

Mortgage Glossary

I know sometimes it sounds like mortgage companies are talking in a different language. I hope the following definitions will help you to decipher some of what you hear.

Appraisal

An expert opinion on the value of a property

Annual Percentage Rate

This is not the note rate applied for, but rather is a government mandated formula that shows the cost of the loan in a yearly rate by using the note rate plus certain other upfront costs

ARM Loan

Adjustable Rate Mortgage. Mortgage characterized by an interest rate that can adjust up or down at certain intervals based on a current index (commonly the 1 year T-Bill) plus a preset margin.

Balloon

Mortgage characterized by level fixed payments for a predetermined time frame followed by either a refinance or adjustment in interest rate

Capital Gains

The tax paid upon certain types of real estate transactions. Contact accountant for specifics (see links for details)

Cash to Close

The amount needed from the borrower at closing. Consists of down payment, closing costs and prepaid items. This amount needs to be in the form of a cashier check made payable to the buyer.

Closing Date

Date stated on the purchase agreement that buyer and seller agree to finalize or close the transaction

Closing Costs

Various costs of setting up and funding the transaction - including closing fee, title insurance, appraisal fees, underwriting fee, mortgage registration tax etc.

Condo/Town Home

Property types that usually have the following characteristics: they are attached, have a homeowners association and dues, the outside maintenance is taken care of by the association, and common areas and amenities available to all owners in the association.

Conventional Financing

Standard, non-government financing.

Credit Bureaus

Agencies that provide compilations of your credit history. The three main credit bureaus are Experian, Trans Union, and Equifax

Credit Report

Report provided by the credit bureaus which shows the history, current status, and profile of an individual

Credit Scores

The number generated by the credit bureaus which is a numerical representation of the subjects credit profile, range is from 450 on the low side to 900 being the highest score possible.

Debt Ratios

Ratio of debt to pretax income, often expressed as a front (housing payment only) or back (all debt) ratios. Ex- \$5000 monthly income, \$1400 housing payment, \$1700 total debt would equal ratios of 28%/34%.

Discount Points

One point equals one percent of the loan amount. Points are used to lower the interest rate. One point does not equate into lowering the interest rate one percent. Generally lowering the interest rate 1/8 will cost about 1/2 point, although this can vary based on daily pricing. Typically is tax deductible.

Down Payment

Difference between loan amount and purchase price.

Earnest Money

Deposit toward down payment submitted with a purchase agreement as evidence of the buyers commitment

Equifax Information Services

PO Box 740243
Atlanta, GA 30374
(800) 685-1111

Escrows

The portion of the monthly payment that is not applied to principal or interest, but rather is used to pay mortgage insurance, homeowners insurance and property taxes.

Experian Information Services

PO Box 2002,
Allen, TX 75013-3742
(888) 397-3742

Fannie Mae

Short name for the Federal National Mortgage Association. One of the main Government Sponsored Agencies which are the companies who sell mortgage backed bonds to investors. They are the ultimate source of the money that we lend. Fannie Mae protects its investors by issuing underwriting guidelines that are to be followed to ensure quality lending; also see schematic under "commonly asked questions"

Freddie Mac

Short name for Federal Home Loan Mortgage Corporation - see above

FHA Financing

Government backed minimum down financing program which has a lower mortgage insurance premium and greater credit leeway as compared to conventional minimum down programs

Fixed Loan

Most common type of financing. Terms ranging from 10 to 30 years. Interest rate and P&I payment remains constant throughout life of loan.

Floating

Not locking in a rate, but rather choosing to float the interest rate as the market moves up or down.

Flood Certification

Required document on all loans. Confirms if the property is in or out of a FEMA designated flood zone

Funds held in Escrow

Generally only applies to new construction. Monies held from the seller to provide payment for repairs or non completed items.

Good Faith Estimate

Document prepared by lender which estimates and delineates the various fees and closing costs associated with the home purchase

Government Financing

Financing provided from government agencies such as FHA, VA etc…

HELOC

Home Equity Line of Credit. Second mortgage product, generally characterized by interest only payments and the ability to draw, pay back, and redraw

Home Inspection

Not required by lender. This is a private inspection done by the buyers choice to confirm that the property is in acceptable condition.

Homeowners Association Dues

Amount paid by owner of a townhome or condo to cover various amenities or services provided by the homeowners association (examples -- common areas, hazard insurance, garbage, mowing, snow removal)

Homeowners/hazard Insurance

Insurance which covers damage or loss to the property. The premium is usually paid into an escrow account held by the mortgage company, which then pays the insurance company once a year

HUD-1 (Settlement statement)

Document prepared by title company at closing which shows where all of the money in the transaction was coming from and going to.

Jumbo Loan

Loan with an initial balance greater than \$417,000.00.

Jumbo Pricing

Refers to the fact that rates are generally slightly higher on jumbo loans.

Loan-to-Value (LTV)

Ratio of liens versus value of property or sales price. Ex. 80,000 owed on a property worth 100,000 equals an 80% LTV

Lock-in Period

Time period that a rate is protected for during the loan process

Locking in

Choosing to protect a particular rate and program for a specific period of time

Mortgage Insurance (MI)

Insurance which protects the LENDER against default. Generally the higher the loan-to-value the higher the monthly premium.

Mortgage -- Document.

This document signed at closing is the collateralization of the property to the note or loan.

Note Document.

This document signed at closing is the promise by the signers to repay the loan.

Origination Fee

1% of the loan amount. Can be avoided by paying a higher rate; typically is tax deductible.

Odd Days Interest/Per Diem Interest

Collected at closing, it is money collected/refunded to borrower to synchronize the closing to the monthly payments

Paying Points

Money paid upfront to lower the interest rate. Rule of thumb - breakeven point is (where monthly savings meets/exceeds money paid upfront) usually around 60 payments or 5 years. This means that in many cases paying points will pay off as long as you do not sell or refinance your loan before the breakeven point. (actual breakeven point may vary, please talk to us about your exact situation) Some niche programs and products may require points to be paid.

Piggy Back

A second mortgage closed at the same time as a first mortgage. Usually purpose is to avoid mortgage insurance, jumbo pricing, or for future needs.

PITI

Monthly payment. Stands for Principal, Interest, Tax escrow, Insurance (both hazard and mortgage) escrow

Pre-Approval

Based on documented income, assets, and credit.

Pre-paids

Group of items paid at closing including monies to set up the escrow account and to pay prepaid or odd days interest.

Pre-Qualification

Based on stated income, assets and debt. Information not verified, not as useful or informative as a Pre-Approval.

Pre Payment Penalty

An option on certain loan types. A benefit in that the rate is lower on these products compared to other similar products.

Property Taxes

Amount of tax due on a property. Usually is collected as part of the escrow portion of the monthly payment, with the lender being responsible to forward the escrowed money as the bills come due on May 15 and Oct 15.

Purchase Agreement

Contract between buyer and seller outlining the terms of the agreement.

Rate vs. Price

Rate refers to the interest rate. Price refers to points. It is easy to become confused as both rate and points are usually referred to in 1/8 percent increments. A good rule of thumb is that often a 1/8% change in interest rate reflects a 1/2% change in points (actual rate and points may vary slightly)

Single Family Residence

Standard, one unit home, as opposed to a Condo/Town Home with a homeowners association

Title Company

Company that prepares title work and is where the closing is held

Title Insurance

Policy provided by the title company on their title work guaranteeing the accuracy and completion. Lenders Policy is required and only protects the Lender from loss, Owners Policy is available at buyers discretion and protects the owner

Title Work

Document prepared by title company which outlines the ownership of the property and other various details

Trans Union Information Services

PO Box 1000

Chester, PA 79022

(800) 916-8800

Underwriting

Act of approving a loan application. Underwriters are bound by guidelines set forth by Fannie Mae, Freddie Mac, FHA or VA as applicable

VA Financing

Government backed financing available only for service veterans, characterized by no down payment, no mortgage insurance, but with a funding fee