

## Glossary of Mortgage Terminology!

The mortgage industry is continuously changing - it's a challenge just to keep up. New regulations, government programs and terms are always being created. Therefore, the first step in understanding the refinancing process is to learn the language!

**ADJUSTMENT DATE** - The date that the interest rate changes on an adjustable rate mortgage (ARM).

**ADJUSTMENT PERIOD** - The period elapsing between adjustment dates for an adjustable rate mortgage.

**ADJUSTABLE RATE MORTGAGE (ARM)** - A loan that allows the lender to adjust the borrower's interest rate and payments at prescribed times and sometimes with prescribed limits. Lower interest rates are customary.

**AMORTIZED LOAN** - A loan which is paid off in equal installments during its term.

**AMORTIZATION TERM** - The length of time required to amortize the mortgage loan expressed as a number of months. For example, 360 months is the amortization term for a 30- year fixed rate mortgage.

**ANNUAL PERCENTAGE RATE** - The actual interest rate the borrower pays when all the costs of obtaining credit are included.

**APPRAISAL** - A report made by a qualified appraiser setting forth an opinion of estimate of value. The term also refers to the process by which the estimate is obtained.

**APPRAISED VALUE** - An estimation of property value made by a qualified expert.

**APPRECIATION** - An increase in the value of a property. Appreciation may be the result of an increased demand for property, any improvements or additions made, improvements to the neighborhood, etc.

**ASSESSMENT** - A local tax levied against a property for a specific purpose, such as a sewer.

**ASSUMPTION FEE** - The fee paid to a lender (usually by the purchaser of real property) when an assumption takes place.

**BALLOON MORTGAGE** - A mortgage with periodic installments of principal and interest that, at the end of such a period, do not fully amortize the loan. The

balance of the mortgage due is usually paid in a lump sum at a specified date, usually at the end of the term of such periodic installments.

**CLOSING** - The process that brings a loan into legal existence, including the signing of all loan documents, their delivery to the appropriate parties, and the disbursing of at least some of the loan funds.

**CLOSING COSTS** - These are costs which are not controlled by the lender, and are required for anyone purchasing a home regardless of loan amount or lender. These include expenses such as attorney fees, title insurance, survey, recording fees, appraisal, and termite inspection. All of these services are provided by independent professionals who are not affiliated with your lender. You can usually figure on your closing costs being approximately one to one & a half percent of your loan amount.

**COMPARABLES** - Properties used in an appraisal report that are substantially equivalent to the subject property.

**CONVENTIONAL LOAN** - A loan that may or may not require Private Mortgage Insurance. (Any loan amount with 20% or more down payment will not require PMI. Any loan amount with zero or 3% - 19% down payment will require PMI.) This type of loan is subject to the qualifying guidelines set forth by FNMA (Fannie Mae) or FHLMC (Freddie Mac).

**CREDIT HISTORY** - This is a "snap-shot" of your past and present debt, current available credit, and a rating of your debt repayment history. This is very important to a lender so that they can know if you are a good credit risk.

**CREDIT REPORT** - A document completed by a credit-reporting agency providing information about the buyer's credit cards, previous mortgage history, bank loans and public records dealing with financial matters.

**DEED** - The formal written document that transfers the rights of ownership and possession (that is, the title) from the seller to the buyer.

**DISCOUNT POINT** - A unit of measurement used for various loan charges; one point equals one percent of the amount of the loan.

**DOWN PAYMENT** - The difference between the loan amount and the sales price of the home you are purchasing. This is measured in a percentage; for example, a 3% down payment on a \$70,000 home would be \$2100.

**EQUITY** - The owner's interest, or the amount of cash the owner has, realized, paid in or invested in real estate.

**ESCROW PAYMENT** - The portion of a borrower's monthly payment that is set

aside by the lender in an escrow account to pay the taxes, hazard insurance, mortgage insurance, ground rents and other special items as they come due.

**FHA LOAN** - A loan that is insured by the Federal Housing Authority. This type of loan is geared toward providing moderate to low income families mortgages, and is subject to the qualifying guidelines set forth by the Federal Housing Authority.

**FIXED-RATE MORTGAGE** - The type of loan where the interest will not change for the entire term of the loan.

**GOOD FAITH ESTIMATE** - Provides a breakdown of the estimated closing charges.

**HOME EQUITY LOAN** - A loan under which a property owner uses his or her residence as collateral and can then draw funds up to a prearranged amount against the property.

**INTEREST RATE** - The percentage of interest charged on the amount of money borrowed. This rate will vary slightly from lender to lender, and will vary according to the type of mortgage chosen (30 year fixed, 3 year adjustable, etc.). Now is an excellent time for mortgage interest rates, as 1996 has ushered in consistently low rates that are in fact the lowest in over 30 years!

**LOAN-TO-VALUE RATIO (LTV)** - The ratio, expressed as a percentage, of the amount of a loan (numerator) to the value or selling price of the property (denominator). Usually, the higher the percentage, the greater the interest charged.

**MORTGAGE BROKER** - A mortgage broker is different from a single lender/bank, in that they represent many different lenders in much the same way a travel agent represents many different airlines. Most people don't call a single airline and expect to get a complete picture of all available flights and prices, and yet some people will call a single lender/bank and end up choosing the wrong type of financing which can literally cost them thousands of dollars. A mortgage broker's knowledge and complete view of all financing options can enable people with low income, self-employment, commissioned income, or even credit problems to obtain excellent financing. A mortgage broker's compensation as your consultant (much the same as a travel agent) is a finder's fee paid by the lender. These lenders always offer better rates and superior prepayment privileges and often shave as much as a half percent point off the normal market rate.

**ORIGINATION FEE** - The fee that the lender charges the borrower to cover the cost of issuing a loan commitment. It pays for processing the loan which includes collecting information about the borrower's creditworthiness and the property. The fee is usually computed as a percentage of the mortgage loan. It usually does not

include fees for appraisals, credit reports, inspections and loan document preparation.

**POINTS** - An amount equal to one percent of the principal amount of a note. Loan discount points are a one-time charge assessed at closing by the lender to increase the yield on the mortgage loan to a competitive position with other types of investments.

**PRE-PAID COSTS** - These are the costs that cover your escrow account for the future payment of interest, property taxes and homeowners insurance. Property taxes are set by the appropriate government taxing authority and, unfortunately, are not negotiable. Depending on the regulatory agency, (FHA, Fannie Mae, etc.) you will be required to pre-pay anywhere from 2 to 11 months of property taxes at closing. Premiums for homeowners insurance are set by the insurance company you select, and you are required to pay your first year homeowners' insurance plus two additional months at closing. You can usually figure on your pre-paid costs being approximately one to one & a half percent of your loan amount.

**PRIVATE MORTGAGE INSURANCE** - This insurance is required for most loans that have a down payment of 20% or less. Private Mortgage Insurance insures the lender in the event that you default on your mortgage payment and the lender is forced to sell your property at a loss.

**TITLE** - The evidence of the right to or ownership in property. In the case of real estate, the documentary evidence of ownership is the title deed, which specifies in whom the legal state is vested and the history of ownership and transfers. Title may be acquired through purchase, inheritance, devise, gift or through the foreclosure of a mortgage.

**TITLE INSURANCE** - An insurance policy which protects the insured (purchaser or lender) against loss arising from defects in title.

**UNDERWRITING** - In mortgage lending, the process of approving or denying a loan based on an evaluation of the property and the applicant's creditworthiness and ability to repay the loan. The underwriter analyzes the risks involved and selects an appropriate loan term and interest rate.

**VA LOAN** - A loan that is insured by the Department of Veteran's Affairs. This type of loan is available only to veterans, and is subject to the qualifying guidelines set forth by the Department of Veteran's Affairs.