Mortgage Glossary

2/1 Buy Down Mortgage:

The 2/1 Buydown gives the borrower a lower interest rate and lower monthly payments for the first two years of their mortgage loan. The seller or the builder pays the cost to buy down the rate by 2% for the first year, and 1% for the second year. It then remains at a fixed interest rate for the remainder of the loan term. Borrowers often refinance at the end of the second year to obtain the best long-term interest rates; however, even keeping the loan in place for three full years or more will result in beneficial savings for the borrower.

Acceleration Clause:

Provision in a mortgage that allows the lender to demand payment of the entire principal balance if a monthly payment is missed or some other default occurs.

Acceptance

a buyer or seller's agreement to enter a purchase contract.

Accrued Interest

interest that you have accumulated on your loan but not yet paid to your lender. It is the interest that adds to the overall amount owed. It is based on your loan's principal balance and mortgage rate.

Adjustable Rate (ARM)

An adjustable-rate mortgage is a loan with an interest rate that changes periodically during the life of the loan, based on fluctuation in the market according to an index. Payments may increase or decrease according to shifts in that index. Generally, you can expect make lower initial payments with an ARM. If interest rates increase over time, your monthly payments may increase, too. Most ARMs have a rate cap that limits the amount that the interest rate can change. Also known as a variable rate mortgage.

Additional Principal Payment:

A way to reduce the remaining balance on the loan by paying more than the scheduled principal amount due.

Adjusted Basis:

The cost of a property plus the value of any capital expenditures for improvements to the property minus any depreciation taken.

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 (ARM).

Affordability Analysis:

An analysis of a buyer's ability to afford the purchase of a home. Reviews income, liabilities, and available funds, and considers the type of mortgage you plan to use, the area where you want to purchase a home, and the closing costs that are likely.

Amortization

The gradual repayment of a mortgage loan, both principal and interest, by installments over a period of time. During the earlier years of the loan, most of each payment is applied toward the interest. During the final years of the loan, payment amounts are applied almost exclusively to the remaining principal.

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 (APR)

The annual cost of a loan to a borrower. APR is not an interest rate. It is a way to measure the total cost of credit articulated as a yearly rate. Like an interest rate, the APR is expressed as a percentage. Unlike an interest rate, it includes other charges or fees, such as mortgage insurance, closing costs, discount points, and loan origination fees, loan discounts, transaction charges, and any premiums for credit-guarantee insurance to reflect the total cost of the loan. APR is designed to give you a tool for comparing the costs of similar loans.

Application Fees

Nonrefundable fees paid as the cost for applying for a loan or line of credit. This fee may include the costs of property appraisal and pulling a credit profile.

Appraisal

An independent, professional written analysis prepared by a qualified appraiser estimating the value of a property. Lenders usually require an appraisal to ensure that the mortgage loan amount is not greater than the value of the property.

Appraised Value:

An opinion of a property's fair market value, based on a professional appraiser's knowledge, experience, and analysis of the property.

Appreciation

The increase in the value of property over time. Important factors in a home's appreciation are its location, condition, and the selling price of similar homes in the area.

Assessed Value

The value of a property established by a public tax assessor. This is used to determine property taxes.

Asset:

Anything owned of monetary value including real property, personal property, and enforceable claims against others (including bank accounts, stocks, mutual funds, etc.).

Assignment:

The transfer of a mortgage from one person to another.

Assumability:

An assumable mortgage can be transferred from the seller to the new buyer. Generally, requires a credit review of the new borrower to ensure affordability, and lenders may charge a fee for the assumption. If a mortgage contains a due-on-sale clause, it may not be assumed by a new buyer.

Assumption Fee:

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

Balance:

The outstanding amount of a loan that is yet to be paid.

Balance Sheet:

A financial statement that shows assets, liabilities, and net worth as of a specific date.

Balloon Mortgage:

A mortgage with level monthly payments that amortizes over a stated term but also requires that a lump sum payment be paid at the end of an earlier specified term.

Balloon Payment:

The final lump sum paid at the maturity date of a balloon mortgage.

Basis Point

An amount equal to 1/100th of a percentage point.

Before-tax Income:

Income before taxes are deducted. Also known as gross income.

Biweekly Payment Mortgage:

A plan to reduce the debt every two weeks (instead of the standard monthly payment schedule). The 26 (or possibly 27) biweekly payments are each equal to one-half of the monthly payment required if the loan were a standard 30-year fixed rate mortgage. The result for the borrower is a substantial savings in interest and a faster payoff date.

Borrower

An individual who applies for and receives funds in the form of a loan. The borrower, also known as mortgagor, is obligated to repay the loan in full under the terms of the loan.

Bridge Loan:

A second trust that is collateralized by the borrower's present home allowing the proceeds to be used to close on a new house before the present home is sold. Also known as "swing loan."

Broker:

An individual or company that brings borrowers and lenders together for the purpose of loan origination.

Buydown:

When the seller, builder, or buyer pays an amount of money up front to the lender to reduce monthly payments during the first few years of a mortgage. Buydowns can occur in both fixed and adjustable-rate mortgages.

Buyer's Market

This is when supply is greater than demand, making conditions more favorable for the buyers. In simpler terms, this is when there are more sellers than buyers on the market.

Cap:

Limits how much the interest rate or the monthly payment can increase, either at each adjustment or during the life of the mortgage. Payment caps don't limit the amount of interest the lender is earning and may cause negative amortization.

Cash-Out Refi

This is a new loan that is larger than the remaining balance on your current mortgage. The borrower usually gets the excess amount in cash, which can be used for home improvements, debt consolidation, or any other purpose.

Certificate of Eligibility

A document issued by the federal government that certifies a veteran's eligibility for a Department of Veterans Affairs (VA) mortgage loan. Also known as a Certificate of Veteran Status.

Certificate of Reasonable Value (CRV):

A document issued by the Department of Veterans Affairs (VA) that establishes the maximum value and loan amount for a VA mortgage.

Certificate of Title

A certificate provided by a qualified source, such as a title company or attorney, that shows who a property belongs to.

Change Frequency:

The frequency (in months) of payment and/or interest rate changes in an adjustable-rate mortgage (ARM).

Closing

Closing refers to the time and place at which all documents for your loan are signed, dated, and notarized validating transfer of ownership from the seller to you, the buyer. It includes the completion of all necessary paperwork and the payment of closing costs. In a mortgage situation, it also refers to the disbursement of funds from the lender to the seller. In refinancing, closing refers to the final payment of the existing loan with the refinanced loan. Also known as the settlement, it is the conclusion of your real estate transaction.

Closing Costs

Also known as settlement costs, these are fees charged for services that are incurred by buyers and sellers for expenses over and above the price of the property required to process and close your loan application when transferring ownership of a property. Costs may include an origination fee, property taxes, fees, attorney's fees, recording fees, appraisal fees, discount points, title insurance and escrow costs, and credit report charges. Closing costs will vary according to the area country and the lenders used. There are mortgage loans that offer “no closing cost” options.They are typically about 3% of your loan amount and paid at the closing.

Co-Borrower

A person who, along with you, assumes equal responsibility for repayment of a loan and is fully obligated under the terms of the loan.

Collateral

The property being offered to a borrower from a lender is an asset used for securing the repayment of a loan. When you get a mortgage, your home is considered collateral. If a borrower ever defaults on their loan, the borrower risks losing the asset. If the loan is not repaid, the lender can reclaim the property. This offers security to the lender, thus typically resulting in lower loan interest rates than unsecured loans.

Comparables or “Comps”

Recently sold properties that have similar sizes, locations, and amenities to the property being considered for a mortgage. Comparables help an appraiser determine the fair market value of a property.

Compound Interest:

Interest paid on the original principal balance and on the accrued and unpaid interest.

Conforming Loan

A mortgage loan that meets all the requirements to be eligible for purchase by investors such as Fannie Mae and Freddie Mac.

Consumer Reporting Agency (or Credit Bureau):

An organization that handles the preparation of reports used by lenders to determine a potential borrower’s credit history. The agency gets data for these reports from a credit repository and from other sources.

Contingency

A condition that must be satisfied before a contract is legally binding. When buying a home, two common contingencies are that the house must pass inspection and that the borrower must be approved for a loan.

Conventional Loan

Any type of mortgage that is not insured or financially guaranteed by the federal government. A conventional loan can be for conforming or non-conforming loan amounts.

Conversion Clause:

A provision in an ARM allowing the loan to be converted to a fixed rate at some point during the term. Usually, conversion is allowed at the end of the first adjustment period. The conversion feature may cost extra.

Co-signer:

This person does not have any ownership of the property. They will take financial responsibility to pay back unpaid debts if the borrower defaults on their loan.

Credit:

The ability of a customer to obtain funds, goods, or services before payment based on the trust that payment(s) will be made in the future.

Credit Report:

A report detailing an individual's credit transaction history that is prepared by a credit bureau and used by a lender to determine a loan applicant's creditworthiness.

Credit Risk Score:

A credit score measures a consumer's credit risk relative to the rest of the U.S. population, based on the individual's credit usage history. The credit score most widely used by lenders is the FICO® score, developed by Fair Issac Corporation. This 3-digit number, ranging from 300 to 850, is calculated by a mathematical equation that evaluates many types of information that are on your credit report. Higher FICO® scores represents lower credit risks, which typically equate to better loan terms. In general, credit scores are critical in the mortgage loan underwriting process.

Credit Score

A statistical number that evaluates a consumer's creditworthiness and is based on credit transaction history. Lenders use credit scores to evaluate the probability that an individual will repay his or her debts.

Debt Consolidation

When someone takes out a new loan to pay off a number of liabilities and consumer debts. In effect, multiple debts are combined into a single, larger piece of debt, usually with more favorable payoff terms: a lower interest rate, lower monthly payment, or both.

Debt-to-Income (DTI) Ratio:

The debt-to-income (DTI) ratio is a personal finance measure that compares an individual's debt payment to his or her overall income. DTI is calculated by dividing total recurring monthly debt by gross monthly income, and it is expressed as a percentage. The percentage of your gross monthly income that goes toward your debt. It can include all income from any-and-all eligible sources, such as:

- Salary or wages
- Overtime
- Bonuses or commissions
- Freelance work or side gigs
- Interest from bank accounts
- Dividends from investments
- Rental income
- Private sales
- Child support
- Social security

Deed

A document that legally transfers ownership of real estate from a seller to a buyer.

Deed of Trust:

The document used in some states instead of a mortgage. Title is conveyed to a trustee.

Default or Delinquency

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

Deposit:

This is a sum of money given to bind the sale of real estate, or a sum of money given to ensure payment or an advance of funds in the processing of a loan. Also known as Earnest Money Deposit ("EMD")

Discount:

In an ARM with an initial rate discount, the lender gives up a number of percentage points in interest to reduce the rate and lower the payments for part of the mortgage term (usually for one year or less). After the discount period, the ARM rate usually increases according to its index rate.

Discount Fees:

These are also called Points and Discount Points. Each point is equal to 1% of the principal amount of a mortgage loan. Points are commonly paid on both fixed rate and adjustable-rate mortgages to cover loan origination and other types of costs supplied by the lender. Points are paid at closing and may be paid by either the borrower or seller of the property, or even split between them. Sometimes, points are incorporated into the mortgage amount, but this strategy increases the loan amount and the full cost of the loan. You can also volunteer to pay points in exchange for a lower interest rate in some cases.

Down Payment

The amount of cash a buyer pays to the seller toward the purchase of a home to make up the difference between the purchase price and your mortgage loan amount. Down payments typically range between 5% and 20% of the sales price, and in some cases, it can be as low as 3%.

Effective Gross Income:

A borrower's normal annual income, including overtime that is regular or guaranteed. Salary is usually the principal source, but other income may qualify if it is significant and stable. It may include all income from any-and-all eligible sources, such as:

- Salary or wages
- Overtime
- Bonuses or commissions
- Freelance work or side gigs
- Interest from bank accounts
- Dividends from investments
- Rental income
- Private sales
- Child support
- Social security

Equal Credit Opportunity Act (ECOA)

A federal law that requires lenders and other creditors to make credit available without discrimination based on race, color, religion, national origin, sex, marital status, age, or receipt of income from public assistance programs.

Equity:

The amount of financial interest in a property. Equity is the difference between the fair market appraised value of the property and the outstanding mortgage balance and other liens still owed. Also called Home Equity.

Escrow:

An item of value, money, or documents deposited in trust by a third party to be delivered until specific conditions are fulfilled. For example, the deposit of funds or documents into an escrow account to be disbursed upon the closing of a sale of real estate.

Escrow Disbursements:

The part of a mortgagor's monthly payment that is held by the servicer in escrow to pay for real estate taxes, hazard insurance, mortgage insurance, lease payments, and other property expenses as they become due.

Fair Market Value

The amount a property would sell for on the open market. It is usually determined by an appraisal.

Fannie Mae

A congressionally chartered, shareholder-owned company (otherwise called a "government-sponsored enterprise" or "GSE") that buys and sells residential mortgages from lenders, that conform to the guidelines it has established. Loans bought and sold by Fannie Mae are called conforming mortgages. To finance these purchases, they package the loans into pools and then issue securities against them. Fannie Mae is also referred to as Federal National Mortgage Association.

FHA:

The Federal Housing Administration.

FHA-Insured

An FHA loan is a mortgage issued by federally qualified lenders and insured by the Federal Housing Administration (FHA). FHA loans are designed for low-to-moderate income borrowers who are unable to make a large down payment.

FHA Mortgage:

A mortgage that is insured by the Federal Housing Administration (FHA). Also known as a government mortgage.

FICO:

FICO® stands for Fair Isaac Corporation, which are the creators of the FICO® score. FICO® scores are the most widely used credit score in U.S. mortgage loan underwriting. This three-digit number ranging from 300 to 850 score calculated by a mathematical equation that is used to evaluate many types of information that are on your credit report that lenders use to determine the borrower's risk when extended a loan. These scores are largely based on your credit reports and can help creditors assess how likely you are to repay debt. The higher your FICO score, the lower credit risk you present.

FICO Score:

Higher FICO® scores represent lower credit risks, which typically equate to better loan terms.

First Mortgage:

The primary lien against a property.

Fixed Installment:

The monthly payment due on a mortgage loan including payment of both principal and interest.

Fixed Rate Mortgage

A home loan where the interest rate does not fluctuate and remains the same throughout the entire term of the loan. A Fixed Rate Mortgage allows the borrower to accurately predict their future payments, plan a budget, and make consistent payments.

Foreclosure

A legal remedy for non-payment of a mortgage debt. The lender takes and sells the property to cover the balance amount owed. If the amount is not enough to fully repay the loan, the borrower may continue to owe the lender the difference. If there are remaining proceeds, they are returned to the borrower.

Freddie Mac:

The smaller of two government-sponsored enterprises (GSE) that buys and sell home mortgage loans from lenders that conform to the guidelines it has established. To finance these purchases, they package the loans into pools and then issue securities against them. Freddie Mac is also known as Federal Home Loan Mortgage Corporation.

Fully Amortized ARM:

An adjustable-rate mortgage (ARM) with a monthly payment that is sufficient to amortize the remaining balance, at the interest accrual rate, over the amortization term.

Ginnie Mae

A wholly government-owned corporation within the U.S. Department of Housing and Urban Development (HUD), assumed responsibility for the special assistance loan program formerly administered by Fannie Mae. Government National Mortgage Association (GNMA), popularly known as Ginnie Mae, offers government-insured loans like FHA, VA, PIH, and RD. GNMA is not a Government Sponsored Enterprise (GSE). To understand the difference, please visit GinnieMae.gov.

Good Faith Estimate (GFE):

The list of the settlement charges that you must pay at the closing. The lender must provide this to you within three business days of receiving the mortgage application.

Growing-Equity Mortgage (GEM):

A fixed rate mortgage that provides scheduled payment increases over an established period of time. The increased amount of the monthly payment is applied directly toward reducing the remaining balance of the mortgage.

Guarantee Mortgage:

A mortgage that is guaranteed by a third party.

Home Equity:

The difference between the appraised value of your home and the remaining balance of your mortgage loan. Also called Equity.

Home Equity Line of Credit (HELOC)

A line of credit secured by the borrower's residence. It is often used for home improvements, debt consolidation, tuition, or other expenses.

Homeowners Insurance

Insurance to protect your home against damage from fire, hurricanes, and other catastrophes.

Housing Expense Ratio:

The percentage of gross monthly income budgeted to pay housing expenses.

HUD

The U.S. Department of Housing and Urban Development (HUD) is a government agency responsible for the implementation and administration of housing and urban development programs. The FHA within HUD insures home mortgages made by approved lenders and sets minimum standards for FHA loans.

HUD-1 Statement:

A document that provides an itemized listing of the funds that are payable at closing. Items that appear on the statement include real estate commissions, loan fees, points, and initial escrow amounts. Each item on the statement is represented by a separate number within a standardized numbering system. The totals at the bottom of the HUD-1 statement define the seller's net proceeds and the buyer's net payment at closing.

Hybrid ARM (3/1 ARM, 5/1 ARM, 7/1 ARM):

A combination fixed rate and adjustable-rate loan – also called 3/1,5/1,7/1 – can offer the best of both worlds: lower interest rates (like ARMs) and a fixed payment for a longer period of time than most adjustable rate loans. For example, a "5/1 loan" has a fixed monthly payment and interest for the first five years and then turns into a traditional adjustable-rate loan, based on then-current rates for the remaining 25 years. It's a good choice for people who expect to move or refinance, before or shortly after, the adjustment occurs.

Index:

The index is the benchmark measure of interest rate changes a lender uses to decide the amount an interest rate on an ARM will change over time. The index is generally a published number or percentage, such as the average interest rate or yield on Treasury bills. For example, the London Interbank Offered Rate, or LIBOR, is based on five currencies. Some index rates tend to be higher than others and some more volatile.

Initial Interest Rate:

This refers to the original interest rate of the mortgage at the time of closing that runs through an agreed upon number of months known as the initial rate period. This rate changes for an adjustable-rate mortgage (ARM). It's also known as "start rate" or "teaser."

Installment:

The regular periodic payment that a borrower agrees to make to a lender.

Insured Mortgage:

A mortgage that is protected by the Federal Housing Administration (FHA) or by private mortgage insurance (MI).

Interest:

The fee charged for borrowing money.

Interest Accrual Rate:

The percentage rate at which interest accrues on the mortgage. In most cases, it is also the rate used to calculate the monthly payments.

Interest-Only Mortgage:

A mortgage that gives the borrower the option of paying only the interest portion of a payment without paying on the principal balance for a portion of the loan term. This lowers your periodic payment but does not decrease your principal balance on the loan.

Interest Rate:

The annual cost of a loan to a borrower, usually expressed as a percentage. The rate a lender charges you each period for the loan. See Fixed Rate Mortgage and Adjustable-Rate Mortgage.

Interest Rate Buydown Plan:

An arrangement that allows the property seller to deposit money to an account. That money is then released each month to reduce the mortgagor's monthly payments during the early years of a mortgage.

Interest Rate Cap

Limits the amount an ARM rate can rise during an adjustment period.

Interest Rate Ceiling:

For an adjustable-rate mortgage (ARM), the maximum interest rate, as specified in the mortgage note.

Interest Rate Floor:

For an adjustable-rate mortgage (ARM), the minimum interest rate, as specified in the mortgage note.

Investment Property

Property that is purchased to generate rental income or to be sold once it has appreciated in value.

Jumbo Loan

A form of home financing for whose amount exceeds the conforming loan limits set by the Federal Housing Finance Agency (FHFA). As a result, unlike conventional mortgages, it is not eligible to be purchased, guaranteed, or securitized by Fannie Mae or Freddie Mac.

Late Charge:

The penalty a borrower must pay when a payment is made a stated number of days (usually 15) after the due date.

Lease-Purchase Mortgage Loan:

An alternative financing option that allows low- and moderate-income home buyers to lease a home with an option to buy. Each month's rent payment consists of principal, interest, taxes, and insurance (PITI) payments on the first mortgage plus an extra amount that accumulates in a savings account for a down payment.

Lender

An individual or company that makes funds available for borrowing.

Liabilities:

A person's financial obligations. Liabilities include long-term and short-term debt.

Lien:

The legal claim of a creditor on a borrower's property, to be used as security for a debt if you default on your loan. It is the mortgage company's right to claim your property if you default on your loan.

Life-Cap:

This term refers to the interest rate on a home equity line of credit (HELOC). Because you secure your credit line at the risk of your home, home equity lines of credit are required by law to have a ceiling on how high the variable interest rate can climb over the term.

Lifetime Payment Cap:

For an adjustable-rate mortgage (ARM), a limit on the amount that payments can increase or decrease over the life of the mortgage.

Lifetime Rate Cap:

For an adjustable-rate mortgage (ARM), a limit on the amount that the interest rate can increase or decrease over the life of the loan. See cap.

Line of Credit:

An agreement by a commercial bank or other financial institution to extend credit up to a certain amount for a certain time.

Liquid Asset:

A cash asset or an asset that is easily converted into cash.

Loan:

A sum of borrowed money (principal) that is generally repaid with interest.

Loan Agreement

A contract where the lender stipulates terms and conditions required for the borrower to receive a loan.

Loan Origination Fee

A charge for originating (processing, documenting, administering, underwriting, auditing, and funding) a home loan. It can be a flat fee or a percentage of a loan amount.

Loan to Value Ratio (LTV):

A term used by lenders to express the ratio of a percentage calculated as the amount of your mortgage divided by the appraised value of the property. For example, a loan amount of $70,000 for a home appraised at $100,000 would equal an LTV of 70%. Generally, the higher your credit score, the higher your LTV is allowed to be when qualifying for a loan.

Lock:

An option that you may exercise between application and closing to guarantee you will receive the current rate and points in the market.

Lock-In Period:

The guaranteed amount of time a lender has agreed to secure an interest rate for a specified period of time by a lender, including loan term and points, if any, to be paid at closing. Short term locks (under 21 days) are usually available after lender loan approval only. However, many lenders may permit a borrower to lock a loan for 30 days or more prior to submission of the loan application.

Mortgage

A legal agreement between a borrower and a lender, giving the lender a lien on real estate to secure repayment of a loan. Mortgage loans generally run from 10 to 30 years, after which the loan is required to be paid off.

Mortgage Insurance Premium

Mortgage Insurance Premium (MIP) is an insurance policy used with FHA loans if your down payment is less than 20%. The FHA assesses an upfront MIP at the time of closing and/or an annual MIP that is calculated every year and paid in 12 installments.

Negative Amortization:

Amortization means that monthly payments are large enough to pay the interest and reduce the principal on your mortgage. Negative amortization occurs when the monthly payments do not cover all of the interest cost. The interest cost that isn't covered is added to the unpaid principal balance. This means that even after making many payments, you could owe more than you did at the beginning of the loan. Negative amortization can occur when an ARM has a payment cap that results in monthly payments not high enough to cover the interest due.

Net Worth:

The value of all of a person's assets, including cash.

Non-Liquid Asset:

An asset that cannot easily be converted into cash.

Non-Conforming Loan

A loan that doesn't conform to guidelines established by Fannie Mae or Freddie Mac. See Jumbo loan.

Note:

A legal document that obligates a borrower to repay a mortgage loan at a stated interest rate during a specified period of time.

Origination Fee

A fee charged by a lender to cover certain processing expenses in a new loan application. The origination fee is stated in the form of points. It's usually a percentage of the total loan and generally between 0.5 and 1%. One point is 1 percent of the mortgage amount.

Owner Financing:

A property purchase transaction in which the party selling the property provides all or part of the financing.

Payment Change Date:

The date when a new monthly payment amount takes effect on an adjustable-rate mortgage (ARM) or a graduated-payment mortgage (GPM). Generally, the payment change date occurs in the month immediately after the adjustment date.

Payment Period:

The period of time over which you make payments. Most home loans utilize monthly payments, but other options such as biweekly payments may be available.

Payoff Amount:

The cash amount that will completely pay off your loan.

Periodic Payment Cap:

A limit on the amount that payments can increase or decrease during any one adjustment period.

Periodic Rate Cap:

A limit on the amount that the interest rate can increase or decrease during any one adjustment period, regardless of how high or low the index might be.

PITI

An acronym for principal, interest, taxes, and insurance. For most borrowers, PITI is the entire mortgage payment.

PITI Reserves:

A cash amount that a borrower must have on hand after making a down payment and paying all closing costs for the purchase of a home. The principal, interest, taxes, and insurance (PITI) reserves must equal the amount that the borrower would have to pay for PITI for a predefined number of months (usually three).

Prime Rate:

The interest rate that banks charge to their preferred customers. Changes in the prime rate influence changes in other rates, including mortgage interest rates.

Principal:

The amount borrowed or remaining unpaid. The part of the monthly payment that reduces the remaining balance of a mortgage. Interest is calculated on this amount.

Points:

An amount paid to the lender, typically at closing, to lower the interest rate. A point is equal to one percent of the principal mortgage loan amount. These are also called Discount Points and Discount Fees. For example, if you get a mortgage for $165,000 one point means $1,650 to the lender. Points are commonly paid on both fixed rate and adjustable-rate mortgages to cover loan origination and other types of costs supplied by the lender. Points are paid at closing and may be paid by either the borrower or seller of the property, or even split between them. Sometimes, points are incorporated into the mortgage amount, but this strategy increases the loan amount and the full cost of the loan. You can also volunteer to pay points in exchange for a lower interest rate in some cases.

Pre-Approval:

A written commitment from a lender to extend a mortgage to you up to a specific amount for a specific time under a specified set of terms. It involves an analysis of your financial status and credit history.

Prequalification

A non-binding process where a prospective borrower provides financial and other information, such as employment history and proposed collateral, in order for the lender to estimate how much the borrower may obtain for the purchase of a home.

Prepayment Penalty:

A financial penalty fee that occurs and may be charged to a borrower who pays off a loan before the contracted payoff date.

Principal

The amount of money borrowed on a loan. Monthly interest due is calculated by multiplying the principal balance by the monthly interest rate.

Principal Balance:

The outstanding balance of principal on a mortgage not including interest or any other charges.

Principal, Interest, Taxes, and Insurance (PITI):

The four components of a monthly mortgage payment. Principal refers to the part of the monthly payment that reduces the remaining balance of the mortgage. Interest is the fee charged for borrowing money. Taxes and insurance refer to the monthly cost of property taxes and homeowners' insurance, whether these amounts that are paid into an escrow account each month or not.

Private Mortgage Insurance (PMI):

If you have a conventional loan, this mortgage insurance is provided by a private mortgage insurance company to protect lenders against loss if a borrower defaults. If your down payment is less than 20%, many lenders will require you to pay private mortgage insurance. Most lenders generally require MI for a loan with a loan-to-value (LTV) percentage in excess of 80 percent.

Processing Fee

A fee charged to cover the administrative costs of processing a loan.

Purchase Agreement

A legal document between the seller and the buyer describing the terms and conditions under which a property will be sold. Also known as an agreement of sale or sales agreement.

Qualifying Ratios:

Calculations used to determine if a borrower can qualify for a mortgage. They consist of two separate calculations: a housing expense as a percent of income ratio and total debt obligations as a percent of income ratio.

Qualifying Ratios

Calculations that are used to determine whether a borrower can qualify for a mortgage. They state the maximum housing expense-to-income ratio and the total debt-to-income ratio that a borrower can have in order to qualify for a loan.

Rate

The percentage used to calculate the interest charge on a loan. Also referred to as the interest rate or loan rate.

Rate Lock:

A mortgage rate lock is a promise issued by lender to a borrower guaranteeing to hold a specific combination of an interest rate and points for a specified period of time (typically 10, 15, 30, 45 or 60 days) until the borrower can close on their home purchase. When a rate lock expires, you'll need to contact your lender to establish a new rate lock prior to closing your loan. To hold rates for longer periods of time, it typically requires more points or higher interest rates.

Reamortize

To take the remaining balance of a mortgage and establish a new period of amortization after which the principal balance will be zero. This typically happens at the end of the term of an interest-only loan.

Real Estate Agent:

A person licensed to negotiate and transact the sale of real estate on behalf of the property owner.

Realtor®:

A real estate broker or an associate who is an active member in a local real estate board that is affiliated with the National Association of Real Estate Agents.

Real Estate Settlement Procedures Act (RESPA):

A consumer protection law that requires lenders to give borrowers advance notice of closing costs.

Recording:

The noting in the registrar's office of the details of a properly executed legal document, such as a deed, a mortgage note, a satisfaction of mortgage, or an extension of mortgage, thereby making it a part of the public record.

Refinance:

Paying off one loan with the proceeds from a new loan, a better loan, generally using the same property as collateral security. The new loan typically has a lower interest rate, a lower monthly payment, replaces an adjustable rate with a fixed-rate loan, or increases the size of the loan in order to take in difference in cash. This may be done to receive more favorable rates, lower payments, or a decreased term. It may also be done to receive additional cash.

Revolving Liability:

A credit arrangement, such as a credit card, that allows a customer to borrow against a pre-approved line of credit when purchasing goods and services.

Secondary Mortgage Market:

Where existing mortgages are bought and sold.

Security:

The property that will be pledged as collateral for a loan.

Seller Carry-back:

An agreement in which the owner of a property provides financing, often in combination with an assumable mortgage. See Owner Financing.

Servicer:

An organization that collects principal and interest payments from borrowers and manages borrowers' escrow accounts. The servicer often services mortgages that have been purchased by an investor in the secondary mortgage market.

Settlement Costs:

The costs that you are obligated to pay at the time of closing. These are more commonly called closing costs.

Short Sale

When a homeowner can no longer afford to make mortgage payments and their home is worth less than they owe, a short sale allows them to sell the home to pay off the mortgage. In a short sale, the lender agrees to accept an amount less than is actually owed on the loan. Short sale homes are still owned by the individual homeowner, while foreclosures are owned by banks.

Standard Payment Calculation:

The method used to determine the monthly payment required to repay the remaining balance of a mortgage in substantially equal installments over the remaining term of the mortgage at the current interest rate.

Step-Rate Mortgage:

A mortgage that allows for the interest rate to increase according to a specified schedule (i.e., seven years), resulting in increased payments as well. At the end of the specified period, the rate and payments will remain constant for the remainder of the loan.

Term

The amount of time used to calculate the monthly mortgage payments. The term is usually the time it takes for a loan to reach maturity and the number of years it will take to pay off a loan.

Third-party Origination:

When a lender uses another party to completely or partially originate, process, underwrite, close, fund, or package the mortgages it plans to deliver to the secondary mortgage market.

Title

A document that proves evidence of an individual's ownership of property.

Title Company

An agency that verifies ownership of real property through a thorough investigation. They look for discrepancies or undiscovered liens and will issue title insurance to the lender after the title is deemed clear.

Title insurance

A policy that guarantees that an owner has title to a property and protects against issues that would affect legal ownership of the property.

Total Expense Ratio:

Total obligations as a percentage of gross monthly income including monthly housing expenses plus other monthly debts.

Transaction Fee:

A cost that is charged at every financial transaction. Every time a withdrawal, balance transfer, or cash advance is made, there may be costs associated with these events.

Treasury Index:

An index used to determine interest rate changes for certain adjustable rate mortgage (ARM) plans. Based on the results of auctions that the U.S. Treasury holds for its Treasury bills and securities or derived from the U.S. Treasury's daily yield curve, which is based on the closing market bid yields on actively traded Treasury securities in the over-the-counter market.

Truth-in-Lending:

A federal law that requires lenders to fully disclose, in writing, the terms and conditions of a mortgage, including the annual percentage rate (APR) and other charges.

Two-step Mortgage:

An adjustable-rate mortgage (ARM) with one interest rate for the first five or seven years of its mortgage term and a different interest rate for the remainder of the amortization term.

Underwriting

The process of evaluating a loan application a lender uses to determine if the risk of offering a mortgage loan to a particular borrower under certain parameters is acceptable. The decision is based on credit, employment, assets, and other factors. Underwriting involves an analysis of the borrower's creditworthiness and the quality of the property itself.

USDA Loan:

A loan guaranteed by the U.S. Department of Agriculture that can be used to buy or repair a home in designated rural areas.

VA loan

A mortgage that is guaranteed by the Department of Veteran Affairs (VA), also known as a government mortgage for qualified veterans of U.S. military forces.

Variable Rate:

An interest rate that changes in relation to an index, like the US Treasury Bill Rate or Prime Rate. Payments on a loan change periodically and accordingly.

Variable Rate Mortgage

A mortgage in which the interest rate may fluctuate or change periodically based on an index such as the prime rate. Also known as an adjustable rate mortgage.

"Wrap Around" Mortgage:

A mortgage that includes the remaining balance on an existing first mortgage plus an additional amount requested by the mortgagor. Full payments on both mortgages are made to the "Wrap Around" mortgagee, who then forwards the payments on the first mortgage to the first mortgagee. These mortgages may not be allowed by the first mortgage holder, and if discovered, could be subject to a demand for full payment.

Zero Point/Zero Fee Loan:

This is a loan where you pay no points or fees up front. You pay a higher interest rate, and the lender pays the closing costs. In the 1990s, this was a popular loan for first-time buyers and refinancing, but it was not advantageous for people wanting to stay in their dwelling for a long period of time.

Now that you know the mortgage lingo, you know that there is no obligation to get pre-qualified. It only takes a few minutes and requires no files, documents or paperwork. So let's get started!