

Glossary

Adjustable-Rate Mortgage (ARM) – A loan with an interest rate that changes with market conditions on pre-determined dates.

Annual Percentage Rate (APR) – A term used to represent the percentage relationship of the total finance charge to the amount of the loan, over the term of the loan. Do not confuse the APR with your quoted interest rate, which is used to determine your monthly principal and interest payment. The APR reflects the cost of your mortgage loan as a yearly rate. It will be higher than the interest rate stated on the note because it includes (in addition to the interest rate) loan discount points, fees and mortgage insurance. See Note.

Appraisal – A report written by a qualified expert that states an opinion on the value of a property based on its characteristics and the selling prices of similar properties or comparable properties in the area.

Automated Underwriting – A computerized method of reviewing home mortgage applications for loan approval.

Bridge Loan – A loan which enables homebuyers to get financing to make a down payment and pay closing costs on a new home before selling the home they currently own.

Closing – The final step after a lender approves an application. The homebuyer and lender sign the security-agreement note for the mortgage loan, which states all the terms and conditions of the loan, and the funds for the loan are turned over to the homebuyer's closing agent.

Closing Agent – Usually an attorney or title agency representative who oversees the closing and witnesses the signing of the closing documents.

Closing Costs – The costs paid by the mortgage borrower (and sometimes the seller) in addition to the purchase price of the property. These include the lender's fees, title fees and appraisal costs.

Commitment Letter – A binding, written pledge, by the lender to a mortgage applicant, to make a loan, usually under certain stated conditions.

Conventional Loan – A mortgage that is not insured or guaranteed by a government agency such as FHA, VA or Farmers Home Administration.

Credit Report – A report issued by an independent agency which contains certain information concerning a mortgage applicant's credit history and current credit standing.

Debt-to-Income Ratio – A formula lenders use to determine the loan amount for which you may qualify. Also known as the "back-end ratio." Guidelines may vary, depending on the loan program.

Down Payment – A portion of the sales price paid to the seller by the homebuyer to close the sales transaction. Also, the difference between the sales price and the home mortgage amount.

Equity – Your ownership interest, or that portion of the value of the property that exceeds the current amount of your home loan. For example, if the property is worth \$100,000 and the loan is for \$75,000, then you have \$25,000, or 25%, equity in your home.

Escrow Account – A holding account for the amount a mortgage borrower pays each month and which the lender uses to pay for the borrower's taxes, other periodic debts against the property, homeowner's insurance and, if applicable, mortgage insurance.

Fixed-Rate Mortgage – A loan with an interest rate that remains the same for the entire repayment term.

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FICO Score – A numerical rating developed and maintained by Fair Issac and Company that indicates a borrower’s creditworthiness based on a number of criteria.

Float the Rate – This term is used when a mortgage applicant chooses not to secure a rate lock, but instead allows the interest rate to fluctuate until the applicant decides to lock in, usually no later than five days prior to closing.

Front-end Ratio – Also known as the housing expense-to-income ratio, it compares your proposed monthly house payment (PITI) to your total household gross monthly income.

Funding Fee – The amount charged on VA mortgages to cover administrative costs.

Good Faith Estimate – A document that tells mortgage borrowers the approximate costs they will pay at or before closing, based on common practice in the locality.

Government Loan – A mortgage insured by a government agency, such as FHA, VA, Farmers Home Administration or a state bond program.

Home Mortgage Consultant – The home mortgage representative a homebuyer initially consults about a mortgage loan. Sometimes called a loan officer, account executive or sales representative.

Homeowner’s Insurance (also called Hazard Insurance) – A real estate insurance policy required of the buyer protecting the property against loss caused by fire, some natural causes, vandalism, etc. May also include added coverage such as personal liability and theft away from the home.

HUD-1 Settlement Statement – A standard form used to disclose costs at closing.

Index – Interest rate adjustments on adjustable-rate mortgage (ARM) loans are based on a specific “index” or treasury issue (bond) which is selected because it is a reliable, familiar financial indicator. Your monthly interest rate payment will be adjusted up or down in relation to this market indicator, plus the margin as specified in your note. See Margin and Note.

Interest Rate – A percentage of the mortgage amount that is paid to the lender for the use of the money, usually expressed as an annual percentage.

Interim Interest – The interest that accrues, on a per-diem basis, from the day of closing until the end of the month.

Loan Conditions – These are terms under which the lender agrees to make the loan. They include the interest rate, length of loan agreement and any requirements the borrower must meet prior to closing.

Loan Payment Reserves – A requirement of many loan programs that, in addition to funds for the down payment and other purchase-related costs, you have saved enough money to cover one or two months of mortgage payments after your closing.

Loan Settlement – The conclusion of the mortgage transaction. This includes the delivery of a deed, the signing of notes and the disbursement of funds necessary to the mortgage loan transaction.

Loan-to-Value (LTV) – The ratio of the amount borrowed to the appraised value or sales price of real property expressed as a percentage.

Margin – The number of percentage points added to the index to calculate the interest rate for an adjustable-rate mortgage (ARM) at each adjustment period.

Mortgagee – The lender.

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Mortgage Insurance (MI) – An insurance policy which will repay a portion of the loan if the borrower does not make payments as agreed upon in the note. Mortgage insurance may be required in cases where the borrower makes less than a 20% down payment on the home loan.

Mortgagor – The borrower.

Mortgage Specialist – The individual responsible for collecting the completed application and all supporting documents before the entire loan packet is submitted to underwriting. Also known as a processor.

Nonconforming Loan – A mortgage program that offers approval guidelines which are not industry standards. It may, for example, have different loan limits than conforming loans, but may offer financing in conforming and jumbo amounts.

Note – The agreement which states the home mortgage amount to be borrowed and the terms and conditions of the loan. It also includes a complete description of how the loan should be repaid and the time frame for the repayment.

Origination Fee – The amount collected by the lender for making a loan. It is generally equal to a percentage of the principal amount borrowed.

Points – One point equals 1% of the loan amount. Total points on a loan include origination points, used to offset the cost of making a loan, and discount points, which can be paid to reduce the loan's interest rate.

Pre-approval – A written commitment from a lender, subject to a property appraisal and other stated conditions, that lets you know exactly how much home you can afford.

Prepays – That portion of your loan closing costs which must be collected at closing to cover taxes, interest and insurance.

Principal – The amount of a loan, excluding interest; or the remaining balance of a loan, excluding interest.

Private Mortgage Insurance (PMI) – A mortgage insurance policy on a conventional mortgage loan issued by a private insurance company.

Processing – The completion of a mortgage loan application and supporting documents.

Rate Cap – The limit of how much the interest rate may change on an ARM at each adjustment and over the life of the loan.

Rate Lock – The borrower and the lender agree to protect the interest rate, points and term of the loan while it is processed.

Sub-prime Loan – A home financing program that accommodates borrowers with special qualifying factors, including poor credit histories.

Truth-in-Lending Statement – Required by federal regulations, this statement tells purchasers the costs of financing their loan expressed as the annual percentage rate (APR). Do not confuse the APR with your interest rate, which is used to determine your monthly principal and interest payment.

Underwriting – The process of a lender reviewing the application, documentation and property prior to rendering a loan decision.