

Common Mortgage Terms

Acceleration

The right of the mortgagee (lender) to demand the immediate repayment of the mortgage loan balance upon the default of the mortgagor (borrower), or by using the right vested in the Due-on-Sale Clause.

Adjustable rate mortgage (ARM)

Is a mortgage in which the interest rate is adjusted periodically based on a preselected index. Also sometimes known as the re-negotiable rate mortgage, the variable rate mortgage or the Canadian rollover mortgage.

Adjustment interval

On an adjustable rate mortgage, the time between changes in the interest rate and/or monthly payment, typically one, three or five years, depending on the index.

Amortization

Means loan payment by equal periodic payment calculated to pay off the debt at the end of a fixed period, including accrued interest on the outstanding balance.

Annual percentage rate (A.P.R.)

Is a interest rate reflecting the cost of a mortgage as a yearly rate. This rate is likely to be higher than the stated note rate or advertised rate on the mortgage, because it takes into account point and other credit cost. The APR allows home buyers 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".

Assessment

A local tax levied against a property for a specific purpose, such as a sewer or street lights.

Assumption

The agreement between buyer and seller where the buyer takes over the payments on an existing mortgage from the seller. Assuming a loan can usually save the buyer money since this is an existing mortgage debt, unlike a new mortgage where closing cost and new, probably higher, market-rate interest charges will apply.

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 principal at a time specified in the contract.

Blanket Mortgage

A mortgage covering at least two pieces of real estate as security for the same mortgage.

Borrower (Mortgagor)

One who applies for and receives a loan in the form of a mortgage with the intention of repaying the loan in full.

Broker

An individual in the business of assisting in arranging funding or negotiating contracts for a client buy 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 home builder subsidized 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.

Cash Flow

The amount of cash derived over a certain period of time from an income-producing property. The cash flow should be large enough to pay the expenses of the income producing property (mortgage payment, maintenance, utilities, etc).

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 monthly payments on an adjustable rate mortgage may change.

Certificate of Eligibility

The document given to qualified veterans which entitles them to VA guaranteed loans for homes, business, and mobile homes. Certificates of eligibility may be obtained by sending DD-214 (Separation Paper) to the local VA office with VA form 1880 (request for Certificate of Eligibility).

Certificate of Reasonable Value (CRV)

An appraisal issued by the Veterans Administration showing the property's current market value

Certificate of veteran status

The document given to veterans or reservists who have served 90 days of continuous active duty (including training time) It may be obtained by sending DD 214 to the local VA office with form 26-8261a (request for certificate of veteran status). This document enables veterans to obtain lower down payments on certain FHA insured loans.

Closing

The meeting between the buyer, seller and lender or their agents where the property and funds legally change hands. Also called settlement. Closing costs usually include an origination fee, discount points, appraisal fee, title search and insurance, survey, taxes, deed recording fee, credit report charge and other costs assessed at settlement. The cost of closing usually are about 3 percent to 6 percent of the mortgage amount.

Commitment

A promise by a lender to make a loan on specific terms or conditions to a borrower or builder. A promise by an investor to purchase mortgages from a lender with specific terms or conditions. An agreement, often in writing, between a lender and a borrower to loan money at a future date subject to the completion of paper work or compliance with stated conditions.

Construction loan

A short term interim loan to pay for the construction of buildings or homes. These are usually designed to provide periodic disbursements to the builder as he progresses.

Contract sale or deed:

A contract between purchaser and a seller of real estate to convey title after certain conditions have been met. It is a form of installment sale.

Conventional loan

A mortgage not insured by FHA or guaranteed by the VA.

Credit Report

A report documenting the credit history and current status of a borrower's credit standing.

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 gross monthly income. 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 obligations in a contract, specifically, failure to make the monthly payments on a mortgage.

Deferred interest

When a mortgage is written with a monthly payment that is less than required to satisfy the note rate, the unpaid interest is deferred by adding it to the loan balance. 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, low-or no-down payment mortgages to eligible veterans.

Discount Point

See *point*.

Down Payment

Money paid to make up the difference between the purchase price and the mortgage amount.

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 mortgage holder sells the home.

Earnest Money

Money given by a buyer to a seller as part of the purchase price to bind a transaction or assure payment.

Entitlement

The VA home loan benefit is called entitlement. Entitlement for a VA guaranteed

home loan. This is also known as eligibility.

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. The value an owner has in real estate over and above the obligation against the property.

Escrow

An account held by the lender into which the home buyer pays money for tax or insurance payments. Also earnest deposits held pending loan closing.

Fannie Mae

see Federal National Mortgage Association.

Farmers Home Administration (FmHA)

Provides financing to farmers and other qualified borrowers who are unable to obtain loans elsewhere.

Federal Home Loan Bank Board (FHLBB)

The former name for the regulatory and supervisory agency for federally chartered savings institutions. Agency is now called the *Office of Thrift Supervision*

Federal Home Loan Mortgage Corporation (FHLMC) also called "Freddie Mac"

Is a quasi-governmental agency that purchases conventional mortgage 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 the insuring of residential mortgage loans made by private lenders. FHA also sets standards for underwriting mortgages.

Federal National Mortgage Association (FNMA) also know 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 the size of FHA loans (\$155,250 as of 1/1/96), they are generous enough to handle moderately-priced homes almost anywhere in the country.

FHA mortgage insurance

Requires a fee (up to 2.25 percent of the loan amount) paid at closing to insure the loan with FHA. In addition, FHA mortgage insurance requires an annual fee of up to 0.5 percent of the current loan amount, paid in monthly installments. The lower the down payment, the more years the fee must be paid.

FHLMC

The Federal Home Loan Mortgage Corporation provides a secondary market for savings and loans by purchasing their conventional loans. Also known as "Freddie Mac."

Firm Commitment

A promise by FHA to insure a mortgage loan for a specified property and borrower. A promise from a lender to make a mortgage loan.

Fixed Rate Mortgage

The mortgage interest rate will remain the same on these mortgages throughout the term of the mortgage for the original borrower.

FNMA

The Federal National Mortgage Association is a secondary mortgage institution which is the largest single holder of home mortgages in the United States. FNMA buys VA, FHA, and conventional mortgages from primary lenders. Also known as "Fannie Mae."

Foreclosure

A legal process by which the lender or the seller forces a sale of a mortgaged property because the borrower has not met the terms of the mortgage. Also known as a repossession of property.

Freddie Mac

See Federal Home Loan Mortgage Corporation.

Ginnie Mae

See Government National Mortgage Association.

Government National Mortgage Association (GNMA)

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.

Guaranty

A promise by one party to pay a debt or perform an obligation contracted by another if the original party fails to pay or perform according to a contract.

Hazard Insurance

A form of insurance in which the insurance company protects the insured from specified losses, such as fire, windstorm 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/her gross monthly income. See debt-to-income ratio.

Impound

That portion of a borrower's monthly payments held by the lender or servicer 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 yields, the monthly average interest rate on loans closed by savings and loan institutions, and the monthly average costs-of-funds incurred by savings and loans), which is then used to adjust the interest rate on an adjustable mortgage up or down.

Interim Financing

A construction loan made during completion of a building or a project. A permanent loan usually replaces this loan after completion.

Investor

A money source for a lender.

Jumbo Loan

A loan which is larger (more than \$214,600 as of 1/1/97) 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.

Lien

A claim upon a piece of property for the payment or satisfaction of a debt or obligation.

Loan-to-Value Ratio

The relationship between the amount of the mortgage loan and the appraised value of the property expressed as a percentage.

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.

MIP (Mortgage Insurance Premium)

It is insurance from FHA to the lender against incurring a loss on account of the borrower's default.

Mortgage Insurance

Money paid to insure the mortgage when the down payment is less than 20 percent. See *private mortgage insurance*, *FHA mortgage insurance*.

Mortgagee

The lender.

Mortgagor

The borrower or homeowner.

Negative Amortization

Occurs when your monthly payments are not large enough to pay all the interest due on the loan. This unpaid interest is added to the unpaid balance of the loan. The danger of negative amortization is that the home buyer 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. Note: The signed obligation to pay a debt, as a mortgage note.

Office of Thrift Supervision (OTS)

The regulatory and supervisory agency for federally chartered savings institutions. Formally known as *Federal Home Loan Bank Board*.

Origination Fee

The fee charged by a 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.

Permanent Loan

A long term mortgage, usually ten years or more. Also called an "end loan."

PITI

Principal, Interest, Taxes and Insurance. Also called monthly housing expense.

Pledged account Mortgage (PAM):

Money is placed in a pledged savings account and this fund plus earned interest is gradually used to reduce mortgage payments.

Points (loan discount points)

Prepaid interest assessed at closing by the lender. Each point is equal to 1 percent of the loan amount (e.g., two 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.

Prepaid Expenses

Necessary to create an escrow account or to adjust the seller's existing escrow account. Can include taxes, hazard insurance, private mortgage insurance and special assessments.

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 many states.

Primary Mortgage Market

Lenders making mortgage loans directly to borrower's such as savings and loan associations, commercial banks, and mortgage companies. These lenders sometimes sell their mortgages into the secondary mortgage markets such as to *FNMA* or *GNMA*, etc.

Principal

The amount of debt, not counting interest, left on a loan.

Private Mortgage Insurance (PMI)

In the event that you do not have a 20 percent down payment, lenders will allow a smaller down payment - as low as 5 percent in some cases. With the smaller down payment loans, however, borrowers are usually required to carry private mortgage insurance. Private mortgage insurance will usually require an initial premium payment and may require an additional monthly fee depending on you loan's structure.

Realtor

A real estate broker or an associate holding active membership in a local real estate board affiliated with the National Association of Realtors.

Recision

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 the lender for recording a home sale with the local authorities, thereby making it part of the public records.

Refinance

Obtaining a new mortgage loan on a property already owned. Often to replace existing loans on the property.

Renegotiable Rate Mortgage

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 settlement cost once after application and once prior to or at a 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 using the borrower's equity in the home as Satisfaction of Mortgage: The document issued by the mortgagee when the mortgage loan is paid in full. Also called a "release of mortgage."

Second Mortgage

A mortgage made subsequent to another mortgage and subordinate to the first one.

Secondary Mortgage Market

The place where primary mortgage lenders sell the mortgages they make to obtain more funds to originate more new loans. It provides liquidity for the lenders. Security.

Servicing

All the steps and operations 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 Costs

See closing/closing costs.

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 a family member or other partner) receives a portion of the future appreciation in the value of the property. May also apply to mortgage where the borrowers shares the monthly principal and interest payments with another party in exchange for part of the appreciation.

Simple Interest

Interest which is computed only on the principle balance.

Survey

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

Sweat Equity

Equity created by a purchaser performing work on a property being purchased.

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 home buyer against errors in the title search. The cost of the policy is usually a function of the value of the property, and is often borne by the purchaser and/or seller. Policies are also available to protect the lender's interests.

Title Search

An examination of municipal records to determine the legal ownership of property. Usually is performed by a title company.

Truth-In-Lending

A federal law requiring disclosure of the Annual Percentage Rate to home buyers shortly after they apply for the loan. Also known as Regulation Z.

Two-Step Mortgage

A mortgage in which the borrower receives a below-market interest rate for a specified number of years (most often seven or 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 seven or 10 years. Also called "Super Seven" or "Premier" mortgage.

Underwriting

The decision whether to make a loan to a potential home buyer based on credit, employment, assets, and other factors and the matching of this risk to an appropriate rate and term or loan amount.

USURY

Interest charged in excess of the legal rate established by law.

VA Loan

A long-term, low-or no-down payment loan guaranteed by the Department of Veterans Affairs. Restricted to individuals qualified by military service or other entitlements.

VA Mortgage Funding Fee

A premium of up to 1-7/8 percent (depending on the size of the down payment) paid on a VA-backed loan. On a \$75,000 fixed-rate mortgage with no down payment, this would amount to \$1,406 either paid at closing or added to the amount financed.

Variable Rate Mortgage (VRM)

See adjustable rate mortgage.

Verification of Deposit (VOD)

A document signed by the borrower's financial institution verifying the status and balance of his/her financial accounts.

Verification of Employment (VOE)

A document signed by the borrower's employer verifying his/her position and salary.

Warehouse Fee

Many mortgage firms must borrow funds on a short term basis in order to originate loans which are to be sold later in the secondary mortgage market (or to investors). When the prime rate of interest is higher on short term loans than on mortgage loans, the mortgage firm has an economic loss which is offset by charging a warehouse fee.

Wraparound mortgage

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