

## **Glossary of Terms:**

**A**

### **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)**

An estimate of the value of property, made by a qualified professional called an appraiser.

**Appraisal Report**

A written report by an appraiser containing an opinion as to the value of a property and the reasoning leading to that opinion.

**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.

<b>B</b>	
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**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.

**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).

**Cash Out**

Receiving money back when refinancing your present mortgage.

**Ceiling**

The maximum allowable interest rate over the life of the loan of an adjustable rate mortgage.

**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 Title**

A statement provided by an abstract company, title company, or attorney stating that the title of real estate is legally held by the current owner.

**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 time and place in which all documents for your loan are signed, dated and notarized.

### **Closing Costs**

Any fees paid by the borrowers or sellers during the closing of the mortgage loan. This normally includes an origination fee, discount points, attorney's fees, title insurance, survey, and any items which must be prepaid, such as taxes and insurance escrow payments.

### **Collateral**

An asset that guarantees the repayment of a loan. The borrower risks losing the asset if the loan is not repaid according to the terms of the loan contract.

### **Combined Loan to Value**

The relationship between the unpaid principal balances of all the mortgages on a property and the property's appraised value.

### **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**

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 History**

A record of an individual's open and fully repaid debts. A credit history helps a lender to determine whether a potential borrower has a history of repaying debts in a timely

manner.

**Credit Limit**

The maximum amount that you can borrow under a home equity plan.

**Credit Report**

A report of an individual's credit history prepared by a credit bureau and used by a lender in determining a loan applicant's creditworthiness.

**Credit Repository**

An organization that gathers, records, updates, and stores financial and public records information about the payment records of individuals who are being considered for credit.

**D**

**Debt**

Amount owed to another.

**Debt Service**

The total amount of credit card, auto, mortgage or other debt upon which you must pay.

**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.

**Deed of Trust**

Used in many western states, the agreement used to pledge your home or other real estate as security for a loan. Similar to a mortgage.

**Default**

Failure to make mortgage payments on a timely basis or to comply with other requirements of 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 mortgage payments when mortgage payments are due.

### **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 Points (or Points)**

The amount paid either to maintain or lower the interest rate charged. Each point is equal to one percent (1%) of the loan amount (i.e., two points on a \$100,000 mortgage would equal \$2,000).

### **Down Payment**

The difference between the purchase price and that portion of the purchase price being financed. Most lenders require the down payment to be paid from the buyer's own funds. Gifts from related parties are sometimes acceptable, and must be disclosed to the lender.

### **Due on Sale Clause**

A clause in a mortgage agreement providing that, if the mortgagor (the borrower) sells, transfers, or, in some instances, encumbers the property, the mortgagee (the lender) has the right to demand the outstanding balance in full.

## **E**

### **Earnest Money**

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

### **Effective Interest Rate**

The cost of credit on a yearly basis expressed as a percentage. Includes up-front costs paid to obtain the loan, and is, therefore, usually a higher amount than the interest rate stipulated in the mortgage note. Useful in comparing loan programs with different rates and points.

### **Encumbrance**

A claim against a property by another party which usually affects the ability to transfer ownership of the property.

### **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)**

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 (appraised value) of your home and your outstanding mortgage balance.

**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.

**F**

**Fair Credit Reporting Act**

A consumer protection law that regulates the disclosure of consumer credit reports by consumer/credit reporting agencies and establishes procedures for correcting mistakes on one's credit record.

**Farmers Home Administration (FmHA)**

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

**Federal Home Loan Mortgage Corporation (FHLMC), 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), 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.

### **FICO score**

A FICO score is a credit score developed by Fair Isaac & Co. Credit scoring is a method of determining the likelihood that credit users will pay their bills. Scoring has become widely accepted by lenders as a reliable means of credit evaluation. A credit score attempts to condense a borrower's credit history into a single number.

### **First Mortgage**

A mortgage which is in first lien position, taking priority over all other liens (which are financial encumbrances).

### **Fixed Rate Mortgage**

An interest rate which is fixed for the term of the loan. Payments as well are fixed at one amount.

### **Flood Insurance**

Insurance that compensates for physical property damage resulting from flooding. It is required for properties located in federally designated flood areas.

### **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.

## **G**

### **Good Faith Estimate**

A written estimate of closing costs which a lender must provide you within three days of submitting an application.

### **Grace Period**

A period of time during which a loan payment may be paid after its due date but not incur a late penalty. Such late payments may be reported on your credit report.

### **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 Income**

For qualifying purposes, the income of the borrower before taxes or expenses are deducted.

## **H**

### **Hazard Insurance**

A contract between purchaser and an insurer, to compensate the insured for loss of property due to hazards (fire, hail damage, etc.), for a premium.

### **Home Equity Line of Credit**

A loan providing you with the ability to borrow funds at the time and in the amount you choose, up to a maximum credit limit for which you have qualified. Repayment is secured by the equity in your home. Simple interest (interest-only payments on the outstanding balance) is usually tax-deductible. Often used for home improvements, major purchases or expenses, and debt consolidation.

### **Home Equity Loan**

A fixed or adjustable rate loan obtained for a variety of purposes, secured by the equity in your home. Interest paid is usually tax-deductible. Often used for home

improvement or freeing of equity for investment in other real estate or investment. Recommended by many to replace or substitute for consumer loans whose interest is not tax-deductible, such as auto or boat loans, credit card debt, medical debt, and education loans.

**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.

**HUD I Settlement Statement**

A form utilized at loan closing to itemize the costs associated with purchasing the home. Used universally by mandate of HUD, the Department of Housing and Urban Development.

I

**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 number, usually a percentage, upon which future interest rates for adjustable rate mortgages are based. Common indexes include the Cost of Funds for the Eleventh Federal District of banks or the average rate of a one year Government Treasury Security.

**Interest Rate**

The periodic charge, expressed as a percentage, for use of credit.

**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.

J

**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.

<b>K</b>	
<b>L</b>	

**Lender**

The bank, mortgage company, or mortgage broker offering the loan.

**Lien**

The right to take and hold or sell the property of a debtor as a security or payment for a debt.

**Loan-to-Value Ratio**

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

<b>M</b>	
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**Margin**

An amount, usually a percentage, which is added to the index to determine the interest rate for adjustable rate mortgages.

**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.

**Minimum Payment**

The minimum amount that you must pay, usually monthly, on a home equity loan or line of credit. In some plans, the minimum payment may be "interest only," (simple interest). In other plans, the minimum payment may include principal and interest (amortized).

**MIP (Mortgage Insurance Premium)**

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

### **Mortgage**

A legal document that pledges to the lender as security for payment of a debt.

### **Mortgage Insurance**

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

### **Mortgage Loan**

A loan which utilizes real estate as security or collateral to provide for repayment should you default on the terms of your loan. The mortgage or Deed of Trust is your agreement to pledge your home or other real estate as security.

### **Mortgagee**

The lender in a mortgage loan transaction.

### **Mortgagor**

The borrower in a mortgage loan transaction.

## **N**

### **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.

### **Note**

A written agreement containing a promise of the signer to pay to a named person, or order, or bearer, a definite sum of money at a specified date or on demand.

## **O**

### **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.

**P**

### **Permanent Loan**

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

### **PITI**

Principal, interest, taxes and insurance, which comprise your monthly mortgage payment.

### **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.

**Q**

**Qualifying Ratios**

Comparisons of a borrower's debts and gross monthly income.

**R**

**Rate**

The annual rate of interest on a loan, expressed as a percentage of 100.

**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.

### **Right to Rescission**

The legal right to void or cancel your mortgage contract in such a way as to treat the contract as if it never existed. Right of rescission is not applicable to mortgages made to purchase a home, but may be applicable to other mortgages, such as home equity loans.

**S**

### **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.

### **Security Interest**

An interest that a lender takes in the borrower's property to assure repayment of a debt.

### **Servicing a Loan**

The ongoing process of collecting your monthly mortgage payment, including accounting for and payment of your yearly tax and/or homeowners insurance bills.

### **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 know 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.

T

**Title**

The written evidence that proves the right of ownership of a specific piece of property.

**Title Insurance**

Protection for lenders or homeowners against financial loss resulting from legal defects in the title.

**Title Search**

An investigation into the history of ownership of a property to check for liens, unpaid claims, restrictions or problems, to prove that the seller can transfer free and clear ownership.

**Total Debt Ratio**

Monthly debt and housing payments, divided by gross monthly income, to prove that the seller can transfer free and clear ownership.

**Truth-In-Lending Act**

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

**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.

## U

### **Underwriting**

The process of verifying data and approving a loan.

### **Usury**

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

## V

### **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**

An interest rate that changes periodically in relation to an index. Payments may increase or decrease accordingly. See Adjustable Rate Mortgages for a complete guide.

### **Variable Rate Mortgage (VRM)**

Like 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.

## W

### **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.

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Z	