Glossary of Home Loan Terms

Adjustable Rate Mortgages (ARMs) Mortgage loans that have an interest rate which is periodically adjusted to more closely coincide with current rates. The amounts and times of adjustment are agreed to at the inception of the loan.

Amortization Payment of a debt in equal installments of principal and interest.

Annual Percentage Rate (APR) The yearly interest percentage of a loan, as expressed by the actual rate of interest paid. The A.P.R. is disclosed as a requirement of federal truth in lending statutes and should include all finance charges.

Appraisal An estimation of market value of property by a disinterested persons of suitable qualifications.

Appreciation The increase in value or price of a property over time.

Balloon Payment The unpaid principal amount of a loan due on a specific date in the future. Usually the amount that must be paid in a lump sum at the end of the term.

Broker, Real Estate A person who is licensed by the state to carry on the business of dealing in real estate. A broker may receive a commission for his or her part in bringing together a buyer and seller.

Cap The maximum an adjustable rate mortgage may increase, regardless of index changes.

CC and Rs (Covenants, Conditions and Restrictions) Limitations placed on the use and enjoyment of real property. These are found most often in condominiums and planned unit developments.

Clear Title Title to property which is free from liens, defects or other encumbrances.

Closing In real estate sales, the final procedure in which documents are executed and/or recorded, and the sale (or loan) is completed.

Closing Costs Expenses, beyond the selling price, such as loan fees, title fees, etc. Paid upon closing when documents are executed and/or recorded and the sale is complete.

Closing Statement A summary, in the form of a balance sheet,showing the amounts of debits and credits to which each party to a real estate transaction is entitled upon closing.

Commission Compensation paid to a real estate broker for acting on behalf of the buyer and/or seller.

Debt-to-Income Ratio The ratio of a borrower's monthly debt payments to his or her monthly gross income. Lenders use this ratio to determine how much of a loan a borrower qualifies for.

Deed Of Trust An instrument used in many states in place of a mortgage. Property is transferred to a trustee by the borrower (trustor) in favor of the lender (beneficiary), and reconveyed upon payment in full.

Deposit Money given by the buyer with an offer to purchase. Shows good faith. Also called earnest money.

Depreciation A decrease in value of real property caused by deterioration or obsolescence.

Discount Points The fee associated with the note rate for your loan. The more discount points you pay the lower the rate you can buy; the fewer discount points you pay, the higher your rate.

Down Payment The portion of the purchase price a buyer pays, in cash, at the time the loan originates.

Earnest Money A deposit given by the buyer with an offer to purchase showing good faith in the offer.

Easement A right of way giving persons other than the owner access to or over a property.

Equity The value of a person's interest in real property after all liens and charges have been deducted.

Equity Line Of Credit A combination of a line of credit and equity loan. A maximum loan amount is established based on credit and equity. A mortgage (deed of trust) is recorded against the potential borrower's property for the maximum loan amount.

Escrow The process by which money and/or documents are held by a disinterested third party (an escrow company, title company, attorney, etc.) until the terms and conditions of the escrow instructions are fulfilled.

Escrow Account An account held by the lender/servicer, into which a borrower makes monthly installment payments for property taxes, insurance and special assessments. The lender/servicer disburses these sums as they become due.

Escrow Fee Fee charged by the escrow company for handling escrow activities including paying off liens and clearing title and other debts.

Exclusive Listing A written contract between a property owner and a real estate broker, whereby the owner promises to pay a fee or commission to the broker it certain real property of the owner is sold during a stated period, regardless of whether the broker is or is not the cause of the sale. The broker promises to put forth his or her best efforts to sell the property, and may make specific promises as to advertising or other promotion in certain instances.

Fair Market Value An appraisal term for the price which a property would bring in a competitive market given a willing seller and willing buyer, each of whom has a reasonable knowledge of all pertinent facts, with neither being under any obligation to buy or sell.

Federal Home Loan Banks Banks created under the Federal Home Loan Bank Act of 1932, in order to keep a permanent supply of money available for home financing. The banks are controlled by the Federal Home Loan Bank Board. Savings and loans, insurance companies, and other similar companies making long term mortgage loans may become members of the Federal Home Loan Bank System, and thus may borrow from one of the regional banks throughout the country.

Federal National Mortgage Association (Fannie Mae) A tax-paying corporation created by Congress to support the secondary mortgage market. It purchases and sells residential mortgages insured by FHA or guaranteed by VA as conventional home mortgages.

FHA (Federal Housing Administration) A federal agency which insures first mortgages, enabling lenders to loan a very high percentage of the sale price.

FHLMC (Freddie Mac) Federal Home Loan Mortgage Corporation – A federal agency purchasing first mortgages, both conventional and federally insured, from members of the Federal Reserve System, and the Federal Home Loan Bank System.

Finance Charge A total of all costs imposed directly or indirectly by the creditor and payable either directly or indirectly by the customer, as defined by the federal Truth-In-Lending laws.

First Mortgage A mortgage on property that is superior in position to any other mortgage.

Fixed Rate Loan A loan on which the same rate of interest is charged for the life of the loan.

Garnishment A legal proceeding under which a person's money in control of another (such as salary) is taken for payment of a debt. The amount which may be taken is set by statute (usually as a percentage), and, in most states, a judgment is necessary before garnishment.

Grantee One to whom a grant is made. The purchaser of real property.

Grantor One who has made a grant. The seller of real property.

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.

Jumbo Mortgage 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. Also known as a 'non-conforming' mortgage. Non-conforming loans usually incur a rate and origination fee premium. The current conforming loan limit is $300,700 and below for a single family residence. Loan amounts greater than this are considered non-conforming or jumbo mortgages.

Loan to Value Ratio The ratio of the mortgage loan's principal to the property's appraised value or its sales price, whichever is lower.

Market Value The highest price a willing buyer would pay and a willing seller accept, both being fully informed, and the property exposed for a reasonable period of time. The market value may be different from the price a property can actually be sold for at a given time (market price).

Maturity Termination period of a note. For example: A 30 year mortgage has maturity of 30 years.

Mortgage The instrument by which real estate is hypothecated as security for the repayment of a loan.

*Mortgage Broker One who, for a fee, brings together a borrower and lender, and handles the necessary applications for the borrower to obtain a loan against real property by giving a mortgage or deed of trust as security. Also called a loan broker.

Mortgage Servicing Controlling the necessary duties of a mortgagee, such as collecting payments, releasing the lien upon payment in full, foreclosing if in default, and making sure the taxes are paid, insurance is in force, etc. Servicing may be done by the lender or a company acting for the lender, for a servicing fee.

Negative Amortization A condition created when a loan payment is less than interest alone. Even though payments are made on time, the amount owing increases.

Net Income The difference between effective gross income and expenses, including taxes and insurance. The term is qualified as net income before depreciation and debt.

Notarization The certification by a Notary Public that a person signing a document has been properly identified. Notarization does not certify the content of a document, only validity of signature.

Origination Fee The fee that the lender charges to originate the loan. This fee is typically 1 point.

Point An upfront fee that is collected in addition to the interest on a loan. Each 'point' charged is equal to 1% of the loan amount. Points may also be referred to as an 'origination fee' or 'discount points' depending on the purpose.

Pre-Approval A process that mortgage lenders use to determine how much money they would lend you based on a thorough review of your financial situation. Lenders issue a pre-approval letter which strengthens your position when bidding on a home, as it shows sellers that you will be able to raise funds needed to purchase.

Pre-Qualification An informal process in which a lender will offer an opinion on how much money you may be able to borrow. This opinion is based entirely on the financial information you provide and is neither binding nor necessarily accurate because lenders have not yet verified your financial information.

Principal The sum of money outstanding upon which interest is payable.

Private Mortgage Insurance (PMI) Insurance written by a private mortgage insurance company protecting the mortgage lender against loss occasioned by a mortgage default and foreclosure.

Qualification The process of reviewing a prospective borrower's credit and payment capacity prior to approving a loan.

Rate Lock The amount of time that a lender will guarantee a loan's interest rate. Once you've locked in the interest rate on a loan, the lender will guarantee that rate for a certain period of time, usually for 30, 45 or 60 days.

Refinance Renewing an existing loan on the same property. This is done to obtain a lower interest rate or to borrow cash on the equity in a property that has built up on a loan.

Second Mortgage A mortgage which ranks after a first mortgage in priority. Properties may have two, three, or more Mortgages, deeds of trust, or land contracts, as liens at the same time. Legal priority would determine whether they are called a first, second, third, etc. lien.

Term The period of time which covers the life of the loan. For example, a 30-year fixed mortgage has a term of 30 years.

Title Evidence of a person's right to possession ownership of a property.

Title Insurance The insurance that protects the lender and if an owner's policy is purchased, the homeowner, against loss resulting for any inconsistencies in the title of a property from liens or other title problems relating to a property.

Title Report A report that discloses whether there are any competing claims, liens or other problems relating to a property. This must be done before title insurance is issued.

Title Search An examination of public records, laws, and court decisions to disclose the current facts regarding ownership of and liens on real estate.

Underwriting The analysis of risk involved in making a mortgage loan to determine whether the risk is acceptable to the lender. Underwriting involves evaluating the property as outlined in the appraisal report, and also evaluating the borrower's ability and willingness to repay the loan.