

Glossary

Adjustable Rate Mortgage (ARM) – a mortgage with a variable interest rate, which adjusts monthly, biannually or annually.

Amortization – the way a loan is paid off over time in installments, detailing how much goes toward interest and how much is paid toward principal

Annual Percentage Yield (APY) – the annual interest rate taking into account the frequency and cost of compounding interest

Annual Percentage Rate (APR) – the actual interest rate you pay on your mortgage, which factors in fees, points and other costs associated with the loan

Appraisal – a comprehensive report that determines the value of your property based on a number of valuation factors

Balloon Mortgage – a short-term mortgage with small monthly installments and a large lump sum due at the end of a loan term. An example would be a 30 due in 15, which amortizes like a 30 year fixed, but is due 15 years earlier

Biweekly Mortgage – a mortgage where 26 half payments, or 13 full payments are made annually

Bridge Loan – a short term loan taken out against one property to finance the purchase of a new property

Caps – initial, periodic and lifetime payment caps which limit how much and how frequently an interest rate can change on an adjustable rate mortgage

Cash-In Refinance – a refinance transaction where borrowers bring money to the closing table to lower their mortgage balance

Conforming Loan – a loan that meets Fannie Mae and Freddie Mac guidelines, which also falls under a certain loan amount

Closing Costs – the amount of money that must be paid to close your loan, including lender fees and third-party charges, along with taxes and transfer fees

Construction Loan – short-term loan given to a builder during intervals of the building process which is due upon completion of the project

Conventional Mortgage – any mortgage loan that is not insured or guaranteed by the federal government

Credit Report – a tool used by the lender or lender to review your credit profile and your ability to carry and repay debt

Debt-to-Income Ratio – the ratio of monthly liabilities and housing expenses divided by the monthly gross income of the borrower

Deed of Trust – a security instrument between the borrower and the lender, recorded in public records as a lien on the subject property. It differs from a mortgage in that the lender can foreclose on the property without judicial proceedings

Down Payment – an upfront payment made by the home buyer toward the property purchase price, usually ranging from five to twenty percent. The remainder of the sales price makes up the mortgage loan amount

Earnest Money – a deposit paid to the seller by the buyer as a pledge to complete a real estate transaction. If the seller accepts the offer, the deposit is held in escrow and applied to closing costs when the deal is closed

Equal Credit Opportunity Act – a federal law that prevents lenders from discriminating applicants based on race, religion, national origins, sex, age, marital status or involvement in public assistance programs

Escrow – a third party intermediary who holds and allocates funds, including taxes and insurance in a mortgage transaction

FHA Loan – a program originated during The Great Depression that allows lower income borrowers to qualify for mortgage as long as they fit certain criteria set forth by the Federal Housing Administration who insures them

First-Time Homebuyer – a mortgage with a constant interest rate that will not adjust at any point during the life of the loan

Foreclosure – the legal process by which a lender sells a property after a borrower fails to meet the repayment terms of the loan

Good Faith Estimate – a disclosure which details your loan summary and an estimate of the charges you'll incur upon settlement

Impound Account – an account established by the issuing lender or loan servicer to collect monthly and automatically pay a borrower's property taxes and insurance costs when payments are due

Lender Credit – a credit paid by the lender to the borrower for taking an above-market interest rate

Loan Officer – a representative of a lender or broker who originates loans on their behalf

Loan Origination – the initiation of the home loan process whereby a borrower submits their information to a lender in order to obtain mortgage financing

Loan Processor – the individual who handles all the paperwork associated with closing your loan

Loan-to-value – the percentage of the appraised property value that is borrowed from a lender. A down payment of 20% would create a loan-to-value of 80%

Margin – a given amount specified by the lender which when added to the accompanying mortgage index sets the interest rate for an adjustable rate mortgage

Mortgage – a temporary loan used to finance the purchase of real property, also known as a home loan

Mortgage Discount Points – a form of prepaid interest whereby the borrower lowers the interest rate of the mortgage at closing

Mortgage Due Date – the date your mortgage payment is due each month during the loan's duration

Mortgagee – the issuing lender or mortgage lender

Mortgage Lender – an institution that originates mortgage loans either to keep for interest income or sell on the secondary market

Mortgage Payment – the cost of your loan, paid monthly

Mortgage Rate – the interest rate associated with your mortgage

Mortgage Rate Lock – the act of locking in a desired interest rate on your mortgage so it cannot change. Borrowers also have the option to float their rate

Mortgage Term – the length of your mortgage. Most are 30 years, though 15 years is also very common

Negative Amortization – when a mortgage payment received is below the interest-only payment, the difference will be added onto the principal balance of the loan

Note – a written promise to repay the mortgage plus interest, which includes the name of the borrower, issuing lender, and the terms and provisions

Origination Fee – a percentage of the loan amount charged by the lender or broker for completing the loan process

PITI – the monthly housing expense, expressed as principal, interest, taxes and insurance

Par Rate – the interest rate a borrower will qualify assuming there is not rate manipulation

Private Mortgage Insurance – required insurance on a mortgage if the LTV (loan to value) is greater than 80%

Points – stands for a percentage point of the loan amount, typically makes up the origination fee, which can be a fraction of a point to multiple points

Pre-Approval – processes to obtain a preliminary conditional approval to purchase a home yet to be determined

Prime Rate – the interest rate offered by commercial lenders to its best corporate customers

Principal – the balance of the liens on a property, not including interest. What you owe on your mortgage

Purchase Money Mortgage – a mortgage used to purchase a piece of property

Qualified Mortgage – a home loan that meets new underwriting guidelines established by the CFPB. Also known as a QM Loan

Quitclaim Deed – a document by which a person either disclaims interest in a property or transfers interest to another person, typically a spouse

Refinance – the act of replacing your existing loan(s) with a new loan on the same property. There are two main types of refinancing, including a rate and term refinance and cash-out refinance

Right of Rescission – a law which allows a homeowner to rescind a contract to refinance their primary residence within three days of signing loan documents

Second Mortgage – a mortgage taken out behind a first mortgage, either concurrently or after the fact

Teaser Rate – the initial, discounted interest rate offered on adjustable rate mortgages

Title Insurance – protection against lawsuits and claims ties to the chain of title on the subject property

Underwriter – the individual who decisions your mortgage by either approving, suspending or declining it

VA Mortgage – a mortgage offered to veterans and their families that is guaranteed by the Veterans Administration