



## Mortgage Terms

**Adjustable Rate Mortgage** - A mortgage in which the interest rate fluctuates during the life of the loan according to general economic conditions. A financial “index” is the basis that the lender uses to determine changes in the interest rate. There is typically a “cap” or limit on how much the interest rate can change annually over the life of the loan.

**Amortization** - The process of repaying a mortgage loan gradually, with equal periodic payments combining principle and interest. Your payments are calculated so that the debt is paid off at the end of a predetermined period of time.

**Annual Percentage Rate (APR)** - A measure of the total cost of your mortgage expressed as a yearly interest rate. The APR is usually higher than the advertised interest rate as it includes interest, points, and other finance charges. It is designed to help you compare and determine the relative cost of loans you are considering.

**Appraisal** - a professional estimate of the current market value of your property used by the lender in approving your mortgage loan.

**Assessment** - A value given to the home and property, which is used solely for determining property taxes.

**Asset** - Anything you own that has monetary value including cars, household items, cash, stocks and bonds, and real estate. You are required to provide an accounting of your assets when you apply for a mortgage.

**Balloon Mortgage** - Typically, a fixed rate mortgage with a 20 to 30 year amortization, that comes due with a lump sum (balloon) principle payment 3 to 7 years after closing. These loans are attractive because interest rates and monthly payments are lower than fixed rate loans, and payment usually remains the same over the life of the loan.

**Biweekly Mortgage** - Payments on this mortgage are due every two weeks. You should have a total payment of 26 to 27 payments per year.

**Closing** - After negotiations on the price of the property have been accepted, a meeting is set up with the buyer, seller and the lender. At this time the buyer receives the mortgage loan amount needed to purchase the property and pledges the same as collateral or security for repayment of the debt. The mortgage documents are signed and the title to the property passes from the seller to the buyer.

**Closing Costs** - A percentage of the mortgage amount (typically 3 to 6 percent) paid at closing. The amount can include the following costs: realtor fees, attorney fees, appraisal fees and taxes.

**Collateral** - Property and/or other assets pledged as security to the lender (mortgage) for repayment of your debt.

**Conventional Loan** - A term describing a mortgage loan made by an approved lender where the debt is not insured by a government agency such as FHA and VA.

**Convertible Loan** - On version of an adjustable rate mortgage (ARM) that can be converted to a fixed rate mortgage providing certain criteria is met and the borrower feels it is advantageous.

**Discount Points or Points** - A one-time charge paid by the borrower and used by the lender to reduce the interest rate charged for the mortgage loan. One "Discount Point" or "Point" is equal to 1 percentage point (1%) so on a \$100,000 loan; 1 Point would equal \$1,000.

**Escrow Account** - The lender may have the borrower establish this "savings account" to set this money aside which is ear-marked to pay taxes and insurance on the property. A portion of every mortgage payment goes into the escrow account. This account is not interest earning for the borrower. The lender is then responsible for paying the tax and insurance bills with these reserved funds.

**Equity** - The difference between the market value (appraisal) of the home and your remaining mortgage balance. As you pay down the mortgage balance, your equity or ownership in the home increases.

**Federal Housing Administration (FHA)** - A division with the Federal Department of Housing and Urban Development (HUD) that provides mortgage insurance - insuring the borrowers ability to repay the debt - for residential mortgages. The FHA also sets standards for construction and underwriting.

**FHA Loan** - A mortgage loan made by an approved lender in which the borrower's ability to repay is insured by the Federal Housing Commission.

**Good Faith Estimate** - A disclosure of estimated settlement costs. Federal regulations require that you receive this disclosure of estimated fees and other costs to close with in three days of your initial loan application. This ensures that the borrowers are provided with timely and thorough information on the nature and costs associated with obtaining a mortgage.

**Graduated Payment Mortgage** - (GPM) - Beneficial for borrowers who expect that their income will increase over time, this mortgage is calculated with smaller initial payments which increase for a specific period of time, then become level.

**Growing Equity Mortgage** - (GEM) - A type of mortgage where payments increase yearly and each increase is directly applied against the mortgage principle. This allows the borrower to increase their equity quickly and pay off the mortgage sooner.

**Housing-to-Income Ratio** - This formula helps you and the loan officer determine if a mortgage loan is well within your income range. It compares all your monthly housing expenses to your monthly income. Usually housing expenses should not exceed 28 percent of your monthly (pre-tax) income.

**Liability** - A liability is an outstanding debt such as a credit card balance or an auto loan. You are required to list all your liabilities when applying for a mortgage.

**Mortgage** - A conditional transfer of property (land, house, etc.) as security for a loan. The property remains in possession of the borrowers but may be claimed by the lender if the loan and interest are not paid according to the agreed terms.

**Mortgage Broker** - A real estate financial professional middleman who assists the buyer and seller with the arrangement of financing and contract negotiations.

**Mortgage Insurance** - This insurance is required if your down payment is less than 20 percent. You would be required to pay a fee for this insurance which protects the lender should you default on house payments.

**Mortgage Note** - A promissory note that you sign at closing which states your pledge to pay a specific amount at a set interest rate within a fixed time period.

**Mortgagee** - A creditor who receives a mortgage (the Lender).

**Mortgagor** - The debtor who pledges his or her property in a mortgage (the borrower).

**Origination** - The completion of a loan application, which details your financial situation and begins the loan process (origination). As part of this first step, you will be required to provide past W2's, pay stubs and other supporting documentation of your income. Within three days your loan officer must provide a Good Faith Estimate and a Truth-in-Lending disclosure.

**Pre-qualification** - The process that determines your qualification to receive a mortgage loan and the loan's maximum amount.

**Principle** - The outstanding balance owed on a loan, excluding interest. The sum of money on which interest is charged.

**Private Mortgage Insurance (PMI)** - If your down payment is less than 20 percent, you will be required to pay PMI - a fee for mortgage insurance. This insurance, provided by a private mortgage insurance company, protects the lender should you default on your house payment.

**Processing** - Following origination, processing is verification of the information provided on your loan application. This also includes ordering appraisals, credit reports and other documentation.

**Recording Fees** - The lender charges this fee for officially recording the sign mortgage documents which makes them public record.

**Servicing** - An overall term for the services the lender provides in handling your mortgage. This includes collecting your payments, and paying taxes and insurance if you have funds in an escrow account.

**Title** - Often called the deed, this is the document containing the evidence of someone's legal ownership of the desired property.

**Title Search** - A necessary part of obtaining a mortgage, this is an official examination of public records to determine legal ownership of the desired property.

**Total Debt-to-Income Ratio** - A formula used by the loan officer to determine if a mortgage loan is within your monthly income range. This ratio compares all your monthly debt payments, such as credit card and auto loan payments to your monthly (pre-tax) income. Usually, total debt payments should not be more than 36 percent of your monthly income.

**Truth-in-Lending Disclosure** - This requires creditors to provide information to consumers about the conditions, terms and costs of a loan. The intent of this act is to help you make an informed decision when comparing loans offered by different lending institutions.

**Underwriting** - After processing, the documents in your loan file are evaluated to determine if the requested loan should be approved, denied, or approved with conditions.

**VA Loan** - A long-term, low or no down payment mortgage loan in which the veteran's ability to repay is guaranteed by the administration.