MORTGAGE GLOSSARY

Adjustable Rate Mortgage
Known as an ARM, is a Mortgage that has a fixed rate of interest for only a set period of time, typically one, three or five years. During the initial period the interest rate is lower, and after that period it will adjust based on an index. The rate thereafter will adjust at set intervals.

After-tax APRPlus
The APRPlus taking into account the effect of income taxes.

Annual Percentage Rate
Known as the APR is the rate of interest that will be paid back to the Mortgage lender. The rate can either be a fixed rate or adjustable rate.

Amortization
The amortization of the loan is a schedule on how the loan is intended to be repaid. For example, a typical amortization schedule for a 15 year loan will include the amount borrowed, interest rate paid and term. The result will be a month breakdown of how much interest you pay and how much is paid on the amount borrowed.

Amortization Schedule
The schedule for which the principal of an amortizing loan is paid off.

Appraisal
Conducted by a professional appraiser who will look at a property and give an estimated value based on physical inspection and comparable houses that have been sold in recent times. APRPlus: The APR taking into consideration the value of the refinancing option of the mortgage.

Balloon Mortgage
A mortgage for which the periodic installments of principal and interest do not fully amortize the loan. The balance of the mortgage is due in a lump sum (balloon payment) at the end of the term.

Bi-Weekly Mortgage
This type of mortgage has an impact on when a loan is paid and how frequently. With a Bi-Weekly payment you are paying half of your normal payment every two

weeks. This is the equivalent of thirteen regular payments, which will reduce the amount of interest you pay and pay off the loan earlier.

Buy-down mortgage
A mortgage in which a lender accepts a below-market interest rate in return for an interest rate subsidy paid as additional discount points by the builder, seller, or buyer.

Cap (Interest Rate)
In an ARM, a limit on the amount the interest rate may increase per period or over the life of the loan. See also floor.

Capitalize
The act of converting a series of anticipated cash flows into present value by discounting them at an established rate of return.

Capitalized value
The net present value of a set of future cash flows.

Cash-out Refinancing
When a homeowner can refinance his/her current mortgage and replace it with a new mortgage loan that has a greater principal than the previous one. This is a way for homeowners to obtain cash from their home equity.

Certificate of reasonable value
A document issued by the VA that establishes a maximum value and loan amount for a VA-guaranteed mortgage.

Closing Costs
These are the costs that the buyer must pay during the Mortgage process. There are many closing costs involved ranging from attorney fees, recording fees as well as title search, legal fees and state and local taxes and other costs associated with the mortgage closing.

Conditional prepayment rate (CPR)
A standard of measurement of the projected annual rate of prepayment for a seasoned mortgage loan or pool of loans. Although the standard CPR is 6 percent per year, it can be quoted at any percentage.

Conforming Mortgage
Mortgage whose principal does not exceed the conforming limit, the maximum loan balance that Fannie Mae and Freddie Mac are authorized to buy.

Conventional mortgage
A mortgage loan that is not government-guaranteed or government-insured. There are two types of conventional loans, conforming and nonconforming.

Convertible mortgage
An ARM that may be converted to a fixed-rate mortgage at one or more specified times over its term.

Correspondent
A mortgage bank that originates loans that are sold to other lenders. The correspondent performs some or all of the loan processing functions, as well as underwriting and funding the mortgage at settlement. Typically, the mortgage is closed in the correspondent's name.

Credit Score
A numerical value that represents the creditworthiness of a person score. The higher the score the more likely the person will pay his or her debts in a timely manner. A credit score is primarily based on credit report information.

Curtailment
The type of prepayment where the borrower pays more than the monthly installment in order to pay down outstanding principal faster than scheduled.

Default
The failure of the borrower to make the contracted payments.

Discount Mortgages
Mortgages that a lender may offer in exchange for an additional upfront percentage of the principal or points.

Discounted Index Rate
The rate less than the fully indexed rate that lenders offer to encourage borrowers to choose ARMs, also known as teaser rate.

Debt-to-income Ratio

lenders look at a number of ratios and financial data to determine if the borrowers are able to repay the loan. One such ratio is the debt-to-income ratio. In this calculation, the lender compares the monthly payments, including the new Mortgage, and compares it to monthly income. The income figure is divided into the expense figure, and the result is displayed as a percentage. The higher the percentage, the more riskier loan it is for the lender.

Down Payment
is the amount of the purchase price that the buyer is paying. Generally, lenders require a specific down payment in order to qualify for the Mortgage.

Early pool buyouts
An agency-approved loan servicing option of buying eligible delinquent loans from Ginnie Mae pools to eliminate exposure to principal and interest payment pass-through requirements.

Effective Yield
Unlike yield-to-maturity, this yield takes into account that the loan may not remain outstanding for its entire term.

Equity
the difference between the value of the home and the Mortgage loan is called equity. Over time, as the value of the home increases and the amount of the loan decreases, the equity of the home generally increases.

Escrow
at the closing of the Mortgage, the borrowers are generally required to set aside a percentage of the yearly taxes to be held by the lender. On a monthly basis, the lender will also collect additional money to be used to pay the property taxes on the home. This escrow account is maintained by the lender who is responsible for sending the tax bills on a regular basis.

Fallout
Loans in the origination pipeline that do not close, or close under terms different from initial expectations

Federal Home Loan Banks (FHLB)
Privately capitalized GSEs designed to help finance the country's housing and community development needs. Certain FHLBs purchase single-family mortgages from their member financial institutions. These mortgages must meet the same requirements as mortgages that Fannie Mae and Freddie Mac are

permitted to purchase (i.e., one- to four-family conforming loans within the size limit established by Congress).

Federal Home Loan Mortgage Corporation (Freddie Mac)
A stockholder-owned corporation created by Congress under the Emergency Home Finance Act of 1970. FreddieMac operates mortgage purchase and securitization programs to support the secondary market in mortgages on residential property.

Federal Housing Administration (FHA)
A federal agency within HUD, established in 1934 under the National Housing Act. The FHA supports the secondary market in mortgages on residential property by providing mortgage insurance for certain residential mortgages.

Federal National Mortgage Association (Fannie Mae)
A stockholder-owned corporation (formerly the Federal National Mortgage Bank) created by Congress in a 1968 amendment to the National Housing Act. Fannie Mae operates mortgage purchase and securitization programs to support Ginnie Mae I.

First Reset Date
The date that a hybrid ARM shifts from a fixed-rate payment schedule to an adjusting payment schedule.

Fixed Rate Mortgage
is a mortgage where the interest rate and the term of the loan is negotiated and set for the life of the loan. The terms of fixed rate Mortgages can range from 10 years to up to 40 years.

Foreclosure
The seizing of the mortgagor's property in order to recover the unpaid debt in the case of the borrower failing to make the contracted payments.

Fully Amortized
The amortization schedule is designed so that after the last scheduled monthly payment of the loan, the outstanding mortgage balance is zero.

Fully indexed rate

The ARM index rate plus the margin. The conventional market rate for ARMs. However, sometimes to encourage borrowers to choose ARMs, lenders offer a rate less than this known as the discounted index rate, or teaser rate.

Good Faith Estimate
the Good Faith is an estimate by the lender of the closing costs that are from the Mortgage. It is not an exact amount, however, it is a way for lenders to inform buyers of what is needed from them at the time of closing of the loan.

Ginnie Mae I
A mortgage-backed security program in which individual mortgage lenders issue securities backed by the "full faith and credit of the United States government." The mortgages comprising the security are government-insured or government-guaranteed. The issuer is responsible for passing principal and interest payments directly to the securities holders, whether or not the homeowner makes the monthly payment on the mortgage. All mortgages in a Ginnie Mae I pool must have the same note rate.

Ginnie Mae II
Under the Ginnie Mae II program, monthly payments are made to the security holders through a paying agent. Multiple issuer pools may be formed through the aggregation of loan packages of more than one Ginnie Mae issuer. Under this option, packages submitted by various Ginnie Mae issuers for a particular issue date and pass-through rate are aggregated into a single pool backing a single issue of Ginnie Mae II certificates. Each security issued under a multiple issuer pool is backed by a proportionate interest in the entire pool rather than solely by the loan package contributed by any one.

Ginnie Mae issuer
Single-issuer pools also may be formed. Mortgages underlying a particular Ginnie Mae II certificate may have annual interest rates that vary from one another by established thresholds.

Government National Mortgage Association (Ginnie Mae)
A federal government corporation created as part of HUD in 1968 by an amendment to the National Housing Act.

Ginnie Mae guarantees mortgage
backed securities that are insured by the FHA or guaranteed by the VA and backed by the full faith and credit of the U.S. government.

Government-Sponsored Enterprises (GSEs)
Companies created by the United States Congress that significantly advanced the development of the secondary mortgage market by providing a mechanism for securitizing pools of mortgages and reselling them to investors. Examples are Fannie Mae, Freddie Mac, Ginnie Mae and the Federal Home Loan Banks (FHLBs).

Guarantee fee buy-down
An arrangement in which the seller of mortgages pays a lower guarantee fee in return for less cash when the loans are sold. Guarantee fee buy-downs allow a bank to collect a higher excess servicing fee over the life of the serviced loans.

Guarantee fee buy-up
An up-front fee paid to a loan seller in exchange for a higher guarantee fee. Guarantee fee buy-ups increase the cash received for mortgages when they are sold and reduce the excess servicing fee to be collected over the life of the underlying serviced loans.

Hazard insurance
Insurance coverage that protects the insured in case of property loss or damage.

High-LTV residential real estate loan
Any loan, line of credit, or combination of credits secured by liens on or interests in owner-occupied one- to four-family residential property that equals or exceeds 90 percent of the property's appraised value, unless the loan has appropriate credit support. Appropriate credit support may include mortgage insurance, readily marketable collateral, or other acceptable collateral that reduces the LTV ratio below 90 percent.

Home Equity Loans
Loans in which the borrowers use the equity in their homes as collateral. Unlike a second mortgage, a home equity loan can refer to either a lump sum loan or a line of credit.

Homeowner's Insurance
prior to the Mortgage closing date, the homeowners must secure property insurance on the new home. The policy must list the lender as loss payee in the event of a fire or other event. This must be in place prior to the loan going into effect.

Hybrid ARM

Mortgages that combine the features of fixed-rate mortgages and ARMs. The interest rate of a hybrid is initially fixed for a number of years (usually for five, seven or 10 years); afterwards the rate is reset annually, just as it would be for an ordinary ARM.

Index Rate
A standard interest rate managed by banks such as London Interbank Offered Rate (LIBOR).

Interest
The fee paid for the borrowed amount paid at the contracted rate on the outstanding principal.

Interest-only loan (IO loan)
A loan on which the borrower is required to pay only interest for a specified number of years (e.g., three or five years). IO loans can be fixed-rate, hybrid, or ARMs. ARMs make up a large portion of IO loans.

Interest Rate
The amount of interest paid, which may be fixed, for example 6 percent, during the term of the loan or it may vary according to an agreed-upon formula.

Investor
A person or institution that buys mortgage loans or securities or has a financial interest in these instruments.

Jumbo Mortgages
Mortgages whose principal exceed the conforming limit.

Loan guarantee certificate
A VA document that certifies the dollar amount of a mortgage loan that is guaranteed.

Locking the loan
A borrower's exercise of his or her option to lock in an interest rate and points. A lock can be exercised at the time of application or later.

Loan-to-value

this is another typical financial calculation that is done is called the Loan-to-Value (LTV) ratio. This calculation is done by dividing the amount of the Mortgage by the value of the home. Lenders will generally require the LTV ratio to be at least 80% in order to qualify for a Mortgage.

Margin
A premium that the ARM lender adds to the index rate to obtain the ARM interest rate.

Mortgage
is the loan and supporting documentation for the purchase of a home. Mortgage lenders generally follow strict underwriting guidelines to limit the possibility of borrowers defaulting on their payments.

Mortgage Insurance (MI)
Insurance against default required by lenders for borrowers with an LTV ratio greater than 80 percent. The amount insured will be some percentage of the loan and may decline as the LTV ratio declines.

Mortgage Originator
The lending institution that provides loans.

Mortgage Servicer
Entities that administer tasks such as collecting monthly payments and forwarding proceeds to owners of the mortgage.

Mortgagee
The mortgage lender.

Mortgagor
The mortgage borrower.

Negative amortization
The addition of due but unpaid interest to the principal of a mortgage loan, causing the loan balance to increase rather than decrease. Negative amortization occurs when the periodic installment payments on a loan are insufficient to repay interest due.

Negative carry, also known as negative spread

In warehousing, the expense incurred when the interest rate paid for short-term warehouse financing is greater than the interest rate earned on the mortgages held in the warehouse.

Nonconforming mortgage
A mortgage loan that does not meet the standards of eligibility for purchase or securitization by Fannie Mae or Freddie Mac, because the loan amount, the LTV ratio, the term, or some other aspect of the loan does not conform to the agencies' standards.

Nontraditional mortgage product
A type of mortgage that allows borrowers to defer payment of principal and sometimes interest. Examples include interest-only loans and payment-option ARMs.

Optimal Refinancing
The point when the present value of cash savings from refinancing is equal to the difference in the option values of the outstanding mortgage and the new mortgage.

Origination Fee
when applying for a Mortgage loan, borrowers are often required to pay an origination fee to the lender. This fee may include an application fee, appraisal fee, fees for all the follow-up work and other costs associated with the loan.

Par Mortgages
Standard mortgages that Brokers offer to borrowers with no additional discount points.

Period Cap
A limit of the amount that the ARM rate may increase at the reset date.

Personal Costs
The borrower's personal time and effort spent in the lending process, also considered an expenditure.

Piggyback Loans
Similar to home equity loans and second mortgages. If the homebuyer's LTV is greater than 80 percent, the borrower may take out a second mortgage in

addition to the first mortgage, as an alternative to additional down payment or mortgage insurance.

Points
are percentage points of the loan amount. Often in order to get a lower interest rate, lenders will allow borrowers to "buy down" the rate by paying points. Paying a percentage point up front in order to get a lower rate will eventually be a saving to borrowers in the long run.

Portfolio-Based Lending
When a borrower obtains multiple mortgage structures under a single contract.

Prepay
The paying off of a mortgage in whole or in part by the borrower before the end of its term.

Prepayment Option
The option of prepaying the mortgage granted by the lender to the borrower; often used to refinance when mortgage rates have declined.

Prepayment Risk
The uncertainty about the cash flows to the lender due to the prepayment option granted to the homeowner.

Price-level-adjusted mortgage
A mortgage loan in which the interest rate remains fixed but the outstanding balance is periodically adjusted for inflation using an appropriate index such as the consumer price index or cost-of-living index. At the end of each period, the outstanding balance is adjusted for inflation and monthly payments are recomputed based on the new balance.

Primary market
For a mortgage lender, the market in which it originates mortgages and lends funds directly to homeowners.

Principal
is the term used to describe the amount of money that is borrowed for the Mortgage. The principal amount that is owed will go down when borrowers make scheduled payments.

Private Mortgage Insurance
When the LTV is higher than 80% lenders will generally not be able to do the transaction. In these cases, the borrowers can get Private Mortgage Insurance (PMI) which is a guarantee to the lender that until the borrower reaches an 80% LTV, they are covered from default. To get this protection, borrowers pay a monthly PMI premium.

Refinance
Replacement of an existing mortgage with another one at a lower interest rate.

Reverse mortgage
A mortgage loan that lets homeowners over 62 years of age convert a portion of their home equity into cash. Reverse mortgage products are sponsored by FHA/HUD, Fannie Mae, and a small number of private lenders, and are offered by many mortgage banks. Reverse mortgages allow borrowers to access their home equity in several ways, including a lump-sum payment, a line of credit, payments over a specified term, or payments for life. Unlike a traditional mortgage, no repayment is required until the borrower no longer uses the home as a principal residence.

Risk-free Rate
The interest rate that is considered by the financial markets to be free of credit or default risk. In the U.S., the Treasury rate is generally considered to be the risk-free rate.

Satisfaction, also known as re-conveyance
Once a mortgage or deed of trust is paid, the holder of the mortgage is required to satisfy the mortgage or deed of trust of record to show that the mortgage or deed of trust is no longer a lien on the property.

Second Mortgages
Similar to home equity loans and piggyback loans, lump sum loans in which the borrowers use the equity in their homes as collateral. The loan is usually, but not always, for a shorter term than the first mortgage.

Servicing Fee
A fixed percentage of the outstanding principal balance is deducted from the collected monthly payments and retained as compensation by the servicer.

Settlement Costs
prior to closing, the attorneys involved in the Mortgage closing will meet to determine the final costs that are associated with the loan. These settlement costs are given to all parties so that they will be prepared to pay the closing costs that have been agreed upon.

Short sale
An arrangement entered into between a loan servicer and a delinquent borrower. The servicer allows the borrower to sell the property to a third party at less than the outstanding balance. This saves the servicer the time and expense involved in a foreclosure action. The servicer must normally obtain the approval of the investor before entering into a short sale agreement.

Subprime loans
also known as nonprime - Generally, loans whose borrowers have weakened or incomplete credit histories or reduced repayment capacity.

Table Funding
A method of acquiring mortgage loans from third parties, such as brokers or correspondents. As defined in RESPA, table funding is a settlement at which a loan is funded by a contemporaneous advance of loan funds and an assignment of the loan to the party advancing the funds.

Tax Risk
The risk of losing after-tax investment returns if the investor's tax rate decreases.

Taxable Equivalent APRPlus
The APRPlus taking into account the effect of income taxes.

Tax-adjusted APR
The APR taking into account the effect of the tax-deductibility of mortgage payments.

Term
The time over which the mortgage is scheduled to be repaid.

Term Structure of Interest Rates
to any specified maturity at any time, also known as the yield curve.

Title Insurance
the lender is using the home as collateral for the Mortgage transaction. Because of this, they need to be certain that the title of the property is clear of any liens which could jeopardize the Mortgage. So, lenders will require borrowers to get title insurance on the property, which will ensure that the homes are free and clear.

Treasury Rates
The rates of debt securities issued by the United States Treasury. In the US, the Treasury rates are generally considered to be the risk-free rate.

Truth in Lending
is a federal mandate that all lenders must follow. There are several important parts to the Truth in Lending regulations including proper disclosure of rates, how to advertise mortgage loans and many other aspects of the lending process. These regulations were put into place to protect consumers from potential fraud.

VA loan
A loan made through an approved lender and partly guaranteed by the U.S. Department of Veterans Affairs.

Veterans Affairs (VA)
The U.S. Department of Veterans Affairs, formerly called the Veterans Administration, now a Cabinet-level agency of the U.S. government. The Servicemen's Readjustment Act of 1944 authorized the VA to offer the Home Loan Guaranty program to veterans. The program encourages mortgage lenders to offer long-term, low-down-payment financing to eligible veterans by partially guaranteeing the lender against loss.

Yield-to-Maturity
The yield assuming that the loan remains outstanding for its entire term.