



Common Mortgage Terminology Explained

Acceleration – This refers to a lender’s right to request immediate payment of the balance of the loan when the borrower defaults or by using a stipulation from a Due on Sale Clause

ARM / Adjustable Rate Mortgage – A mortgage that has an interest rate that is periodically adjusted. This adjustment is based off of criteria from an agreed upon index and is also called a variable rate mortgage.

Amortization – Mortgage split into periodic, equally sized payments so that at the end of the agreed upon mortgage period the balance is paid.

Appraisal – A documented official estimation of a property’s value.

Assessment – Tax on a property that serves a specific purpose, like sewers for example.

Assumption – The agreement between a buyer and a seller in which the buyer is taking over payments from the seller on the seller’s existing mortgage.

Balloon Mortgage – This is a loan whose amortization schedule exceeds the length of the mortgage. A final (often large) balloon payment is paid at the end of this end of this extended period of time.

Bridge Loan – A secondary trust used for collateral by the homebuyer’s present property, which permits proceeds to be utilized to close on a new property purchase before the existing one is sold.

Buy Down – A buy down occurs when a lender allows a mortgage rate to be lowered by buyer subsidization.

Caps – Safeguards that set limits on the amount of interest rate or payment change on a monthly basis for ARM’s

Change Frequency – The increment of the number of months that a rate may change in an ARM

Closing – The closing is the final meeting that occurs involving the property buyer, the seller, and the lender during which all legally binding papers are signed and the property purchase deal is “closed” and property ownership is transferred.

Closing Costs – The expenses and fees incurred either by a home buyer or seller at a closing for a variety of tasks, charges, insurances, etc.

Conversion Clause – ARM provision for having the mortgage’s rate be converted to a fixed-rate at some point during the life of the loan.

Credit Report – Official documentation noting the status and history of a potential buyer/borrower.

Default – In a nutshell, not making a payment on time; legally failing to provide required payment to lender by specified deadline.

Down Payment – The money paid during a property purchase that fills the gap between sale price and moneys borrowed.

Equity – The amount left over when comparing money owed on a property to the property’s current value.

Escrow – An escrow account is held by the lending institution in which the borrower pays money for insurance or tax reasons. Escrow describes the deposits that are held when a loan is pending closing.

Escrow Payment – The part of a borrower’s monthly mortgage payment that the lender holds to pay for insurance, lease, or tax purposes.

Fannie Mae – Federal National Mortgage Association; a government backed organization that buys and sells residential mortgages.

Freddie Mac – Federal Home Loan Mortgage Corporation; a government backed organization that acquires mortgages from various depository institutions and HUD-approved lenders.

FHA Loan – A loan that the Federal Housing Administration insures, open to any home buyer that meets certain requirements.

Fixed Installment – The regular monthly payment that is due on a mortgage.

Fixed Rate Mortgage – A mortgage loan whose interest rate will not change for the entire duration of the loan.

Foreclosure – Process by which a mortgage lender legally repossesses and forces the sale of a mortgaged property as a result of the borrow defaulting.

GPM / Graduated Payment Mortgage – Flexible mortgage payment plan in which the borrower’s monthly payments increase for a specific timeframe.

GEM / Growing Equity Mortgage – Mortgage in which the borrower’s payments increase over a set period of time; this larger amount is then applied to the mortgage’s principal in most cases.

Hazard Insurance – Insurance used for protection against various forms of property damage and/or loss.

HUD-1 Statement – This is a document provided by your lender/broker that includes a detailed listing of the moneys needed at closing, including points, escrow, commissions, and other fees.

Impound / Reserves – The amount of the buyer’s monthly payment kept by the lender to pay for various insurances or taxes.

Index – The publicly available market interest rate used by lenders to determine the difference between ARM rates and current interest rates and to set loan sale rates on fixed rate mortgages.

Interest – Monetary fee charged by a lender to a buyer for borrowing money.

Interest Rate Ceiling – The agreed largest possible interest rate for an adjustable rate mortgage.

Interest Rate Floor – The agreed lowest possible interest rate for an adjustable rate mortgage.

Interim Financing – A short-term or temporary loan made while property construction is being completed.

Jumbo Loan – A mortgage that exceeds the limits set by Fannie Mae and Freddie Mac.

Liabilities – The debt owed by a buyer.

Lien – A claim made on a piece of property for exacting payment of a financial obligation.

Lock – Mortgage lender’s written guarantee that the quoted rate is good for a set period of days from the time of issuing.

Margin – The total that a mortgage lender adds to the index on an ARM to set the adjusted rate.

Market Value – The price that a buyer and seller would agree upon for sale of a property.

Maturity – The date that a loan's principal is scheduled to be paid in full.

Mortgage – Document pledging a property to a loan provider as security for a debt's payment.

Mortgage Broker – One who receives compensation for the work of bringing a buyer to a lender for the purpose of completing a loan arrangement.

Mortgage Insurance – Money paid on a regular basis for the purpose of insuring a mortgage on a property whose buyer has less than 20% equity.

Note – A document specifying that a borrower is to repay a loan at a specific interest rate over a specific period of time.

One Year Adjustable Rate Mortgage / One Year ARM – Loan in which the interest rate changes on a yearly basis.

Origination Fee – Fee charged by a lender for the work involved in preparing a loan.

Owner Financing – Property sale in which the seller provides at least some part of the buyer's financing.

Payment Change Date – Date when a new payment amount begins on an ARM or GPM.

PITI – Principal, Interest, Taxes, and Insurance

Points / Loan Discount Points – Interest money paid at closings for the purpose lowering the cost of monthly loan payments. One Point is equal to one percent of the loan's total amount.

Power of Attorney – The legal authorization of one person being able to act in behalf of another.

Preapproval – The process of evaluation a potential buyer goes through to decide how much money a loan can be given to them for.

Prepayment – Mortgage stipulation permitting the borrower to make additional payments before the maturation date.

Prepayment Penalty – Fee charged by a lender to a borrower when the borrower repays the loan earlier than an agreed upon date.

Principal – On a loan, the total amount that remains unpaid by the borrower. On a monthly payment, the amount that goes towards the final paying of the loan.

PMI / Private Mortgage Insurance – Insurance that a buyer must pay for; required when a borrower does not provide a 20% down payment on purchase of a new property.

Rate Lock – Commitment given by a lending institution to a buyer that guarantees a certain interest rate is valid for closing for a specified period of time.

Real Estate Agent – A person that is licensed to negotiate the sale of property.

Rescission – The cancellation of an agreement or contract; the law giving 3 business days for the buyer to cancel a loan arrangement. “Right of Rescission”

Refinancing – The obtainment of a new replacement mortgage on a property that is already mortgaged.

Satisfaction of Mortgage – Document issued to a borrower on the occasion of their repayment of said loan.

Second Mortgage – The acquirement of an additional, subordinate mortgage on a property that is already mortgaged.

Servicing – All the work involved to keep a mortgage in good standing such as paying various tax, insurance, and other costs.

Shared Appreciation mortgage – A mortgage in which the buyer receives a property for less than current market value; in exchange, the seller is granted a portion of future property appreciation values.

Simple Interest – Interest calculated only on the balance owed.

Step Rate Mortgage – A loan in which the interest rate increases based on a set schedule until a set point, after which the rate remains constant.

Title – The document declaring a property's ownership.

Title Insurance – Insurance policy that insures a potential home buyer or lender against errors in a title search.

Title Search – A legal examination of records to determine who is the rightful owner of a property.

Truth in Lending – Federal law that requires the lenders to disclose the APR to a buyer after applying for a loan.

Underwriting – The decision made by a lender on whether or not to provide a loan to a borrower based on their qualifications.