Mortgage Terms Glossary

Adjustable Rate--An interest rate that changes periodically in relation to an index. Payments may increase or decrease accordingly.

Amortization--A repayment method in which the amount you borrow is repaid gradually though regular monthly payments of principal and interest. During the first few years, most of each payment is applied toward the interest owed. During the final years of the loan, payment amounts are applied almost exclusively to the remaining principal.

Annual Membership--An amount that may be charged annually for having a line of credit available. Often charged regardless of whether or not you use the line. Also referred to as a "participation fee."

Annual Percentage Rate (APR)--The cost of credit on a yearly basis, expressed as a percentage. Required to be disclosed by the lender under the federal Truth in Lending Act, Regulation Z. 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. Does not include title insurance, appraisal, and credit report.

Application--An initial statement of personal and financial information which is required to approve your loan.

Application Fee--Fees that are paid upon application. An application fee may frequently include charges for property appraisal ($200-$400) and a credit report ($30-50).

Appraisal--A fee charged by an appraiser to render an opinion of market value as of a specific date. Required by most lenders to obtain a loan.

Assumption of Mortgage--The agreement of a purchaser to become primarily liable for the payments on a mortgage loan. Unless otherwise specified by the lender, the seller may remain secondarily liable for payments.

Balloon Payment--A lump sum payment for the unpaid balance of the loan.

Cap--The maximum allowable increase, for either payment or interest rate, for a specified amount of time on an adjustable rate mortgage.

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.

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.

Conforming Loan--Generally, a mortgage loan under $203,150. Qualifying ratios and underwriting methods are standardized to a large degree.

Contract of Sale--The agreement between the buyer and seller on the purchase price, terms, and conditions necessary to both parties to convey the title to the buyer.

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

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

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.

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--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.

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.

Equity--The difference between the fair market value (appraised value) of your home and your outstanding mortgage balance.

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

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

FHA Loan--More appropriately termed "FHA Insured Loan." A loan for which the Federal Housing Administration insures the lender against losses the lender may incur due to your default.

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.

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

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.

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.

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.

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.

Jumbo Loan--Mortgage loans over $203,150. Terms and underwriting requirements may vary from conforming loans.

Loan to Value Ratio (LTV)--A ratio determined by dividing the sales price or appraised value into the loan amount, expressed as a percentage. For example, with a sales price of $100,000 and a mortgage loan of $80,000, your loan to value ratio would be 80%. Loans with an LTV over 80% may require Private Mortgage Insurance, defined below.

Lock or Lock In--A commitment you obtain from a lender assuring you a particular interest rate or feature for a definite time period. Provides protection should interest rates rise between the time you apply for a loan, acquire loan approval, and, subsequently, close the loan and receive the funds you have borrowed.

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

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).

Mortgage Banker--Originates mortgage loans, loaning you their funds and closing the loan in their name.

Mortgage Broker--As do mortgage bankers, takes loan application and processes the necessary paperwork. Unlike a mortgage banker, brokers do not fund the loan with their own money, but work on behalf of several investors, such as mortgage bankers, S and L's, banks, or investment bankers.

Mortgage Insurance (MIP or PMI)--Insurance purchased by the borrower to insure the lender or the government against loss should you default. MIP, or Mortgage Insurance Premium, is paid on government-insured loans (FHA or VA loans) regardless of your LTV (loan-to-value). Should you pay off a government-insured loan in advance of maturity, you may be entitled to a small refund of MIP. PMI, or Private Mortgage Insurance, is paid on those loans which are not government-insured and whose LTV is greater than 80%. When you have accumulated 20% of your home's value as equity, your lender may waive PMI at your request. Please note that such insurance does not constitute a form of life insurance which pays off the loan in case of death.

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.

Negative Amortization--Amortization in which the payment made is insufficient to fund complete repayment of the loan at its termination. Usually occurs when the increase in the monthly payment is limited by a ceiling. The portion of the payment which should be paid is added to the remaining balance owed. The balance owed may increase, rather than decrease over the life of the loan.

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

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).

Prepayment Penalty--A fee paid to the lending institution for paying a loan prior to the scheduled maturity date.

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

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.

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.

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.

Transaction Fee--A fee which may be charged each time you draw on a home equity credit line.

Underwriting--The process of verifying data and approving a loan.

Variable Rate--An interest rate that changes periodically in relation to an index. Payments may increase or decrease accordingly.

VA Loan--More appropriately termed "VA Insured Loan." A loan for which the Veteran's Administration insures the lender against losses the lender may incur due to your default. Available only to veterans possessing a Certificate of Eligibility

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