Glossary of Mortgage Loan 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 and a margin. Rate changes are made at prescribed times and within prescribed limits (caps) as defined in the mortgage contract.

Adjustment Interval
On an adjustable rate mortgage, the time between changes in the interest rate and/or monthly payment, typically one, three or five years, depending on the index.

Amortization
The gradual repayment of a mortgage by installments.

Annual Percentage Rate - APR
The interest rate reflecting the cost of a mortgage as a yearly rate. This rate is likely to be higher than the stated rate on the mortgage because it takes into account points and other credit costs.

Appraisal
An opinion of the market value of a property, made by a qualified "appraiser".

Appreciation
An increase in value due to changes in market conditions or other causes.

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

Balloon Mortgage
Usually a short-term fixed-rate loan which involves small payments for a certain period of time and one large payment for the remaining amount of the principal at a time specified in the contract.

Buy-Down
When the lender and/or the home builder subsidized the mortgage by lowering the interest rate during the first few years of the loan. While the payments are initially low, they will increase when the subsidy expires.

Cap
A provision of an ARM limiting the interest rate or mortgage payment's increase.

Cash Reserve
Sufficient cash remaining after closing to make the first two mortgage payments.

Closing
The occasion where a sale is finalized; the buyer signs the mortgage, and closing costs are paid. Also called "settlement."

Commitment
A promise by a lender to make a loan on specific terms to a borrower.

Construction Loan
A short term interim loan for financing the cost of construction. The lender advances funds to the builder at periodic intervals as the work progresses.

Contingency
A condition that must be met before a contract is legally binding.

Convertible ARM
An adjustable-rate mortgage that can be converted to a fixed-rate mortgage under specified conditions.

Debt-to-Income Ratio
The ratio, expressed as a percentage, which results when a borrower's monthly payment obligation on long-term debts is divided by his or her gross monthly income.

Deed
The legal document conveying title to a property.

Default
Failure to meet legal obligations in a contract, specifically, failure to make the monthly payments on a mortgage.

Delinquency
Failure to make payments on time. This can lead to foreclosure.

Deposit Cash
Paid to the seller when a formal sales contract is signed.

Depreciation
A decline in the value of a property; the opposite of "appreciation."

Down Payment
Money paid to make up the difference between the purchase price and the mortgage amount.

Earnest Money
Given by buyer to seller as part of the purchase price to bind the transaction.

Equal Credit Opportunity Act - ECOA
Federal law that requires lenders and other creditors to make credit equally available without discrimination based on race, color, religion, national origin, age, sex, marital status or receipt of income from public assistance programs.

Equity
The value an owner has in real estate over and above the loans against the property.

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

Escrow
Refers to a neutral third party who carries out the instruction of both the buyer and seller to handle all the paperwork of settlement or closing. Escrow may also refer to an account held by the lender into which the home buyer pays money for tax or insurance payments.

Foreclosure
Legal process by which the lender or the seller forces a sale of a mortgaged property because the borrower has not met the terms of the mortgage.

Fixed-Rated Mortgage
A mortgage on which the interest rate is set for the term of the loan.

Graduated Payment Mortgage
A type of flexible-payment mortgage where the payments increase for a specified period of time and then level off.

Guaranty
A promise by one party to pay a debt or perform an obligation contracted by another if the original party fails to pay or perform according to a contract.

Hazard Insurance
A form of insurance in which the insurance company protects the insured from specified losses, such as fire, windstorm and the like.

Homeowner's Insurance
A 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.

Housing Expenses-to-Income Ratio
The ratio, expressed as a percentage, which results when a borrower's housing expenses are divided by his/her gross monthly income.

Impound
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.

Index
A published interest rate against which lenders measure the difference between the current interest rate on an adjustable rate mortgage and that earned by other investments, which is then used to adjust the interest rate.

Interest
The fee charged by the lender for borrowing money.

Interim Financing
A construction loam made during completion of a building or a project. A permanent loan usually replaces this loan after completion.

Jumbo Loan
A loan which is larger than $417,000.

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

Loan-to-Value Ratio
The relationship between the amount of the mortgage loan and the appraised value of the property, expressed as a percentage.

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

Margin
The set percentage added 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.

Mortgage Insurance - Private Mortgage Insurance - PMI
Money paid to insure the mortgage when the down payment is less than 20 percent. Insurance provided by a non governmental insurer that protects lenders against a loss if a borrower defaults.

Mortgagee
The lender.

Mortgagor
The borrower / homeowner.

Negative Amortization
Occurs when monthly payments are not large enough to pay all the interest due on the loan. This unpaid interest is added to the unpaid balance of the loan.

Origination Fee
The fee charged by a lender to prepare loan documents, make credit checks, inspect and sometimes appraise a property; usually computed as a percentage of the face value of the loan.

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.

PITI
Principal, Interest, Taxes and Insurance. Also called monthly housing expense.

Points-Loan Discount Points
Prepaid interest assessed at closing by the lender. Each point is equal to 1 percent of the loan amount. They are used to buy the interest rate down.

Power of Attorney
A legal document authorizing one person to act on behalf of another.

Pre-Payment
A privilege in a mortgage permitting the borrower to make payments in advance of their due date.

Pre-Payment Penalty
Money charged for an early repayment of debt.

Principal
The amount of debt, not counting interest, left on a loan.

Qualifying Ratios
Guidelines applied by lenders to determine how large a loan to grant the home buyer. The debt-to-income ratio is

your current monthly debt on loans and credit cards divided by your gross income. The housing-to-income ratio is your new housing payments divided by your gross income.

Recording Fees
Money paid to the lender for recording a home sale with the local authorities, thereby making it part of the public records.

Refinancing
The process of paying off one loan with the proceeds from a new loan secured by the same property. This is most often done to get the better interest rates offered by the new loan.

Second Mortgage
A mortgage made subsequent to another and subordinate to the first one.

Title
A document that gives evidence of an individual's ownership of property.

Title Insurance
A policy, usually issued by a title insurance company, which insures a home buyer against errors in the title search. The cost of the policy is usually a function of the value of the property, and is often borne by the purchaser and/or seller.

Title Search
An examination of municipal records to determine the legal ownership of property. This is usually performed by a title company.

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

Truth-In-Lending
A federal law that requires lenders to full disclose, in writing, the terms and conditions of a mortgage, including the APR and other charges.

Two-Step Mortgage
A mortgage in which the borrower receives a below-market interest rate for a specified number of years, and then receives a new interest rate adjusted (within certain limits) to market conditions at that time.

Underwriting
The decision whether to make a loan based on credit, employment, assets, and other factors and the matching of this risk to an appropriate rate, term & loan amount.

Verification of Deposit (VOD)
A document signed by the borrower's financial institution verifying the status and balance of his/her financial accounts.

Verification of Employment (VOE)
A document signed by the borrower's employer verifying his/her position and salary.