



Mortgage Glossary Terms

1003 form

commonly used mortgage loan application developed by Fannie Mae. Sometimes called the Uniform Residential Loan Application.

Acceptance

a verbal or written acceptance of an offer to buy a home, made from the seller to the buyer.

Acre

a land measurement commonly used in U.S. property negotiations. One acre equals 43,560 square feet.

Adjustable rate mortgage, ARM

a type of mortgage loan characterized by interest rates that automatically adjust or fluctuate in concert with certain market indexes. Generally an ARM begins with an introductory or initial interest rate, which then may rise or fall, but monthly payments may not exceed the ARM loan cap.

Amortization

the process of a loan's value over a period of time. Often amortization is laid out on an amortization schedule or measured by an amortization calculator.

Annual percentage rate, APR

the truest cost of a home loan. Per the Truth in Lending Act, all mortgage lenders must disclose their APR. In the mortgage industry, APR may include fees such as documentation fees, private mortgage insurance and more.

Appreciation

the measurable value that increases on a home or property. Market improvements and home renovations often drive appreciation value.

Assessed value

a value determined by local government assessors and used to calculate annual property or real estate taxes.

Assumable mortgage

a type of mortgage that may be transferred, interest rate and all, from seller to buyer.

Attorney fees

fees possibly due during closing.

**Balloon mortgage**

a short-term high-risk loan that leaves the borrower with a potentially high loan balance at the end of the loan term. Some of these loans automatically renew at prevailing rates, whereas others may require the balloon payment be paid in full.

Borrower

the individual or individuals extended a loan and mortgage for the purchase of a house and/or property. Borrower is responsible for making all payments and fees associated with the loan over the life of the loan. Legalmortgagor.

Bridge loan

a short-term loan used to quickly effect a sale while pending more conventional real estate financing. While not popular, a bridge loan can be useful particularly for certain commercial real estate deals.

Buy down

a situation in which a seller or lender kicks in a sum of money in order to lower the initial interest rate on a home loan to make a sale more appealing for the buyer.

Buyer's agent

real estate agent that works on behalf of the homebuyer.

Cap

maximum monthly payment a borrower may be expected to pay on a loan.

Capital gain

profit earned on an asset, such as a home or property.

Capital gain tax

a tax levied against the profit made on the sale of a home and/or property.

Cash out refinance

a second mortgage in which the borrower extracts home equity at the same time a refinance deal is made; an alternative to a home equity loan.

Closing

the formal documented sale of a home and/or property that includes signing all documents associated with the exchange and payment of required closing fees. A closing agent usually oversees this process.

Closing agent

the person responsible for mediating the closing, documenting the process and assuring all associated paperwork is completed. May be an attorney or official from a title or mortgage company.

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**Closing costs**

real estate transaction related fees payable by the buyer and seller during a closing. A wide variety of fees may be included, such as title search, attorney's fees, origination fees, documentation fees and more.

Closing statement

an itemized list of closing costs.

Co-borrower

a borrower with good credit that agrees to take on shared responsibility for a home loan so that the primary borrower may purchase property.

Combination loan

a type of loan that combines an initial loan typically for new home construction, with a second conventional home loan that supplants the first.

Commitment letter

a document from a lender to a borrower that officially lays out the terms of a loan.

Comparable sales, comps

similar home sale prices in the region used as a metric in the calculation of a home's appraised value.

Conforming loan

a conventional loan characterized by loan limits that fall within those guidelines laid out by the Government Sponsored Enterprises (GSEs) such as Freddie Mac and Fannie Mae.

Construction loan

a short-term loan for new home construction that is supplanted with a conventional long-term home loan. See combination loan.

Contingency

any one of a number of common clauses added to real estate agreements that provide buyer or seller rights during various stages of a transaction.

Conventional mortgage

a mortgage offered by any one of the Government sponsored entities, different from an FHA or VA loan. These are typically 30-year fixed-rate loans.

**Credit**

money extended from a lender to a borrower based on that borrower's credit history.

Date of closing

date upon which all paperwork associated with a mortgage/property sales exchange is finalized.

Date of possession

actual date upon which the buyer will move into a home or property; it is usually the closing date, but may be another agreed upon date as well.

Debt

amount of money a borrower owes to creditors. A metric used to calculate creditworthiness.

Deed

an official and public document that establishes property ownership.

Deed of reconveyance

when a borrower has paid in full on a mortgage, the lender then awards the borrower a deed of reconveyance. This document becomes also a part of public record. Also known as reconveyance deed and recon.

Deed of trust

a document that in some states is used in place of a mortgage. A deed of trust may be held by a third party, similar to a mortgage.

Default

inability of borrower to make regular and consecutive payments on a loan.

Depreciation

the measure of loss in value of a home or property. Depreciation could be driven by poor economic factors or property damage.

Discount points

a measure of interest; 1 point = 1% of the home loan value. Homebuyers may pay points up front, a type of buy-down, in order to lower their overall interest rate and mortgage payment.

Earnest money

a sum of money usually put up by the buyer when an offer on a home or property is made. The purpose of earnest money is as a token of good faith, a symbol that the buyer is seriously pursuing purchase.

**Equity**

the measurable value of a home or property above and beyond that owed on a loan. A value upon which many homeowners often borrow.

Escrow account

a separate account held by a mortgage lender out of which required property bills, separate from the loan payment, are made. Property taxes and insurance are examples of costs paid out of escrow. Sometimes called an "impound account."

Fair-market-value

the price that a piece of property will bear in the current market.

Fannie Mae

a private mortgage corporation that began as a government subsidized entity in the late 30s. Today Fannie Mae, along with Freddie Mac, is a government sponsored enterprise (GSE) and together they are responsible for setting annual conforming loan limits and assuring that most Americans are able to finance a home. Fannie Mae is commonly known as a secondary mortgage market and lends to mortgage lenders which in turn extend mortgages to borrowers.

FHA

Federal Housing Administration.

FHA loan

loans extended by FHA-approved lenders typically are designed to assist borrowers unable for various reasons to get the approval necessary for conventional home loans.

First time buyer

a home loan borrower who has never taken out a mortgage before; often qualifies for various discounts and first-time buyer perks.

Fixed rate mortgage

a conventional mortgage that is outfitted with a fixed interest rate over the life of the loan. Monthly payments are the same from month to month.

Flood certification

in most real estate cases a lender will require a flood certification before making a loan on a home. In areas where a property falls in a flood zone, the borrower may be required to purchase standalone flood insurance before a mortgage and/or home loan is approved.

Foreclosure

the repossession of a home and/or property by a lender in the event of borrower loan default or the inability to meet mortgage agreements.

**Freddie Mac**

in concert with Fannie Mae, Freddie Mac is a leading government sponsored enterprise (GSE) and is responsible for maintaining reasonable mortgage market stability, this assuring that Americans are able to purchase homes. Freddie Mac is a secondary mortgage market, meaning the corporation lends to lenders, which in turn extend mortgage products directly to borrowers.

Good Faith Estimate

an itemized list of anticipated loan costs and closing fees passed from a lender to a potential borrower within three days of an application for a home loan. This is a required step in the loan application process per the Real Estate Settlement Procedures Act.

Hazard insurance

also known as homeowner's insurance; extra insurance taken out on a home that protects the borrower and lender in the event of damage. Usually covers the value of the home.

High-risk loan

a home loan extended to borrowers with poor credit history or that fall outside the conventional or conforming loan limits set by Fannie Mae and Freddie Mac. Sub-prime loan is an example of a high-risk loan.

Home inspection

a comprehensive and exhaustive examination of a home by a licensed inspector. Often required as part of a mortgage and home loan process.

Home inspection contingency clause

a clause added to an offer letter that gives the buyer certain rights pending home inspection. A buyer may ask the seller to repair defects discovered during the home inspection or even request release from the offer to buy in light of a home inspection.

Home loan

not a mortgage, but the actual amount of money a buyer owes the lender in the purchase of a home.

Home price index

financial and market tool that provides historical data on residential home prices in various regions.

Homeowner's association

an association attached to a neighborhood, apartment, condo or town home complex that establishes certain rules of ownership. Common, but not exhaustive, responsibilities of a homeowner's association includes collection of neighborhood dues for landscape maintenance or membership in recreation and entertainment facilities.

**Homeowner's insurance**

insurance that protects the value of the home for both lender and borrower. Homeowner's insurance typically covers the cost of replacing the home and various parts of the same. Most mortgage lenders require borrowers to carry a term of insurance.

House flipping

the purchase of a house or property at a reduced market rate for the purpose of a quick turnaround, a "flip," and profit. Most house flippers must do some renovation or home fix-up in order to turn a profit on a home.

Housing co-op

a real estate corporation in which buyers own a share of real estate holdings and may reside in a co-op unit. Shareholders do not have mortgages, but pay on a cut of the shares and earn equity over the long term.

HUD loan

a type of loan available to HUD homebuyers that goes toward fixing up a home. The loan is subsequently absorbed into the mortgage. The term "HUD loan" is often confused with "FHA loan."

Impound account

See, Escrow account.

Initial interest rate, introductory

the interest rate at which an Adjustable Rate Mortgage, ARM, will begin. See Adjustable rate mortgage.

Interest rate

a figure calculated as a percentage that is used in the financial industry to indicate the rate charged for use of money in a loan. Interest rates may be fixed or variable. See, Annual percentage rate.

Investment property

real estate bought for investment purposes as opposed to private residential. Often the property will be used for rental purposes, such as rental home, apartments or other spaces that give owners the opportunity to create profit and income over the long term.

Joint ownership

a type of property ownership in which two people share equally in a home and/or property; common for spouses.

Joint tenancy

a type of property ownership in which two or more people share.

**Jumbo mortgage**

a type of high-risk loan, or non-conforming loan, in which the "jumbo" loan amount is higher than that of a conventional loan limit.

Lender fees

typically included in fees associated with closing costs, sometimes called processing fees; designed to cover costs incurred by lenders during the loan process.

Lender, mortgage lender

the bank or finance company that directly awards home loan or mortgage money to a borrower or homebuyer. Legal-mortgagee.

Lien

a formal, legal symbol of money owed on a major asset such as property. Also, mortgage.

Loan

money lent from a financial institution to a creditworthy borrower(s) over a specified period of time and at a particular interest rate.

Maturity

typically applied to the term of a home loan or mortgage; the life span of a mortgage; for example, a 15-year loan matures in 15 years, the period of time in which the debt must be paid off.

Mortgage

a legal document between a mortgagor and a mortgagee that establishes a home and/or property as security for a home loan.

Mortgage broker

he entity that acts as a go-between between a homebuyer and mortgage lender, handling paperwork and finally effecting a mortgage. A broker does not make direct loans to buyers, but works to find the best deal and finally collects fees as part of the mortgage process.

Mortgage calculators

online financial tools available on many sites that allow potential buyers to plug in various personal financial figures to arrive at a mortgage value they can afford.

Mortgage company

could be either a brokerage business or a direct lender.

**Mortgage insurance**

when buyers take out a mortgage with less than a certain dollar percentage to put down on the loan, lenders require them to pay mortgage insurance, a monthly premium that is added to the mortgage. This protects the lender should a buyer default on the home loan.

Mortgage Insurance Premium, MIP

a required 1.5% fee added into a FHA loan, paid at closing.

Mortgage originator

the actual company that lends the mortgage, the "originator."

No-fee mortgage

a sales tactic to attract buyers who may be unable to pay out of pocket closing fees. Typically a no-fee or no-cost mortgage is bundled with a slightly higher interest rate that more than makes up the difference in so-called "no fees" over the life of the loan.

Notice of Incomplete Application, NOIA

a form sent to the buyer that indicates missing or incomplete loan application information. Buyer must provide all required information for the lender to complete the application process.

Offer

a verbal and written offer to buy a home for a certain dollar amount made from a buyer to a seller.

Origination fee

a fee, calculated as a small percentage of the value of the loan, charged by a mortgage lender for processing the loan. One of many fees often due at closing and one that must be disclosed on the Good Faith Estimate when a buyer first completes a loan application.

Payment cap

for an adjustable rate mortgage, this is the maximum payment amount a buyer could ever be expected to pay per month.

Piggyback loan

a second mortgage "piggybacked" onto a first mortgage and used in lieu of mortgage insurance. Cost effectiveness of a piggyback loan depends on current market factors.

Portable mortgage

a type of mortgage that may be carried by the borrower from one home purchase to the next, portable.

**Power of attorney**

a legal document that grants an individual the rights to act on behalf of another. For example, if a borrower dies or becomes incapable of managing his or her home loan or mortgage, a power of attorney assigned by that individual could manage his or her mortgage and related decisions.

Preferred lender

a lender that is closely affiliated with a brokerage based on reputation and other industry factors. A mortgage lender that is recommended by a broker.

Pre-paid costs or fees

any of a number of fees associated with a mortgage and usually paid out of pocket at the time of closing; includes origination fees, underwriting fees, attorney fees, etc.

Pre-qualification

the process in which a homebuyer may find out how much of a home loan he or she would be approved for with a lender; gives many buyers more flexibility when shopping for a home.

Primary mortgage market

direct lenders.

Prime loan

a conforming loan, one whose loan limits fall within those set by Fannie Mae or Freddie Mac and often awarded to borrowers with good credit.

Principal

the amount borrowed on a home loan.

Principal balance

the amount currently owed on a home loan.

Private label mortgage outsourcing

a process in which a private bank or financial lender outsources mortgage products to another lender.

Private mortgage insurance, PMI

a type of insurance many homebuyers are required to purchase, particularly when they are unable to put down a certain dollar amount on the loan; protects the lender in the event of borrower default.

Processing fees

lender fees associated with creating the loan or mortgage, usually part of closing costs.

**Property address**

the physical street address of a home or property, required for mortgage application.

Property appraisal

a fair market value of property performed by a licensed appraiser; takes into account not only condition, but also the value of similar local properties or comparable sales.

Property taxes

annual local taxes charged against the value of a homeowner's property.

Property valuation

see Property appraisal.

Quit claim deed

a document that releases one party in a home title from any responsibility and grants all responsibility to another. Commonly used for spouses or in family situations in which more than one individual has an interest in a mortgage or property title.

Rate commitment option, RCO

see Rate lock.

Rate lock

a short-term agreement by a lender to "hold" a certain interest rate on a home loan while the buyer negotiates a sale transaction. Also, Rate commitment option.

Real estate investment trust

securities or mutual funds that invest directly in real estate.

Real Estate Settlement Procedures Act (RESPA)

this act passed in 1974 reeled in hidden costs, fees and kickbacks that had become widespread among real estate entities. Per this act all fees and costs must be disclosed to both buyers and sellers.

Real estate tax

see Property tax.

Refinance

process by which a borrower/homeowner may negotiate a lower interest rate on a mortgage, thereby lowering monthly payments. They may choose to work with their current lender, or refinance with another lender.

**Remaining balance**

The current balance owed on a home loan.

Remaining term

The current amount of time remaining in the length of the loan.

Repayment schedule

mortgage payments laid out over the life of the loan. Some mortgage calculators let borrowers see their repayment schedule based on the amount of the home loan, the interest rate and monthly payments. See also Amortization.

Reverse mortgage

a type of mortgage designed for homeowners over 62 years of age; gives them access to home's equity in cash payments, frees up money they may use for other important costs or to make needed home repairs. Since reverse mortgages are typically structured as loans, these payments are not typically considered income.

Sales contract

a real estate sales agreement is a formal written contract made between a homebuyer and seller. The document includes property address, condition, purchase price, inspections, date of closing, date of possession and more.

Second mortgage

also known as a home equity loan, a second mortgage gives borrowers flexibility to access the cash equity in their home, usually useful for other high-dollar expenses such as auto and college loans.

Secondary mortgage market

the segment of the mortgage and real estate securities market that deals in the investment of mortgages; not direct mortgage lenders.

Seller's agent

a real estate agent that works on behalf of the home seller.

Short sale

useful tool for lenders and homeowners when foreclosure could be a worst-case scenario. In a real estate short-sale lenders give homeowners permission to discount the home value (an outstanding loan balance) to effect a quick sale, thereby averting foreclosure.

Speculative home market

one in which investors snatch up homes for quick re-sale hoping to cash in on improving markets; considered risky by some.

**Sub-prime loan**

a high-risk loan packaged with non-conforming loan limits and interest rates that make it possible for homebuyers with poor credit to qualify for a mortgage.

Survey

a formal survey of property that establishes boundary lines and defines any types of limits on construction and other features that could affect the value of property; in many cases lenders require buyers to purchase a property survey.

Swing loan

see Bridge loan.

Tenancy in common

one or more persons may possess the property title, but ownership may be declared in various percentages.

Third-party fee

see Closing costs.

Title

the official document used in the real estate industry that specifies at any one time who owns a piece of property.

Title company

a title company typically handles all tasks associated with the property title, including insurance and search.

Title insurance

insurance taken out on the property title that protects both borrower and lender in the event of a title dispute.

Title search

research on a property title usually conducted by a title company to determine if there exist any outstanding liens against the property prior to a sales transaction.

Truth in Lending disclosure

a document that all lenders are required to provide when a borrower applies for a home loan. The document discloses interest rates, the amount to be loaned, plus the final cost of the loan upon maturity.

Turnaround loan

see Bridge loan.

Underwriter

the company or service that evaluates a borrower's creditworthiness prior to loan and mortgage approval.

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VA loan

special, often discounted, home loans designed exclusively for military veterans.

Warranty deed

indicates no past liens or disputes against the property; the holder of the property deed has the right to sell it to another.