



Glossary of Mortgage Terms

A

Adjustable Rate Mortgage (ARM)	A mortgage with an interest rate and payments that adjust at scheduled dates throughout the loan term based on a pre-selected index. Also known as ARM loans.
Adjustment Period	The amount of time between the interest rate adjustment of an adjustable-rate mortgage.
Amortization	The distribution of money owed on a loan into equal installments that consist of principal and interest and are spread out over a set period.
Annual Percentage Rate (APR)	The annual cost of a loan, expressed as a yearly rate. APR takes into account interest, discount points, lender fees and mortgage insurance, so it will be slightly higher than the interest rate on the loan.
Appraisal	A report that states an estimate or an opinion of the property value as determined by a qualified independent third-party known as an appraiser. The term also refers to the process for obtaining the estimated value of the property.
Appraised Value	An opinion of value reached by a qualified independent third-party known as an appraiser based upon knowledge, experience, and a study of pertinent data.

B

Balloon Mortgage	Monthly payments are amortized as if the loan has a longer term, such as 30 years, but the loan actually becomes due at the end of a shorter term, such as 5 years. At the end of the shorter term, the remaining balance can be paid off in a lump sum payment (balloon), or the loan can be extended. The extension will be for the shorter term. Therefore, if the term is 5 years, then every 5 years the borrower can pay off the remaining balance or extend another 5 years, until the loan is paid in full.
Biweekly Mortgage	A mortgage with payments that are contractually due every two weeks, totaling 26 payments a year.



C

Cash-Out Refinance	A refinance transaction where the new mortgage is for a larger amount than the existing loan and the difference is taken in cash.
Cash Reserve	Refers to the amount of liquid assets that a borrower has after paying the down payment and closing costs.
Cash to Close	The amount of money a borrower needs to bring to settlement in order to complete the mortgage transaction. It can include closing costs, any down payment and escrows for property taxes and homeowners insurance.
Closing	Typically the final step in obtaining a home loan. The closing includes signing documentation and disbursing funds necessary to complete the loan transaction. Also known as "Settlement".
Closing Agent	Usually an attorney or title agency representative who oversees the loan closing and witnesses signing of closing documents. Also known as "Settlement Agent".
Closing Costs	Money paid by the borrower in connection with the closing of a mortgage loan. General examples include, but are not limited to, an origination charge, discount points, and fees for required third-party services, taxes and government recording fees.
Closing Date	The date your loan is finalized and closing occurs.
Closing Disclosure	A document provided to customers at least 3 business days before closing that provides final details about the mortgage loan. It includes loan terms, projected monthly payments and how much you will pay in fees and other costs.
Conforming Loan	A mortgage that meets the most current guidelines set by the Federal National Mortgage Association (Fannie Mae) or the Federal Home Loan Mortgage Corporation (Freddie Mac). These mortgages are eligible for sale and delivery to these government-sponsored organizations.
Conventional Mortgage	A conventional mortgage is any mortgage loan that is not insured or guaranteed by the government (such as FHA or VA loan programs).



D

Debt-to-Income Ratio (DTI)	Used to qualify a borrower for a loan, DTI reflects the borrowers monthly debt as a percentage of their monthly gross income.
Deed of Trust	A legal document between a lender and borrower, which is used to secure a home as collateral for a loan.
Default	The failure of a borrower to make the agreed upon loan payments to a lender.
Discount Point	Paying discount points at closing generally reduces a loan's interest rate and monthly payments. Each point is equal to 1% of the loan amount.
Down Payment	The amount of the purchase price that the buyer is paying outside of the loan proceeds.

E

Equity	The difference between the value of the home and the outstanding mortgage balance.
Escrow Account	An account held by a lender that is used to pay real estate taxes, homeowner's insurance, mortgage insurance or other periodic debts against the property on behalf of the borrower. The lender collects a portion of these funds with each monthly mortgage payment and those funds are deposited into the escrow account.
Escrow Payment	The portion of a homeowner's monthly mortgage payment that is held by a lender or servicer to pay taxes and insurance, including mortgage insurance and hazard insurance, on the borrowers behalf.

F

Fair Market Value (FMV)	An estimate of the amount a home could be sold for based on things such as the local real estate market and the amount similar homes in the area have recently sold for.
First Mortgage/First Trust	A mortgage that is in first lien position, taking priority over all other liens. In the case of a foreclosure, the first mortgage will be repaid before any other mortgages.



Fixed Rate Mortgage	A mortgage that is in first lien position, taking priority over all other liens. In the case of a foreclosure, the first mortgage will be repaid before any other mortgages.
Fixed Rate Mortgage	A mortgage loan where the interest rate remains the same through the entire term of the loan.
Floating Interest Rate	When a mortgage applicant allows the interest rate to fluctuate for a short period of time until he or she decides to lock it in.
Foreclosure	The process of a lender taking ownership of real estate property that was pledged as collateral for a loan that has defaulted. The lender may then try to resell the property to reduce any loan loss.
G	
Gift Letter	A written explanation, signed by the individual giving the gift, stating that money was given to a homebuyer as a gift without any obligation to repay it.
Good Faith Estimate (GFE)	A written statement of the anticipated costs of completing a home loan transaction.
Government Sponsored Enterprises	Fannie Mae, The Federal National Mortgage Association (FNMA) and Freddie Mac, The Federal Home Loan Mortgage Corporation (FHLMC) - Government sponsored enterprises that were created to expand the secondary mortgage market. Fannie Mae and Freddie Mac buy mortgages on the secondary market, pool them, and then sell them as a mortgage backed security to investors on the open market.
Gross Monthly Income	The total amount the borrower earns per month, not counting any taxes or expenses. Often used in calculations to determine whether a borrower qualifies for a loan.

H

Hazard Insurance	Contract with an insurance provider that specifically covers damage to a property due to certain hazards such as fire.
Homeowners Insurance	An insurance policy that protects the property against losses, combining liability coverage and hazard insurance.



Home Equity Loan/LOC	A secured installment loan or line of credit where the equity in the borrower's home is used as collateral. Typically Equity Loans are in the second lien position behind a first trust.
Homeowner's Association (HOA)	As association of people who own real estate property in a given area that is formed for the purpose of improving or maintaining the quality of the area or neighborhood.
Homeowner's Insurance (HOI)	An insurance policy that protects a home against loss caused by events such as fire, theft, or natural disaster. The policy may also include coverage for personal liability (injury to people on the property). HOI is required on homes with a mortgage, and the insurance premium is commonly included in the escrow payment.
Housing Expense Ratio	The ratio comparing housing expenses to gross monthly income that's used by lenders to qualify borrowers for a mortgage.
I	
Impounds or Reserves	Terms used to mean "escrow" in some parts of the country. See Escrow.
Index	A published interest rate, such as the Prime Rate, that lenders use to establish interest rates charged on mortgages or to compare investment returns.
Interest Only Loan	The loan payments are amortized over a longer term such as 30 years, but at the beginning of repayment, there is a set period, such as 5 years, where the payments consist of interest only. At the end of the interest only period, the loan is then re-amortized based on the remaining years. The borrower then makes regular payments that include interest and principal for the rest of the term.
Investment Property	Real estate property owned with the intent to earn income, either through rent, future resale, or both, and not intended for owner occupancy.



J

Jumbo Loan

A mortgage amount larger than the limits set by the Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac). Because jumbo loans cannot be funded by these two agencies, they usually carry a higher interest rate.

L

Lien

A legal claim placed by a lender on real estate property to ensure loan repayment.

Lien Position

The order in which claims against collateral will be satisfied in the event of a foreclosure, bankruptcy, or change of ownership.

Loan Conditions

Terms under which a lender agrees to make a loan. They include the interest rate, number of years of the loan and any documentation requirements the borrower must meet before closing can occur.

Loan Estimate

A document delivered or mailed to borrowers by a lender within 3 business days of receiving a completed mortgage application. The Loan Estimate provides an estimate of closing costs and fees as well as the loan terms.

Loan-to-Value Ratio (LTV)

The current loan amount compared to the value of the property, expressed as a percentage. For example, a loan amount of \$150,000 for a home valued at \$200,000 would have a LTV of 75%.

M

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 any given time.

Monthly Payment

The amount of principal, interest, taxes and insurance (PITI), if escrow is included in your loan payment, paid each month on a mortgage loan.



Monthly Housing Expense

Total monthly expense of principal, interest, taxes and insurance. Used with gross income to determine affordability.

N

Non-Confirming Loan

A conventional mortgage that is not eligible for sale and delivery to either Fannie Mae or Freddie Mac due to the loan amount, loan characteristics, underwriting guidelines, or other factors.

O

Origination

The entire process of obtaining a mortgage from application, through underwriting, to final loan closing.

Origination Charge/Point

An amount that includes all charges (other than discount points) that the lender will receive for origination of the loan.

P

**Points
Pre-Approval**

See Discount Points and/or Origination charge/points
A pre-approval letter shows that a mortgage applicant's credit worthiness has been reviewed by an underwriter and approved for the loan amount requested.

Pre-Qualification

An estimate of the amount a prospective homebuyer may be able to borrow prior to submitting a formal application. A pre-qualification does not include a review by an underwriter and should not be confused with a pre-approval.

Primary Residence

Property that is occupied, or intended to be occupied, as the borrower's main home.

Principal

The amount of money that has been borrowed or is owed that excludes interest and fees.

PITI

Principal, Interest, Taxes, Insurance – The components of a monthly mortgage payment.

Private Mortgage Insurance (PMI)

Insurance written by a private company protecting the mortgage lender against loss resulting from a mortgage default. Typically required on mortgages where the loan amount is



greater than 80% of the value of the property.

Property Tax

A tax on property imposed by local governments that is based on the estimated value of the property.

Q

Qualifying Ratios

Guidelines used by lenders when determining how much a homebuyer can borrow. Qualifying ratios include the housing expense ratio and debt-to-income ratio.

R

Rate Lock

An agreement between the borrower and lender that holds the interest rate, points and term of the loan for a specific time period.

Rate and Term Refinance

An existing mortgage is refinanced for the purpose of changing the interest rate and/or term of the mortgage without advancing new money on the loan.

Real Estate Broker/Agent

An individual who is licensed to negotiate and arrange real estate sales.

Refinance

A new mortgage loan with different terms is taken out on a property already owned and the existing mortgage is paid off.

Rescission

The cancellation of a contract, permitted by law within three days of signing a mortgage used to refinance a primary residence.

Reserves

The amount of liquid assets that a borrower has after paying the down payment and closing costs.

Reverse Mortgage

A type of home loan that allows homeowners to convert a portion of their equity into cash. Unlike a traditional home equity loan or second mortgage, reverse mortgages do not require repayment until the borrower sells the home, or is no longer using it as their primary residence.

**Right to Cancel**

A borrower's right to cancel or rescind a loan transaction when his/her primary residence is going to secure the loan. A borrower has three business days following the signing of the loan documents to cancel a transaction. All money paid by a borrower must be refunded upon rescission, and the loan transaction is cancelled.

S**Sales Contract**

When purchasing or selling a home, the sales contract outlines the specifics of the sale of the home (sales price, timeline, what conveys, etc.). Both parties must sign, and it then becomes a binding obligation.

Secondary Mortgage Market

Mortgage lenders sell mortgages on the secondary market to investors to increase the supply of money available for mortgage lending and increase the money available for new home purchases.

Second Home

A residence other than the borrower's primary residence where the borrower plans to live for a portion of each year. The residence must be fit to occupy year-round. Also referred to as a 'vacation home' or a 'weekend home'.

Settlement Costs

Fees and charges associated with the closing of a mortgage loan, such as origination fees, discount points, or payments for title insurance, attorney services and taxes.

T**Title Insurance**

Insurance that protects the lender (lender's policy) or buyer (owner's policy) against loss due to disputes over property ownership.

Title Search

Examination of municipal records to ensure the seller is the legal owner of a property and that there are no liens or other claims against the property.

U**Underwriter**

The lender's team member who reviews the application, documentation and property information before making a loan decision.



Underwriting

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

Z

Zero Down Mortgage

Finance 100% of the purchase price of the home by structuring the loan into two loans with no money down and no private mortgage insurance: 80% of the purchase price goes into a first trust loan product and 20% goes into a second trust loan product. Rates can be fixed or adjustable.



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