

# Mortgage Terms You Need To Know

## **Adjustable Rate Mortgage (Arm)**

A mortgage in which the interest rate is adjusted periodically based on a pre-selected index. Also sometimes known as the re-negotiable rate mortgage, the variable rate mortgage or the Canadian rollover mortgage.

## **Amortization**

The periodic principal pay down of a loan.

## **Annual Percentage Rate (Apr)**

An interest rate reflecting the cost of a mortgage as a yearly rate. This rate is likely to be higher than the stated note rate or advertised rate on the mortgage, because it takes into account points and other credit costs. The APR allows home buyers to compare different types of mortgages based on the annual cost for each loan.

## **Appraised Value**

An estimate of a property's fair market value, based on an appraiser's knowledge, experience, and analysis of the property. Value is usually supported by recent comparable sales.

## **Approved Subdivision**

A developed subdivision that has been approved by the city or county planning and zoning commission for residential (Stick Built or Off Frame Modular) use only.

## **Assumption**

Taking over a loan and becoming personally liable for the repayment.

## **Balloon (Payment) Mortgage**

Usually a short-term fixed-rate loan which involves small payments for a certain period of time and one large payment for the remaining amount of the principal at a time specified in the contract.

## **Bankruptcy**

A provision of Federal Law whereby a debtor surrenders his assets to the Bankruptcy Court and is relieved of the future obligation to repay his unsecured debts. After bankruptcy, the debtor is discharged and his unsecured creditors may not pursue further collection efforts against him. Secured creditors, those holding deeds of trust or judgment liens, continue to be secured by the property, but they may not take other action to collect from the debtor.



### **Beneficiary**

A person named to receive a benefit from a trust. A contingent beneficiary has conditions attached to his rights, usually someone else must die first.

### **CAPS (Interest)**

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

### **CAPS (Payment)**

Consumer safeguards which limit the amount monthly payments on an adjustable rate mortgage may change.

### **Certificate Of Eligibility**

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

### **Closings**

The meeting between the buyer, seller and lender or their agents where the property and funds legally change hands. Also called settlement. Closing 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 usually is about 3 percent to 6 percent of the mortgage amount.

### **Collateral**

Property pledged to secure a loan.

### **Combined Loan To Value (CLTV)**

The total of all liens on the subject property divided by the appraised value of the property.

### **Commitment**

A promise by a lender to make a loan on specific terms or conditions to a borrower or builder. A promise by an investor to purchase mortgages from a lender with specific terms or conditions.

#### **Condominium**

A system of individual fee simple ownership of portions (units) in a multi-unit structure, combined with joint ownership of common areas. Each individual may sell or encumber his own unit.



### **Construction Loan**

A short term interim loan for financing the cost of construction. The lender advances funds to the builder at periodic intervals as the work progresses.

### **Covenant**

A written agreement or restriction on the use of land or promising certain acts. Homeowner Associations often enforce restrictive covenants governing architectural controls and maintenance responsibilities. However, land could be subject to restrictive covenants even if there is no homeowner's association.

### **Conventional Loan**

A mortgage not insured by FHA or guaranteed by the VA.

### **Credit Report**

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

### **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 net effective income (FHA/VA loans) or gross monthly income (conventional loans).

### **Deed**

The written document conveying real property. Once recorded at the Courthouse, the original piece of paper is not needed to convey title in the future.

### **Deed Of Trust**

A voluntary lien to secure a debt deeding the property to Trustees who foreclose and sell the property at public auction, in the event of default on the Note the Deed of Trust secures. 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.

### **Delinquency**

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



### **Delivery**

The final, unconditional and absolute transfer of a deed to the Grantee so that the Grantor may not revoke it. A Deed, signed but held by the Grantor, does not pass title.

### **Down Payment**

Money paid to make up the difference between the purchase price and the mortgage amount. Down payments usually are 5 percent to 20 percent of the sales price on conventional loans.

### **Due-On-Sales 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.

### **Easement**

The right to use the land of another for a specific limited purpose.

### **Entitlement**

The VA home loan benefit is called entitlement. This entitlement is for a VA guaranteed home loan. This is also known as eligibility.

### **Equal Credit Opportunity Act (ECOA)**

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 value an owner has in real estate over and above the obligation against the property.

### **Escrow**

Funds that are set aside and held in trust, usually for payment of taxes and insurance on real property. Also earnest deposits held pending loan closing.

### **Federal Home Loan Mortgage Corporation (FHLMC)**

The Federal Home Loan Mortgage Corporation provides a secondary market for mortgage financing by purchasing conventional loans. Also known as "Freddie Mac."



### **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)**

A secondary mortgage institution which is the largest single holder of home mortgages in the United States. FNMA buys VA, FHA, and conventional mortgages from primary lenders. Also known as "Fannie Mae."

### **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, they are generous enough to handle moderately-priced homes almost anywhere in the country.

### **FHA Mortgage Insurance**

Requires a small fee (up to 3.8 percent of the loan amount) paid at closing or a portion of this fee added to each monthly payment of an FHA loan to insure the loan with FHA. On a 9.5 percent, \$75,000, 30-year fixed-rate FHA loan, this fee would amount to either \$2,850 at closing or an extra \$31 a month for the life of the loan. In addition, FHA mortgage insurance requires an annual fee of 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.

### **Fixed Rate Mortgage**

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

### **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.

### **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.

### **Hazard Insurance**

A form of insurance in which the insurance company protects the insured from specified losses, such as fire, windstorm and the like.



### **Housing Expenses-To-Income Ratio**

The ratio, expressed as a percentage, which results when a borrower's housing expenses are divided by his/her net effective income (FHA/VA loans) or gross monthly income (conventional loans).

### **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.

### **Investor**

A money source for a lender.

### **Interim Financing**

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

### **Jumbo Loan**

A loan which is larger than the limits set by the Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac). Because jumbo loans cannot be funded by these two agencies, they usually carry a higher interest rate.

### **LIBOR**

The interest rate that the banks charge each other for loans.

### **Lien**

A claim or charge against property. Property is said to be encumbered by a lien and the lien must be removed to clear title

### **Loan-To-Value Ratio**

The relationship between the amount of the mortgage loan and the appraised value of the property expressed as a percentage.

### **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.

### **Mortgage**

A voluntary lien filed against property to secure a debt, usually a loan. To foreclose, the lender must often institute a court action and the borrower may have the right to reclaim the property after foreclosure.

### **Mortgage Insurance**

Money paid to insure the mortgage when the down payment is less than 20 percent.

### **Mortgagee**

The lender

### **Mortgagor**

The borrower or homeowner.

### **Note**

A written promise to pay a certain sum of money at a certain time. A negotiable note starts "Pay to the order of" and is transferable by endorsement similar to a check.

### **Origination Fee**

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

### **Perk Test (Perc Test)**

Is short for percolation test. It is a test that measures the absorption rate of the soil where a proposed septic system will be installed.

### **Permanent Loan**

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

### **PITI**

Principal, Interest, Taxes and Insurance. Also called monthly housing expense.

### **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 written document authorizing another to act on his or her behalf as an Attorney in Fact. One does not need to be a licensed attorney to act as an attorney in fact but, power of attorney forms are powerful legal documents that should be used only under advice of a licensed attorney at law.

### **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.

### **Pre-Payment Penalty**

An additional charge imposed by the lender for paying off a loan before the due date.

### **Principal**

The amount of debt, not counting interest, left on a loan.

### **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 5 percent in some cases. With the smaller down payment loans, however, borrowers are usually required to carry private mortgage insurance. Private mortgage insurance will require an initial premium payment of 1.0 percent to 5.0 percent of your mortgage amount and may require an additional monthly fee depending on you loan's structure. On a \$75,000 house with a 10 percent down payment, this would mean either an initial premium payment of \$2,025 to \$3,375, or an initial premium of \$675 to \$1,130 combined with a monthly payment of \$25 to \$30.

### **Property Vaue Estimate (PVE)**

A United Guaranty form used to calculate the property value of a home. Can be used instead of an appraisal or tax value for U.G. insured loan programs. (L34 & L37)

### **Quitclaim Deed**

A deed releasing whatever interest you may hold in a property but making no warranty whatsoever.

### **Real Estate Settlement Procedures Act (RESPA)**

RESPA is a federal law that allows consumers to review information on known or estimated settlement costs once after application and once prior to or at a settlement. The law requires lenders to furnish the information after application only.



**Realtor®**

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

**Recision**

The cancellation of a contract. With respect to mortgage refinancing, the law that gives the homeowner three days to cancel a contract 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.

**Second Mortgage**

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

**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 the like.

**Simple Interest**

Interest which is computed only on the principle balance.

**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.

**Tax Value**

Property value listed on the county tax card for tax purposes.

**Tenants By The Entirety**

A husband and wife own the property with the common law right of survivorship so, if one dies, the other automatically inherits.



### **Tenant In Common**

Two or more persons own the property with no right of survivorship. If one dies, his interest passes to his heirs, not necessarily the co-owner. Either party, or a creditor of one, may sue to partition the property.

### **Title**

Document that gives evidence of an individual's ownership of property.

### **Title Insurance**

Insurance that provides an indemnity against loss or damage as a result of defect in title ownership to a particular piece of property. Title insurance covers mistakes made during a Title Search as well as matters which could not be found or discovered in the public records such as missing heirs, mistakes, fraud and forgery.

### **Title Search**

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

### **Truth-In-Lending Act (TILA)**

Federal law requiring disclosure of the Annual Percentage Rate to home buyers shortly after they apply for the loan.

### **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 amount.

### **USDA Loans**

Long-term, low-or no-down payment loan guaranteed by the United States Department of Agriculture. Available to borrowers in less densely populated areas.

### **VA Loans**

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**

Premium of up to 1-7/8 percent (depending on the size of the down payment) paid on a VA-backed loan. On a \$75,000 fixed-rate mortgage with no down payment, this would amount to \$1,406 either paid at closing or added to the amount financed.



**Verification Of Deposits (VOD)**

Document signed by the borrower's financial institution verifying the status and balance of his/her financial accounts.

**Verification Of Employment (VOE)**

Document signed by the borrower's employer verifying his/her position and salary.



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