



Mortgage Terms

Acceleration clause.

A provision in a mortgage that gives the lender the right to demand payment of the entire outstanding balance if a monthly payment is missed.

Adjustable-rate mortgage (ARM).

A mortgage whose interest rate changes over time based on an index.

Amortization.

The gradual repayment of a mortgage by installments.

Amortization schedule.

A timetable for payment of a mortgage showing the amount of each payment applied to interest and principal and the remaining balance.

Annual percentage rate (APR).

The total yearly cost of a mortgage stated as a percentage of the loan amount; includes the base interest rate, primary mortgage insurance, and loan origination fee (points).

Appraisal.

A professional opinion of the market value of a property.

Appreciation.

An increase in the value of a house due to changes in market conditions or other causes.

Assessed value.

The valuation placed upon property by a public tax assessor for purposes of taxation.

Assumable mortgage.

A mortgage that can be taken over ("assumed") by the buyer when a home is sold.

Assumption.

The transfer of the seller's existing mortgage to the buyer.

Balloon mortgage.

A mortgage that has a level monthly payments that will amortize it over a stated term but that provides for a lump sum payment to be due at the end of an earlier specified term.

Balloon payment.

The final lump sum payment that is made at the maturity date of a balloon mortgage.

Bankrupt.

A person, firm, or corporation that, through a court order is relieved from the payment of all debts after the surrender of all assets to a court appointed trustee.

Bankruptcy.

A proceeding in a federal court in which a debtor who owes more than his or her assets can relieve the debts by transferring his or her assets to a trustee.

Binder.

A preliminary agreement, secured by the payment of earnest money, under which a buyer offers to purchase real estate.

Biweekly mortgage payment.

A mortgage that requires payments to reduce the debt every two weeks. The 26 biweekly payments are each equal to one-half of the monthly payment that would be required if the loan were a standard 30 year fixed rate mortgage, and they are usually drafted from the borrower's bank account. The result for the borrower is a substantial savings in interest.

Broker.

A person who, for a commission or a fee, brings parties together and assists in negotiating contracts between them.

Cap.

A provision of an ARM limiting how much the interest rate or mortgage payments may increase.

Cash-out refinance.

A refinance transaction in which the amount of money received from the new loan exceeds the total of the money needed to repay the existing first mortgage, closing costs, points, and the amount required to satisfy any outstanding subordinate mortgage liens. In other words, a refinance transaction in which the borrower receives additional cash that can be used for any purpose.

Cash reserve.

A requirement of some lenders that buyers have sufficient cash remaining after closing to make the first two mortgage payments.

Clear title.

A title that is free of liens and legal questions as to ownership of the property.

Closing.

A meeting at which a sale of property is finalized by the buyer signing the mortgage documents and paying closing costs.

Closing costs.

Expenses, over and above the price of the property, incurred by buyers and sellers in transferring ownership of a property. Closing costs normally include an origination fee, an attorney's fee, taxes, an amount placed in escrow, and charges for obtaining title insurance and a survey. Closing costs percentage will vary according to the area of the country.

Construction loan.

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

Contingency.

A condition that must be met before a contract is legally binding. For example, home purchases often include a contingency that specifies that the contract is not binding until the purchaser obtains a satisfactory home inspection report from a qualified home inspector.

Conventional mortgage.

A mortgage that is not insured or guaranteed by the federal government.

Cooperative (co-op).

A type of multiple ownership in which the residents of a multiunit housing complex own shares in the cooperative corporation that owns the property, giving each resident the right to occupy a specific apartment or unit.

Credit history.

A record of an individual's open and fully repaid debts. A credit history helps a lender to determine whether a potential borrower has a history of repaying debts in a timely manner.

Credit report.

A report of an individual's credit history prepared by a credit bureau and used by a lender in determining whether or not a loan applicant will qualify.

Deed.

The legal document conveying title to a property.

Deed of trust.

The document used in some states instead of a mortgage; title is conveyed to a trustee.

Delinquency.

Failure to make mortgage payments when mortgage payments are due.

Deposit.

A sum of money given to bind the sale of real estate, or a sum of money given to ensure payment or an advance of funds in the processing of a loan.

Down payment.

The part of the purchase price which the buyer pays in cash and does not finance with a mortgage.

Due-on sale clause.

A provision in a mortgage allowing the lender to demand repayment in full if the borrower sells the property securing the mortgage.

Earnest money.

A deposit given to the seller to show that a prospective buyer is serious about buying the house.

Effective gross income.

Normal annual income including overtime that is regular or guaranteed. The income may be from more than one source. Salary is generally the principal source, but other income may qualify if it is significant and stable.

Equal Credit Opportunity Act (ECOA).

A federal law that prohibits lenders from denying mortgages on the basis of the borrower's race, color, religion, national origin, age, sex, marital status, or receipt of income from public assistance programs.

Equity.

The difference between the market value of a property and the home owner's outstanding mortgage balance.

Equity loan.

A loan based on the borrower's equity in his or her home.

Escrow.

The holding of documents and money by a neutral third party prior to closing; also, an account held by the lender into which a home owner pays money for taxes and insurance.

Escrow Account.

The account in which a mortgage servicer holds the borrower's escrow payments prior to paying property expenses.

Escrow analysis.

The periodic examination of escrow accounts to determine if current monthly deposits will provide sufficient funds to pay taxes, insurance, and other bills when due.

Escrow collections.

Funds collected by the servicer and set aside in an escrow account to pay the borrower's property taxes, mortgage insurance, and hazard insurance.

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 portion 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.

Fair Credit Reporting Act.

A consumer protection law that sets up a procedure for correcting mistakes on one's credit record.

Fair market value.

The highest price that a buyer, willing but not compelled to buy, would pay, and the lowest a seller, willing but not compelled to sell, would accept.

Fannie Mae.

A congressionally chartered, shareholder-owned company that is the nation's largest supplier of home mortgage funds.

FHA loan.

A mortgage that is insured by the Federal Housing Administration.

First mortgage.

The mortgage that has first claim in the event of default.

Fixed rate mortgage.

A mortgage in which the interest rate does not change during the entire term of the loan.

Flood insurance.

Insurance required for properties in federally designated flood areas.

Forbearance.

The lender's postponement of foreclosure to give the borrower time to catch up on overdue payments.

Foreclosure.

The process by which a mortgaged property may be sold when a mortgage is in default.

Graduated payment mortgage.

A mortgage that starts with low monthly payments that increase at a predetermined rate.

Good faith estimate.

An estimate of charges which a borrower is likely to incur in connection with a settlement.

Hazard insurance.

Insurance to protect the home owner and the lender against physical damage to a property from fire, wind, vandalism, or other hazards.

Homeowner's insurance.

An insurance policy that combines liability coverage and hazard insurance.

Homeowner's warranty.

A type of insurance that covers repairs to specified parts of a house for a specific period of time.

HUD.

The U.S. Department of Housing and Urban Development.

Index.

A published interest rate to which the interest on an Adjustable Rate Mortgage (ARM) is tied.

Interest.

The fee charged for borrowing money.

Interest rate cap.

A provision of an ARM limiting how much interest rates may increase per adjustment period.

Joint tenancy.

A form of co-ownership giving each tenant equal interest and equal rights in the property, including the right of survivorship.

Late charge.

The penalty a borrower must pay when a payment is made after the due date.

Lease-Purchase Mortgage Loan.

An alternative financing option that allows low and moderate income homebuyers to lease a home from a non-profit organization with an option to buy, and with each month's rent payments consisting of PITI payments on the first mortgage, plus an extra amount that is earmarked for a savings account in which money for a down payment accumulates.

Lien.

A legal claim against a property that must be paid when the property is sold.

Lifetime cap.

A provision of an ARM that limits the total increase in interest rates over the life of the loan.

Loan servicing.

The collection of mortgage payments from borrowers and related responsibilities of a loan servicer.

Loan-to-value ratio (LTV).

The relationship between the amount of a mortgage and the total value of the property.

Lock-in.

A written agreement guaranteeing the home buyer a specified interest rate provided the loan is closed within a set period of time. The lock-in also usually specifies the number of points to be paid at closing.

Margin.

The set percentage the lender adds to the index rate to determine the interest rate of an ARM.

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 market.

Mortgage broker.

A company that for a fee matches borrowers with lenders.

Mortgage Insurance Premium.

The fee paid by a borrower to FHA or a private insurer for mortgage insurance.

Mortgage note.

A legal document obligating a borrower to repay a loan at a stated interest rate during a specified period of time; the agreement is secured by a mortgage.

Mortgagee.

The lender in a mortgage agreement.

Mortgagor.

The borrower in a mortgage agreement.

Negative amortization.

Payment terms under which the borrower's monthly payments do not cover the interest due; as a result, the loan balance increases.

Non-conforming loan.

Also called a jumbo loan. Conventional home mortgages not eligible for sale and delivery to either Fannie Mae (FNMA) or Freddie Mac (FHLMC) because of various reasons, including loan amount, loan characteristics or underwriting guidelines. Non-conforming loans usually incur a rate and origination fee premium.

Note.

A written agreement containing a promise of the signer to pay to a named person, or order, or bearer, a definite sum of money at a specified date or on demand.

Notice of default.

A formal written notice to a borrower that a default has occurred and that legal action may be taken.

Origination fee.

A fee paid to a lender for processing a loan application; it is stated as a percentage of the mortgage amount, or points.

Owner financing.

A purchase in which the seller provides all or part of the financing.

Payment cap.

A provision of some ARMs limiting how much a borrower's payments may increase regardless of how much the interest rate increases; may result in negative amortization.

PITI.

Stands for principal, interest, taxes, and insurance--the components of a monthly mortgage payment.

Points.

A one-time charge by the lender to increase the yield of the loan; a point is one percent of the amount of the mortgage.

Prepayment penalty.

A fee charged to a borrower who pays off a loan before it is due.

Prequalification.

The process of determining how much money a prospective home buyer will be eligible to borrow before a loan is applied for.

Principal.

The amount borrowed or remaining unpaid; also, that part of the monthly payment that reduces the outstanding balance of a mortgage.

Private mortgage insurance (PMI).

Insurance provided by nongovernment insurers that protects lenders against loss if a borrower defaults.

Purchase and sale agreement.

A written contract signed by the buyer and seller stating that terms and conditions under which the property will be sold.

Qualifying ratios.

Guidelines applied by lenders to determine how large a loan to grant a home buyer.

Rate cap.

A limit on how much the interest rate can change, either at each adjustment period or over the life of the loan.

Rate lock-in.

A written agreement in which the lender guarantees the borrower a specified interest rate, provided the loan closes within a set period of time.

Real estate agent.

A person licensed to negotiate and transact the sale of real estate on behalf of the owner.

Real Estate Settlement Procedures Act.

A consumer protection law that requires lenders to give borrowers advance notice of closing costs.

Refinancing.

The process of paying off one loan with the proceeds from a new loan secured by the same property.

Residential Mortgage Credit Report (RMCR).

A report requested by your lender that utilizes information from at least two of the three national credit bureaus and information provided on your loan application.

Second mortgage.

A mortgage that has rights that are subordinate to the rights of the first mortgage holder.

Secondary mortgage market.

The buying and selling of existing mortgages.

Seller take-back.

An agreement in which the owner of a property provides financing, often in combination with an assumed mortgage.

Settlement sheet.

The computation of costs payable at closing which determines the seller's net proceeds and the buyer's net payment.

Subsidized second mortgage.

An alternative financing option for low and moderate income household that also includes a down payment and a first mortgage, with funds for the second mortgage provided by city, county, or state housing agencies, foundations, or nonprofit corporations. Payment on the second mortgage is often deferred, carries no or low interest rates, and part of the debt may be forgiven for each year the family remains in the home.

Survey.

A drawing showing the legal boundaries of a property.

Tenancy by entirety.

A type of joint ownership of property available only to a husband and wife.

Tenancy in common.

A type of joint ownership in a property without the right of survivorship.

Title.

A legal document establishing the right of ownership.

Title insurance.

Insurance to protect the lender (lender's policy) or the buyer (owner's policy) against loss arising from disputes over ownership of a property.

Title search.

A check of the title records to ensure that the seller is the legal owner of the property and that there are no liens or other claims outstanding.

Total debt ratio.

Monthly debt ratio and housing payments divided by gross monthly income. Also known as Obligations-to-Income- Ratio or Back-End Ratio.

Transfer tax.

State or local tax payable when title passes from one owner to another.

Truth-in-Lending.

A federal law that requires to fully disclose, in writing, the terms and conditions of a mortgage, including the APR and other charges.

Underwriting.

The process of evaluating a loan application to determine the risk involved for the lender.

Veterans Administration (VA).

A government agency guaranteeing mortgage loans with no down payment to qualified veterans.

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