

# Glossary of Terms

## **Adjustable-Rate-Mortgage (ARM)**

A loan with an interest rate that changes with market conditions on pre-determined dates.

## **Amortization**

The way in which a loan is repaid in installments of principal and interest, according to a regular schedule.

## **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 points, fees, and mortgage insurance. See Notes and Points.

## **Appraisal**

A report written by a qualified professional 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.

## **Certificate of Occupancy**

Written authorization given by a local municipality that allows a newly completed, or substantially renovated structure to be inhabited.

## **Closing**

The final step after a lender approves an application. The homebuyer and lender sign the security document 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 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 written contract by the lender to a mortgage applicant to make a loan under certain stated conditions.

## **Debt-to-Income Ratio**

A formula lenders use to determine the loan amount for which you may qualify. Guidelines may vary, depending on the loan program.

## **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 house.

## **Escrow Account**

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

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## **Fixed-Rate Mortgage**

A loan with an interest rate that remains the same for the entire repayment term.

## **Float the Loan Pricing**

This term is used when a mortgage applicant chooses not to secure loan pricing, but instead allows the loan pricing to fluctuate until the applicant decides to lock in, usually no later than 10 days prior to close.

## **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 area.

## **Government Loan**

A mortgage insured by a government agency, such as the Federal Housing Administration (FHA), U.S. Department of Veteran's Affairs (VA), or the Farmers Home Administration, or a state bond program.

## **Homeowners 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 a 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.

### **Lien**

A legal hold or claim of a creditor on the property of another as a security for a debt.

### **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 a certain number of months of mortgage payments after your closing.

### **Loan-to-Value**

The ratio of the amount borrowed to the appraised value or sales price of real property expressed in 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.

### **Mortgage Insurance**

An insurance policy that 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.

### **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 repayment.

### **Origination Fee**

The amount collected by the lender for making the loan. It is generally equal to the percentage of the loan amount.

### **Points**

One point equals 1% of the loan amount. They are usually paid by the borrower and are designed to reduce the loan's interest rate.

### **Prepays**

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

### **Processing**

The completion of a mortgage loan application and supporting documents.

### **Rate Cap**

The limit of how much the range of interest rates may change on an ARM at each adjustment 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 for a specific time period while it is processed.

### **Title**

Evidence of current right to or ownership of a property, plus a history of its ownership and transfers.

### **Title Insurance**

A policy that insures against any losses to the property that result from defects in the title or deed for a given piece of property.

### **Title Search**

An examination of public records, laws and court decisions to insure that no one except the seller has valid claim to the property and to disclose past and current facts regarding ownership of the property.

### **Truth-in-Lending Statement**

Required by federal regulations, this statement tells consumers the cost of financing their loan expressed as the annual percentage rate (APR) and it discloses all material terms of the loan including the number of payments, payment amount, etc.

### **Underwriting**

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

