment that is overdue but within the period allowed before actual default is declared.

Deposit

A sum of money given to bind a sale of real estate (also known as earnest money).

Depreciation

A loss of value in the improvements located on real property brought about by age, physical deterioration, functional or economic obsolescence.

Equal Credit Opportunity Act (ECOA)

A Federal law requiring lenders and other creditors to make credit equally available without discrimination based on race, color, religion, national origin, sex, age, marital status, receipt of income from public assistance programs or previously exercising of rights under the Consumer Credit Protection Act.

Equity

The ownership interest; i.e. portion of a property's value over and above the liens against it.

Escrow

A procedure whereby a disinterested third party handles legal documents and funds on behalf of a seller and buyer, or lender and borrower.

Fair Credit Reporting Act (FCRA)

A federal law which requires a lender who is rejecting a loan request because of adverse credit information to inform the borrower of the source of such information. This law also requires consumer reporting agencies to exercise fairness, confidentiality and accuracy in preparing and disclosing credit information.

Federal Home Loan Mortgage Corporation - FHLMC (FREDDIE MAC)

A quasi-governmental agency that purchases conventional mortgages in the secondary mortgage market from insured depository institutions and HUD-approved mortgage bankers. It sells participation sales certificates secured by pools of conventional mortgage loans with principal and interest guaranteed by the federal government through the FHLMC. It also sells Government National Mortgage Association bonds to raise funds to finance the purchase of mortgages. The FHLMC is popularly known as Freddie Mac.

Federal National Mortgage Association - FNMA (FANNIE MAE)

A taxpaying corporation created by Congress to support the secondary mortgage market. It purchases and sells residential mortgages insured by the Federal Housing Administration (FHA) or guaranteed by the Veterans Administration (VA) as well as conventional home mortgages.

First Mortgage

A real estate loan that has priority over any subsequently recorded mortgages other than for taxes.

Fixed Interest Rate

An interest rate which does not change during the loan term.

Foreclosure

A legal procedure in which property mortgaged as security for a loan is sold to pay the defaulting borrower's debt.

Gift Letter

A written explanation signed by the individual giving the gift stating, "This is a bona fide gift and there is no obligation expressed or implied to repay this sum at any time."

Gross Monthly Income

Total monthly income earned before tax and other deductions.

Hazard Insurance

A contract whereby an insurer, for a premium, undertakes to compensate the insured for loss on a specific property due to specified hazards (i.e. fire).

High-Ratio Loan

Mortgage loans in excess of 80 percent of the loan amount determined by dividing the lower of the sales price or appraised value into the loan amount.

Homeowners' Association Dues

The fees imposed by a condominium or homeowners' association for maintenance of common areas.

HUD

The Department of Housing and Urban Development.

Insured Loans

A loan insured by HUD-FHA or a private mortgage insurance company.

Interest

Consideration in the form of money paid for the use of money. Also a right, share or title in property.

Interest rate

The percentage of an amount of money which is paid for its use for a specified time.

Investment Property

Real estate owned with the intent of supplementing income and not intended for owner occupancy.

Lien

A legal claim or attachment against property as security for payment of an obligation.

Loan-To-Value Ratio

The ratio between the amount of a given mortgage loan and the lower of sales price of appraised value.

Market Value

The most probable price which a ready, willing and able buyer would pay and a willing seller will accept, both being fully informed of all material facts and under no pressure to act. The market value may be different from the price a property can actually be sold for at a given time (market price).

Maturity

The termination or due date on which final payment on a loan must be paid in full.

Monthly Payment

Usually, the amount of PITI (principal, interest, taxes, and insurance) paid each month on a mortgage loan.

Mortgage

The conveyance of an interest in real property given as security for the payment of a loan.

Mortgagee

The lender on a mortgage transaction.

Mortgage Insurance Premium (MIP)

The consideration paid by a mortgagor (borrower) for mortgage insurance - either to the FHA or to a private mortgage insurer.

Mortgage Note

A written promise to pay a sum of money at a stated interest rate during a specified term. The note contains a complete description of the conditions under which the loan is to be repaid and when it is due.

Mortgagor

The borrower in a mortgage transaction who pledges property as security for a debt.

Non-Conforming Loan

Conventional home mortgages not eligible for sale and delivery to either FNMA or FHLMC because of various reasons, including loan amount, loan characteristics or underwriting guidelines.

Occupancy

The use of a property as a full-time residence, either by the title holder (owner-occupancy) or by another party through a formal agreement (rental).

Origination Fee

The amount charged for services performed by the company handling the initial application and processing of the loan.

Percentage Point

One percent of the loan or a measure of the interest rate.

PITI (Principal, Interest, Taxes, and Insurance)

The most common components of a monthly mortgage payment.

Preliminary Title Report

The results of a title search by a title company prior to issuing a title binder or commitment to insure clear title.

Primary Residence

A residence which the borrower intends to occupy as the principal residence.

Principal Balance

The remaining balance due on a debt, exclusive of accrued interest.

Private Mortgage Insurance

Insurance written by a private company protecting the mortgage lender against loss resulting from a mortgage default.

Processing

The preparation of a mortgage loan application and supporting documentation for consideration by a lender or insurer.

PUD (Planned Unit Development)

A planned combination of diverse land uses, such as housing, recreation, and shopping in one contained development or subdivision. A major feature of a PUD includes areas of common land for use by the housing unit owners; the association of unit owners generally owns, pays fees, and maintains the common areas.

Purchase Contract (Agreement/Offer)

An agreement between a buyer and seller of real property, setting forth the price and terms of the sale. Also known as a sales contract.

Rate Lock Option

An agreement guaranteeing an individual a specified interest rate on a loan provided the loan is closed within a set period of time.

Real Assets

Real estate or real property owned by an individual or business.

Real Estate Settlement Procedures Act (RESPA)

A federal law requiring lenders to provide home mortgage borrowers with information on known or estimated settlement costs. It also establishes guidelines for escrow account balances.

Real Property

Land and that which is affixed to it.

Refinancing

The repayment of a debt with the proceeds of a new loan using the same property as security.

Satisfaction of Mortgage

The recordable instrument issued by the lender verifying full payment of a mortgage debt.

Second Home (Vacation Home, Weekend Home)

A residence other than the borrower's primary residence which the borrower intends to occupy for a portion of each year. Must be suitable for year-round occupancy.

Secondary Mortgage Market

A market where existing mortgages are bought and sold. It contrasts with the primary mortgage market where mortgages are originated.

Security

In lending, the collateral given, deposited, or pledged to secure the payment of a debt.

Separate Property

Ownership in real property which is to be specifically excluded from community property.

Settlement Services

Services provided by the lender at the closing of a loan.

Survey

The measurement and description of land by a registered surveyor.

Term

The time limit within which a loan must be repaid.

Title

The legal vesting evidence of ownership rights in real property.

Title Insurance Policy

A contract in which an insurer, usually a title insurance company, agrees to pay the insured party a specific amount for any loss caused by defects of title on real estate in which the insured has an interest as purchaser, mortgagee, or otherwise.

Title Search

An examination of public records to disclose the past and current facts regarding the ownership of a given piece of real estate.

Truth-in-Lending Act

A Federal law requiring full disclosure of credit terms using a standard format. This is intended to facilitate comparisons between the lending terms and financial institutions.

Underwriting

Analysis of risk and setting of an appropriate rate and terms for a mortgage on a given property for given borrowers.

Zero Point Option

An option which allows the borrower to opt to pay a slightly higher loan interest rate in lieu of paying the loan origination points generally charged for the particular loan product.

