Mortgage Glossary

Adjustable Rate Mortgages: Also known as a variable rate mortgage. The interest rate on these mortgages changes periodically.

Appraisal: An opinion or estimate of the value of a property at a given date. The appraised value is the property's fair market value according to an appraiser. An appraisal is generally required by a lender before loan approval to ensure that the mortgage loan amount is not more than the value of the property.

APR: The tool used to compare loans across different lenders is the Annual Percentage Rate (APR). The Federal Truth in Lending law requires mortgage companies to disclose the APR when they advertise a rate. It is designed to represent the true cost of the loan to the borrower, expressed in the form of a yearly rate. The purpose is to prevent lenders from hiding fees and upfront costs behind low advertised interest rates.

Closing Costs: Expenses incurred by the buyer and seller in a real estate or mortgage transaction. There are two types of costs: recurring and non-recurring.

Non-recurring costs are one-time transactional costs, which include:

- Discount and origination points
- Lender fees: underwriting, processing, document preparation, flood certificate, tax service, wire transfer, courier, etc
- Title insurance fees
- Escrow, attorney or closing agent fees
- Recording fees
- Inspection and appraisal fees
- Real estate brokerage commissions

Recurring fees are costs associated with owning the property and they recur month after month. These costs may include hazard insurance, interest, property taxes, mortgage insurance (PMI), and association fees. A pro-rated amount of these fees may have to be paid at closing including

- Pre-paid interest: interest charges from the date of closing to the end of the month
- Property taxes if due
- Hazard insurance, fire insurance or homeowners insurance has to be paid for one year
- Mortgage insurance (PMI) may be required if the loan amount is more than 80 percent of the value of the property. In the past a whole year of PMI had to be paid up-front, however in recent years many PMI companies only require on to two months up-front. Mortgage insurance premiums are normally paid every month with the loan payment
- An impound or escrow account may need money to be set up for future payments

Conventional Loan: Any mortgage loan other than a VA or an FHA loan. A conventional loan may be conforming or non-conforming.

Credit Report: A report detailing a borrower's credit and payment history, including revolving and installment accounts and public records such as tax liens and judgments.

Debt Ratio: This is a loan qualifying ratio used by lenders to determine if a borrower qualifies for a loan. The debt (-to-income) ratio is calculated by taking the borrower's monthly debts, including house payments, credit cards and personal loans, and dividing it by their monthly income.

Deed: The deed is a written document that transfers ownership of real property from seller to buyer.

Down Payment: The amount paid for the purchase of a property in addition to the mortgage, but not including any closing costs. Example: John buys a house for $100,000 and obtains a loan for $80,000. His down payment is $20,000.

Earnest Money: A deposit made by a buyer of real estate towards the down payment to evidence good faith. This money is typically held by the real estate broker or the escrow company.

FHA Loans: A Federal Housing Administration Loan. It is guaranteed and obtained within the guidelines of the Federal Housing Administration which is an agency within the U.S. Department of Housing and Urban Development (HUD). A FHA loan will allow you to purchase a home with a low down payment and flexible guidelines.

Fixed Rate Mortgages: Fixed-rate mortgages have interest rates that do not change over the life of the loan. As a result, monthly payments for principal and interest do not fluctuate. Fixed-rate mortgages typically have 15-year or 30-year term. With a fixed-rate loan, you can have the assurance of knowing that each month's mortgage payment will always be the same.

Front End Ratio: Monthly mortgage payments (PITI, principal, interest, taxes and insurance) divided by your gross monthly income. This comes out to a percentage which a lender uses to get an idea of how much of your income will be going towards paying your loan. Most programs require a maximum ratio of 28-33%. A low ratio is better.

Good Faith Estimate (GFE): All lenders are required to give mortgage applicants an estimate of closing costs within three days of an application submission.

Impound/Escrow Account: 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.

Interest Rate Locks: A lock in, also called a rate lock or rate commitment, is a lender's promise to hold a certain interest rate and a certain number of points for you, usually for a specified period of time, while your loan application is processed. Depending upon the lender, you may be able to lock in the interest rate and number of points that you will be charged when you file your application, during processing of the loan, when the loan is approved or later.

Origination Fee or Points: Charge by a lender or broker connected with originating a loan. This is different from discount points, which are used to buy down the rate of interest.

PITI: Principal, Interest, Taxes and Insurance. Your mortgage loan payment usually includes the principal and interest amounts. When you borrow more than 80 percent of the value of your home, lenders usually require that you also pay the taxes and insurance payments with your loan payment.

Mortgage Insurance Premium (MIP): In the event that you do not have a 20 percent down payment, lenders will allow a smaller down payment - about 2.25%. With the smaller down payment loans, however, borrowers are usually required to carry private mortgage insurance. Private mortgage insurance payments are normally made annually or monthly. An impound account may be required. Check with your lender to see how PMI can be waived.

Title: Evidence that the owner of the property is in lawful possession; Evidence of ownership.

Title Commitment: An insurance policy which protects the insured against loss arising from defects in title. Title insurance policies are typically obtained for the buyer and the lender.

VA Loans: Home loan guaranteed by the U.S. Veterans Administration, enabling a veteran to buy a home with no money down.