

Mortgage Terminology

Abandonment - The voluntary surrender of property, owned or leased. Abandonment does not relieve obligations associated with ownership or lease.

Abatement - A reduction in amount or intensity. Usually relates to a decrease in taxes or payments due.

Abrogate - Abolish, withdraw, cancel

Absolute Title - A title that is clear, without any liens or judgments

Abstract Update - Making current an existing Abstract of Title

Acceleration - The right of the mortgagee (lender) to demand the immediate repayment of the mortgage loan balance upon the default of the mortgagor (borrower), or by using the right vested in the Due-on-Sale Clause.

Acknowledgement - A declaration by a person who has signed a document that such signature is a voluntary act, made before a duly authorized person.

Act of God - An unpreventable destructive occurrence of the natural world.

Addendum - Something added as an attachment to a contract

Adjustable Rate Mortgage (ARM) - A mortgage in which the interest rate is adjusted periodically based on a pre-selected index. Also known as a renegotiable rate mortgage, a variable rate mortgage or a Canadian rollover mortgage.

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 Interval - On an adjustable rate mortgage, the time between changes in the interest rate and/or monthly payment, typically one, three or five years depending on the index.

Adjustment Period - The period elapsing between adjustment dates for an adjustable-rate mortgage (ARM).

Adjustments (In Appraisal) - The dollar value added or subtracted from the sale price of a comparable property used to provide an indication of value of the subject property.

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.

Agency - The legal relationship between a principal and his agent arising from a contract in which the principal engages the agent to perform certain acts on the behalf of the principal.

Amortization - Means loan payment by equal periodic payment calculated to pay off the debt at the end of a fixed period, including accrued interest on the outstanding balance.

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) - APR is a measurement of the full cost of a loan including interest and loan fees expressed as a yearly percentage rate. Because all lenders apply the same rules in calculating the annual percentage rate, it provides consumers with a good basis for comparing the cost of loans.

Appraisal - An estimate of the value of property, made by a qualified professional called an "appraiser".

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

Assessment - A local tax levied against a property for a specific purpose, such as a sewer or street lights.

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 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 - An agreement between buyer and seller where the buyer takes over the payments on an existing mortgage from the seller. Assuming a loan can usually save the buyer money since this is an existing mortgage debt, unlike a new mortgage where closing cost and new, probably higher, market-rate interest charges will apply.

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

Attachment - A legal seizure of property to force payment of a debt. An attachment creates a lien on property.

Attest -To witness by observation and signature
Attorney's Opinion of Title - A written statement by an attorney after examination of public records and or abstracts of title that in his or her judgement that the title to a particular property is good.

Back End Ratio - One of several criteria used to qualify a loan. The back end ratio takes into consideration all current indebtedness.

Bad Title -A condition where complete real estate ownership is impaired by unsettled claims and liens. Also called Cloud on Title.

Balloon Mortgage - A loan which is amortized for a longer period than the term of the loan. Usually this refers to a thirty-year amortization and a five year or other term. At the end of the term of the loan, the remaining outstanding principal on the loan is due. This final payment is known as a balloon payment.

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

Bankruptcy - The financial inability to pay one's debts when due and the debtor seeks relief through court action that may restructure the debts or erase the debt.

Basis Point - One 100th of 1%

Beneficiary - The person who receives or is to receive the benefits from a specific action or act.

Bill of Sale - A written instrument given to pass Title of personal property from the seller to the buyer.

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.

Blanket Mortgage - A mortgage covering at least two pieces of real estate as security for the same mortgage.

Blended Rate - An interest rate applied to a refinanced loan that is higher than the old rate but lower than the new rate usually offered as an inducement. In a refinance with a simultaneous first and second mortgage an average of the first and second mortgage rates calculated with the percentage of each loan in relation to the total loan. (The average is not an average of the two rates only)

Bona Fide - In good faith, without fraud.

Borrower (Mortgagor) - One who applies for and receives a loan in the form of a mortgage with the intention of repaying the loan in full.

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 in the business of assisting in arranging funding or negotiating contracts for a client but who does not loan the money himself. Brokers usually charge a fee or receive a commission for their services.

Buy-down - When the lender and/or the home builder subsidized the mortgage by lowering the interest rate during the first few years of the loan. While the payments are initially low, they will increase when the subsidy expires.

Cash Flow - The amount of cash derived over a certain period of time from an income-producing property. The cash flow should be large enough to pay the expenses of the income producing property (mortgage payment, maintenance, utilities, etc.).

Caps (interest) - Consumer safeguards which limit the amount the interest rate on an adjustable rate mortgage may change per year and/or the life of the loan.

Caps (payment) - Consumer safeguards which limit the amount monthly payments on an adjustable rate mortgage may change. May result in Negative Amortization

Cash Flow -The amount of cash derived over a certain period of time from an income-producing property. The cash flow should be large enough to pay the expenses of the income producing property (mortgage payment, maintenance, utilities, etc.).

Ceiling - The maximum allowable interest rate over the life of the loan of an adjustable rate mortgage.

Certificate of Eligibility - The document given to qualified veterans which entitles them to VA guaranteed loans for homes, business and mobile homes. Certificates of eligibility may be obtained by sending form DD-214 (Separation Paper) to the local VA office with VA form 1880 (request for Certificate of Eligibility)

Certificate of Reasonable Value (CRV) - An appraisal issued by the Veterans Administration showing the property's current market value

Certificate of Title - A statement provided by an abstract company, title company, or attorney stating that the title of real estate is legally held by the current owner.

Certificate of Veteran Status - The document given to veterans or reservists who have served 90 days of continuous active duty (including training time) It may be obtained by sending DD

214 to the local VA office with form 26-8261a (request for certificate of veteran status. This document enables veterans to obtain lower down payments on certain FHA insured loans).

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

Chattel - Personal property. Anything owned other than real estate.

Clear Title - A Marketable Title or one free of clouds.

Closing - The act of transferring ownership of property from seller to buyer in accordance to a sales contract. A meeting between the buyer, seller and lender or their agents where the property and funds legally change hands, also called settlement.

Closing Agent - A third party who prepares the paper work. Costs usually include an origination fee, discount points, appraisal fee, title search and insurance, survey, taxes, deed recording fee, credit report charge and other costs assessed at settlement. The cost of closing is usually 3 percent to 6 percent of the mortgage amount.

Closing Costs - These are expenses over and above the price of the property that are incurred by buyers and sellers when transferring ownership of a property. Closing costs normally include an origination fee, property taxes, charges for title insurance and escrow costs, appraisal fees, etc. Closing costs will vary according to the area country and the lenders used.

Cloud on Title - An outstanding claim or encumbrance on the title.

Code of Ethics - A statement of principles concerning behavior of those who subscribe to the code.

Collateral - Property pledged as security for a debt.

Combined Loan to Value - The relationship between the unpaid principal balances of all the mortgages on a property and the properties appraised value or the loan amount whichever is less.

Commitment - A pledge or promise, a firm agreement.

Cost of Funds Index (COFI) - Adjustable-rate mortgage with rate that adjusts based on a cost of funds index, often the 11th District Cost of Funds.

Construction Loan – A short term interim loan to pay for the construction of buildings or homes. These are usually designed to provide periodic disbursements to the builder as he or she

progresses.

Conforming Loan - A loan that is eligible for purchase by FNMA or FHLMC.

Consumer Reporting Agency (or 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.

Contract Sale or Deed - A contract between purchaser and a seller of real estate to convey title after certain conditions have been met. It is a form of installment sale.

Controlled Business Arrangements (CBA) - A brokerage office that provides related services through subsidiary companies.

Conventional Loan - A mortgage not insured by FHA or guaranteed by the VA.

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.

Conveyance - The transfer of the Title of real estate from one to another.

Cost of Funds Index (COFI) - adjustable-rate mortgage with rate that adjusts based on a cost of funds index, often the 11th District Cost of Funds.

Covenant - Promise written into Deeds and other instruments agreeing to performance or non-performance of certain acts or preventing certain uses of the property.

Credit Report - A report documenting the credit history and current status of a borrower's credit standing.

Credit Risk Score - A credit risk score is a statistical summary of the information contained in a consumer's credit report. The most well known type of credit risk score is the Fair Isaac or FICO score. This form of credit scoring is a mathematical summary calculation that assigns numerical values to various pieces of information in the credit report. The overall credit risk score is highly relative in the credit underwriting process for a mortgage loan.

Debt-to-Income Ratio - The ratio, expressed as a percentage, which results when a borrower's monthly payment obligation on long-term debts is divided by his or her gross monthly income. See housing expenses-to-income ratio.

Decree - An order issued by one in authority.

Deed - A written instrument properly signed and delivered that conveys Title to real property.

Deed of Trust - In many states, this document is used in place of a mortgage to secure the payment of a note.

Default - Failure to meet legal obligations in a contract, specifically, failure to make the monthly payments on a mortgage.

Deferred Interest - When a mortgage is written with a monthly payment that is less than required to satisfy the note rate, the unpaid interest is deferred by adding it to the loan balance. See negative amortization.

Delinquent - Past due.

Delinquency - Failure to make payments on time. This can lead to foreclosure.

Department of Veterans Affairs (VA) - An independent agency of the federal government which guarantees long-term, low-or no-down payment mortgages to eligible veterans.

Disclaimer - A statement whereby responsibility is rejected - a renunciation of ownership of a property.

Discount Point - Amount paid to the lender at the time of origination of the loan to account for the difference between the market rate and the lower face rate of the note.

Donor - One who gives.

Down Payment - Money paid to make up the difference between the purchase price and the mortgage amount.

Due Diligence - Making a reasonable effort to perform under a contract or making a reasonable effort to provide accurate and complete information. Examination of property to determine presence of contaminants.

Due-on-Sale-Clause - A provision in a mortgage or deed of trust that allows the lender to demand immediate payment of the balance of the mortgage if the mortgage holder sells the home.

Earnest Money - Money given by a buyer to a seller as part of the purchase price to bind a transaction or assure payment.

Entitlement - The VA home loan benefit is called an entitlement (i.e. entitlement for a VA guaranteed home loan). This is also known as eligibility.

Equal Credit Opportunity Act (ECOA) - Is a federal law that requires lenders and other creditors to make credit equally available without discrimination based on race, color, religion, national origin, age, sex, marital status or receipt of income from public assistance programs.

Equity - The difference between the fair market value and current indebtedness, also referred to as the owner's interest. The value an owner has

in real estate over and above the obligation against the property.

Escrow - An account held by the lender into which the home buyer pays money for tax or insurance payments. Also earnest deposits held pending loan closing.

Escrow Disbursements - The use of escrow funds to pay real estate taxes, hazard insurance, mortgage insurance and other property expenses as they become due.

Escrow Payment - The part of a mortgagor's monthly payment that is held by the servicer to pay for taxes, hazard insurance, mortgage insurance, lease payments, and other items as they become due.

Exculpatory Clause - A provision in a mortgage allowing the borrower to surrender the property without personal liability for the loan.

Executed Contract - A contract whose terms have been completely fulfilled.

Fannie Mae - see Federal National Mortgage Association.

Farmers Home Administration (FmHA) - Provides financing to farmers and other qualified borrowers who are unable to obtain loans elsewhere.

Federal Home Loan Bank Board (FHLBB) - The former name for the regulatory and supervisory agency for Federally chartered savings institutions. Agency is now called the Office of Thrift Supervision

Federal Home Loan Mortgage Corporation (FHLMC) (also called "Freddie Mac") - Is a quasi-governmental agency that purchases conventional mortgage from insured depository institutions and HUD-approved mortgage bankers.

Federal Housing Administration (FHA) - A division of the Department of Housing and Urban Development. Its main activity is the insuring of residential mortgage loans made by private lenders. FHA also sets standards for underwriting mortgages.

Federal National Mortgage Association (FNMA) (also know as "Fannie Mae") - A tax-paying corporation created by Congress that purchases and sells conventional residential mortgages as well as those insured by FHA or guaranteed by VA. This institution, which provides funds for one in seven mortgages, makes mortgage money more available and more affordable.

FHA Loan - A loan insured by the Federal Housing Administration open to all qualified home purchasers. While there are limits to the size of FHA loans (\$155,250 as of 1/1/96), they

are generous enough to handle moderately-priced homes almost anywhere in the country.

FHA Mortgage Insurance - Requires a fee (up to 2.25 percent of the loan amount) paid at closing to insure the loan with FHA. In addition, FHA mortgage insurance requires an annual fee of up to 0.5 percent of the current loan amount, paid in monthly installments. The lower the down payment, the more years the fee must be paid.

FHLMC - The Federal Home Loan Mortgage Corporation provides a secondary market for savings and loans by purchasing their conventional loans. (Also known as "Freddie Mac.")

FICO Score - A credit score developed by Fair Isaac and Company. A credit score attempts to condense a borrower's credit history in a single number.

Firm Commitment - A promise by FHA to insure a mortgage loan for a specified property and borrower. A promise from a lender to make a mortgage loan.

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 - The mortgage interest rate will remain the same on these mortgages throughout the term of the mortgage for the original borrower.

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.

Float - An interest rate that is not fixed.

Flood Insurance - Insurance that compensates for physical property damage resulting from flooding. It is required for properties located in federally designated flood zones.

Foreclosure - A legal process by which the lender or the seller forces a sale of a mortgaged property because the borrower has not met the terms of the mortgage. Also known as a repossession of property.

Freddie Mac - see Federal Home Loan Mortgage Corporation

FSBO - For sale by owner

FTC - Federal Trade Commission

Full Disclosure - A requirement to reveal all information pertinent to a transaction.

Fully Indexed Rate - In an adjustable rate mortgage (ARM) the interest rate indicated by the sum of the current value of the index and margin applied to the loan.

Funding - Providing cash for the loan. Funds provided by the lender at settlement.

GEM - Growing equity mortgage

Gift Deed - A Deed for which consideration is love and affection and no material consideration is involved.

Ginnie Mae - see Government National Mortgage Association.

Good Faith Estimate - Under Real Estate Settlement Procedures Act, an estimate of closing costs that must be given to mortgage applicants within three days after loan application is made.

Government National Mortgage Association (GNMA) - Also known as "Ginnie Mae," provides sources of funds for residential mortgages, insured or guaranteed by FHA or VA.

Grace Period - The period during which one party may fail to perform without being considered in default.

Graduated Payment Mortgage (GPM) - A type of flexible-payment mortgage where the payments increase for a specified period of time and then level off. This type of mortgage has negative amortization built into it.

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

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.

Guaranty - A promise by one party to pay a debt or perform an obligation contracted by another if the original party fails to pay or perform according to a contract.

Guaranteed Mortgage - A mortgage that is guaranteed by a third party.

Hazard Insurance - A form of insurance in which the insurance company protects the insured from specified losses, such as fire, windstorm or other damage.

Home Equity Line of Credit (HELOC) - A loan secured by a second mortgage on one's principal residence, generally to be used for some non-housing expenditure. The HELOC establishes a credit line that can be drawn upon as needed.

Housing Expenses-to-Income Ratio - The ratio, expressed as a percentage, which results when a borrower's housing expenses are divided by his/her gross monthly income. See debt-to-income ratio.

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.

Impound - That portion of a borrower's monthly payments held by the lender or servicer to pay for taxes, hazard insurance, mortgage insurance, lease payments, and other items as they become due. Also known as reserves.

Index - A published interest rate against which lenders measure the difference between the current interest rate on an adjustable rate mortgage and that earned by other investments (such as one-, three-, and five-year U.S. Treasury security yields, the monthly average interest rate on loans closed by savings and loan institutions, and the monthly average costs-of-funds incurred by savings and loans), which is then used to adjust the interest rate on an adjustable mortgage up or down.

Indexed rate - The sum of the published index plus the margin. For example if the index were 9% and the margin 2.75%, the indexed rate would be 11.75%. Often, lenders charge less than the indexed rate the first year of an adjustable-rate mortgage.

Initial Interest Rate - This refers to the original interest rate of the mortgage at the time of closing. 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 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 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.

Interim Financing - A construction loan made during completion of a building or a project. A permanent loan usually replaces this loan after completion.

Investor - A money source for a lender.

Jumbo Loan - A loan which is larger (more than \$240,000 as of 1/1/99) than the limits set by the Federal National Mortgage Association and the Federal Home Loan Mortgage Corporation. Because jumbo loans cannot be funded by these two agencies, they usually carry a higher interest rate.

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.

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

Lien - A claim upon a piece of property for the payment or satisfaction of a debt or obligation.

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.

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

Loan-to-Value Ratio - The relationship between the amount of the mortgage loan and the appraised value of the property expressed as a percentage.

Lock - Lender's guarantee that the mortgage rate quoted will be good for a specific number of days from day of application.

Margin - The amount a lender adds to the index on an adjustable rate mortgage to establish the adjusted interest rate.

Market Value - The highest price that a buyer would pay and the lowest price a seller would accept on a property. Market value may be different from the price a property could actually be sold for at a given time.

Maturity - The date on which the principal balance of a loan becomes due and payable.

Mortgage Insurance Premium (MIP) - It is insurance from FHA to the lender against incurring a loss on account of the borrower's default.

Monthly Fixed Installment - That portion of the total monthly payment that is applied toward principal and interest. When a mortgage negatively amortizes, the monthly fixed installment does not include any amount for principal reduction and doesn't cover all of the interest. The loan balance therefore increases instead of decreasing.

Mortgage - A legal document that pledges a property to the lender as security for payment of a debt.

Mortgage Banker - A company that originates mortgages exclusively for resale in the secondary mortgage market.

Mortgage Broker - An individual or company that charges a service fee to bring borrowers and lenders together for the purpose of loan origination.

Mortgagee - The lender.

Mortgage Insurance - Money paid to insure the mortgage when the down payment is less than 20 percent. See private mortgage insurance, FHA mortgage insurance.

Mortgage Life Insurance - A type of term life insurance. In the event that the borrower dies while the policy is in force, the debt is automatically paid by insurance proceeds.

Mortgagor - The borrower or homeowner.

Negative Amortization - Occurs when your monthly payments are not large enough to pay all the interest due on the loan. This unpaid interest is added to the unpaid balance of the loan. The danger of negative amortization is that the home buyer ends up owing more than the original amount of the loan.

Net Effective Income - The borrower's gross income minus federal income tax.

Non Assumption Clause - A statement in a mortgage contract forbidding the assumption of the mortgage without the prior approval of the lender. Note: The signed obligation to pay a debt, as a mortgage note.

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

Office of Thrift Supervision (OTS) - The regulatory and supervisory agency for federally chartered savings institutions. Formally known as Federal Home Loan Bank Board.

One-Year Adjustable - Mortgage whose annual rate changes yearly. The rate is usually based on movements of a published index plus a specified margin, chosen by the lender.

Origination Fee - The fee charged by a lender to prepare loan documents, make credit checks, inspect and sometimes appraise a property; usually computed as a percentage of the face value of the loan.

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.

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.

Permanent Loan - A long term mortgage, usually ten years or more. Also called an "end loan."

PITI - Principal, Interest Taxes and Insurance which comprise a mortgage payment that includes taxes and insurance escrow.

Pledged Account Mortgage (PLAM) - Money is placed in a pledged savings account and this fund plus earned interest is gradually used to reduce mortgage payments.

Points (loan discount points) - Prepaid interest assessed at closing by the lender. Each point is equal to 1 percent of the loan amount (e.g., two points on a \$100,000 mortgage would cost \$2,000).

Power of Attorney - A legal document authorizing one person to act on behalf of another.

Pre-Approval - The process of determining how much money you will be eligible to borrow before you apply for a loan.

Prepaid Expenses - Necessary to create an escrow account or to adjust the seller's existing escrow account. Can include taxes, hazard insurance, private mortgage insurance and special assessments.

Prepayment - A privilege in a mortgage permitting the borrower to make payments in advance of their due date.

Prepayment Penalty - Money charged for an early repayment of debt. Prepayment penalties

are allowed in some form (but not necessarily imposed) in many states.

Primary Mortgage Market - Lenders, such as savings and loan associations, commercial banks, and mortgage companies, who make mortgage loans directly to borrowers. These lenders sometimes sell their mortgages to the secondary mortgage markets such as to FNMA or GNMA, etc.

Principal - The amount borrowed or remaining unpaid. The part of the monthly payment that reduces the remaining balance of a mortgage.

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) - In the event that you do not have a 20 percent down payment, lenders will allow a smaller down payment - as low as 3 percent in some cases. With the smaller down payment loans, however, borrowers are usually required to carry private mortgage insurance. Private mortgage insurance will usually require an initial premium payment and may require an additional monthly fee depending on your loan's structure.

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.

Rate Lock - A commitment issued by a lender to a borrower or other mortgage originator guaranteeing a specified interest rate. The rate lock may include and lender costs for a specified period of time to guarantee the rate.

Realtor® - A real estate broker or an associate holding active membership in a local real estate board affiliated with the National Association of Realtors.

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

Real Estate Settlement Procedures Act (RESPA) - RESPA is a federal law that allows consumers to review information on known or

estimated settlement cost once after application and once prior to or at a settlement. The law requires lenders to furnish the information after application only.

Rescission - The cancellation of a contract. With respect to mortgage refinancing, the law that gives the homeowner three days to cancel a contract within three days in some cases once it is signed if the transaction uses equity in the home as security.

Recording Fees - Money paid to the lender for recording a home sale with the local authorities, thereby making it part of the public records.

Refinance - Obtaining a new mortgage loan on a property already owned, often to replace existing loans on the property.

Renegotiable Rate Mortgage - A loan in which the interest rate is adjusted periodically. See adjustable rate mortgage.

Reverse Annuity Mortgage (RAM) - A form of mortgage in which the lender makes periodic payments to the borrower using the borrower's equity in the home as collateral for and repayment of the loan.

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.

Satisfaction of Mortgage - The document issued by the mortgagee when the mortgage loan is paid in full. Also called a "release of mortgage."

Second Mortgage - A mortgage made subsequent to another mortgage and subordinate to the first one.

Secondary Mortgage Market - The place where primary mortgage lenders sell the mortgages they make to obtain more funds to originate more new loans. It provides liquidity for the lenders.

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.

Servicing - All the steps and operations a lender performs to keep a loan in good standing, such as collection of payments, payment of

taxes, insurance, property inspections and other administrative matters

Settlement/Settlement Costs - See closing/closing costs

Shared Appreciation Mortgage (SAM) - A mortgage in which a borrower receives a below-market interest rate in return for which the lender (or another investor such as a family member or other partner) receives a portion of the future appreciation in the value of the property. May also apply to mortgage where the borrower shares the monthly principal and interest payments with another party in exchange for part of the appreciation.

Simple Interest - Interest which is computed only on the principle balance.

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.

Subrogation - The substitution of one person for another. The substituted person acquires all rights

Survey - A measurement of land, prepared by a registered land surveyor, showing the location of the land with reference to known points, its dimensions, and the location and dimensions of any buildings.

Sweat Equity - Equity created by a purchaser performing work on a property being purchased.

Tenancy - The right of possession of real property.

Tenancy By The Entirety - An estate that exists only between husband and wife and equal right of possession and enjoyment during their joint lives with the right of survivorship.

Tenancy in Common - An ownership of real estate by two or more persons each of whom has an undivided interest, without the right of survivorship.

Tenancy in Severalty - Ownership of property by one person or one legal entity (corporate ownership).

Testament - A will

Title - Evidence that the owner of land is in lawful possession thereof.

Title Binder - Temporary title insurance expected to be soon replaced by a title insurance policy.

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.

Time Value of Money - A concept that money available now is worth more than the same amount in the future because of its earning capacity

Title - A document that gives evidence of an individual's ownership of property.

Title Insurance - A policy, usually issued by a title insurance company, which insures a home buyer against errors in the title search. The cost of the policy is usually a function of the value of the property, and is often borne by the purchaser and/or seller. Policies are also available to protect the lender's interests.

Title Search - An examination of municipal records to determine the legal ownership of property. Usually is performed by a title company.

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

Trust - An arrangement whereby property is transferred to a trusted third party (trustee) by a Grantor (trustor). The Trustee holds the property for the benefit of another (Beneficiary).

Trustee - One who holds property in trust for another party to secure performance of an obligation.

Truth-In-Lending Act (TILA) - A federal law requiring disclosure of the Annual Percentage Rate to home buyers shortly after they apply for the loan. Also known as Regulation Z.

Two-Step Mortgage - A mortgage in which the borrower receives a below-market interest rate for a specified number of years (most often seven or 10), and then receives a new interest rate adjusted (within certain limits) to market conditions at that time. The lender sometimes has the option to call the loan due with 30 days notice at the end of seven or 10 years.

Underwrite - Assume liability for certain events. Guarantee the sale of certain securities. Assess the risk of a situation.

Underwriting - The decision whether to make a loan to a potential home buyer based on credit, employment, assets, and other factors and the matching of this risk to an appropriate rate and term or loan.

Unencumbered Property - Real Estate with free and clear title.

Uniform Settlement Statement - The form prescribed by the Real Estate Settlement Procedures Act for Federally related mortgages.

Unrecorded Deed - An instrument that transfers Title from one party (grantor) to another party (grantee) without providing public notice of change in ownership.

Unsecured Loan - A debt that has no collateral or security.

URAR - Uniform Residential Appraisal Report

Usury - Interest charged in excess of the legal rate established by law.

VA Loan - A long-term, low- or no-down payment loan guaranteed by the Department of Veterans Affairs. Restricted to individuals qualified by military service or other entitlements.

VA Mortgage Funding Fee - A premium of up to 3.3% (depending on the size of the down payment) paid on a VA-guaranteed loan.

Variable Rate Mortgage (VRM) - see adjustable rate mortgage

Verification of Deposit (VOD) - A document signed by the borrower's financial institution verifying the status and balance of his/her financial accounts.

Verification of Employment (VOE) - A document signed by the borrower's employer verifying his/her position and salary.

Vicarious Liability -The responsibility of one person for the acts of another. The responsibility of an employer for acts of an employee.

Void - Having no legal force or effect; unenforceable.

Waiver - The voluntary renunciation, abandonment, or surrender of some claim, right, or privilege.

Warehouse Fee - Many mortgage firms must borrow funds on a short term basis in order to originate loans which are to be sold later in the secondary mortgage market (or to investors). When the prime rate of interest is higher on short term loans than on mortgage loans, the mortgage firm has an economic loss which is offset by charging a warehouse fee.

Warranty Deed - A Deed that contains a covenant that the grantor will protect the grantee against any and all claims.

Wraparound Mortgage - Results when an existing assumable loan is combined with a new loan, resulting in an interest rate somewhere between the old rate and the current market rate. The payments are made to a second lender or the previous homeowner, who then

forwards the payments to the first lender after taking the additional amount off the top.

Zoning - A legal mechanism for local governments to regulate the use of privately owned real property by specific application of police power to prevent conflicting land use and promote orderly development.