# MORTGAGE TERMINOLOGY

USEFUL MORTGAGE TERMINOLOGY TO UNDERSTAND THROUGH THE ENTIRE LOAN PROCESS.

## APR

The annual percentage rate is the cost of borrowing money from the lender, shown as a percentage of your mortgage amount. The APR includes the interest rate as well as all other fees that are paid over the life of the loan.

## ARM

Adjustable rate mortgages have interest rates that change periodically. Such loans have an introductory period of low, fixed rates, after which they vary, depending on an adjustment index.

## AMORTIZATION

An amortized loan includes regular periodic payments of both principal and interest, that are paid within the term of the loan. Amortization schedules detail the monthly payments and how much of each payment goes to principal and interest.

## ANNUAL INCOME

All the income you've earned over the year in wages, salary, tips, bonuses, commissions, and overtime amount to your annual income. In the case of mortgage applications, lenders primarily focus on income through wages or salary.

## APPRAISAL

When you apply for a home loan, your lender will require that an appraisal is done on the property. This process involves assessing the value of the home through an inspection and by comparing it to similar real estate in the area.

## APPRAISAL FEE

The appraisal fee is a payment for the appraiser who assesses the value of the property you are looking to buy. The lender uses the appraisal report to determine how large of a mortgage to grant you.

## BANKRUPTCY

Declaring bankruptcy means that you have submitted an application to a court that admits you are unable to pay back your debts. Filing for bankruptcy ruins your credit, which leads to problems when applying for loans in the future.

## BORROWER

A mortgage borrower is someone who takes out a home loan to purchase a property. When that person borrows the money, they are making a commitment to pay back that amount in full, on time, and with interest.

## CASH-OUT REFINANCE

A cash-out refinance is when you replace your current home loan with a new mortgage. You agree to a larger loan amount in order to use the equity you've earned on your home.

## CLOSING CHECKLIST

Closing checklists are important to keep track of all the items that need to be taken care of prior to closing. It lists everything from the payments that need to be made to the documents that need to be signed.

## CLOSING COSTS

Closing costs involve all the fees and costs that need to be paid before or at the time of closing. Your mortgage contract and disclosures go over all the costs that will be incurred by you as the buyer, the seller, and the lender.

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## CLOSING DISCLOSURE

Out of the numerous documents that you will come across during the mortgage process, your Closing Disclosure is one of the most important. This 5-page document specifies the terms of your home loan, such as your monthly payments, interest rates, and closing costs.

## CO-BORROWER

By having co-borrowers join your loan application, their income, assets, and credit score can help you qualify for a loan and get lower interest rates. Co-borrowers are equally liable to pay back the loan.

## CONVENTIONAL LOAN

Conventional loans are provided by lenders who are not insured by the FHA. These mortgages have an added risk, and therefore require higher down payments.

## COSIGNER

A co-signer can help you qualify for mortgages by signing the loan application with you. Co-signers have no interest in owning the property, but their credit score, income, and assets will count towards getting you a lower interest rates.

## CREDIT HISTORY

When applying for a mortgage, lenders will be looking at your credit history, which is a compilation of your borrowing and payment habits. It shows the lender how likely you are to repay the loan they grant you.

## CREDIT REPORT

Credit reports are detailed accounts of a person's credit history and payment habits. Lenders use this report to determine whether or not a borrower is liable to default on a home loan.

## CREDIT REQUIREMENTS

The FHA sets credit requirements that you must meet if you are to qualify for a government-backed home loan. In order to use the 3.5 percent minimum down payment option, you must have a FICO score no lower than 580.

## CREDIT SCORE

Your credit score is a number that represents your creditworthiness to lenders who are determining whether to grant you a loan. FICO scores are the most widely accepted credit scores.

## DEBT RATIO

The debt ratio shows your long-term and short-term debt as a percentage of your total assets. The lower your debt-ratio, the better your chances are of qualifying for a mortgage.

## DISCLOSURE

During the mortgage transaction process, you will be given disclosure documents that provide different details about the home loan agreement.

## DOWN PAYMENT

The down payment on your house is the amount you pay the lender upfront in order to secure the loan. The amount differs based on what you can afford, and the loan requirements that vary according to the lender.

## EARNEST MONEY

You pay the earnest money deposit once your offer for purchase has been accepted by the seller, to prove that you are invested in buying the home.

## ELIGIBILITY

To become eligible for an new FHA mortgage or an FHA refinance, there are certain criteria you'll need to meet as a borrower. When it comes to a borrower's eligibility, the FHA loan program offers a lot of flexibility.

## EQUITY

Home equity is the amount of ownership you have in your home. The equity on your home increases as you make payments, because you own more of it.

## ESCROW

Your escrow account is set up by your lender in order to collect funds that go toward paying property taxes and home insurance.

## FHA

The Federal Housing Administration, or the FHA, is a government-run agency that provides insurance on FHA-approved mortgage loans, in order to increase affordable housing in the U.S.

## FHA HANDBOOK

FHA home loans have a set of rules and guidelines which participating lenders need to follow in order for loans to be insured by the US government. These rules are collected in a single reference book called HUD 4000.1.

## FHA LIMITS

The FHA has established limits on amount it can insure on government-backed loans. These limits vary based on factors such as location, type of property, and parameters for conventional loans.

## FHA LOAN

FHA loans are insured by the government in order to help increase the availability of affordable housing in the U.S. These loans are backed by the FHA, which protects lenders from significant losses.

## FHA MINIMUM STANDARDS

HUD requires that any home being financed with an FHA mortgage meets the FHA's Minimum Standards. In order for a loan to be granted, the property must be deemed safe, secure, and sound.

## FHA REQUIREMENTS

The FHA has guidelines that applicants must meet in order to be approved for a government-backed loan. The FHA requirements are set and managed along with the U.S. Department of Housing and Urban Development.

## FICO SCORE

Your FICO score is a number that represents your creditworthiness. One of the most widely accepted credit scores, this number comes from an algorithm developed by Fair, Isaac and Company in the 1950. FICO debuted as a general-purpose score in 1989.

## FANNIE MAE

Fannie Mae is a government agency that buys mortgages from lenders in order for them to reinvest their assets. Its mission is to stimulate the secondary mortgage market in the U.S. and increase availability of low cost housing.

## FIRST-TIME HOMEBUYER

The U.S. Department of Housing and Urban Development (HUD) sets specific criteria to classify first time homebuyers. This helps lenders properly identify these consumers and consequently allows HUD to track that number annually.

## FIXED RATE MORTGAGE

A fixed rate mortgage has an interest rate that remains the same for the entire term of the loan. If your interest rate is fixed, your monthly payments do not rise or fall.

## FORECLOSURE

A foreclosure is when a borrowers gives up all rights to his/her home as a result of not making monthly mortgage payments. The foreclosed property is then seized and sold by the lender to recover the loss.

## FREDDIE MAC

Freddie Mac is a government agency that buys mortgages from lenders in order for them to grant more loans to home buyers. The agency works to stimulate the real estate market and increase availability of low cost housing.

## GOOD FAITH ESTIMATE

The Good Faith Estimate is a document that offers potential homebuyers basic information about their home loan, with an estimate of the costs that go into acquiring one.

## HUD

The HUD is a government organization that works to increase affordable housing by implementing programs and policies that stimulate the real estate market.

## HUD-1 SETTLEMENT STATEMENT

The HUD-1 Settlement Statement was a document that outlined home loan terms. It was replaced by the Closing Disclosure form as of October, 2015, under the administration of the Consumer Financial Protection Bureau.

## HOME EQUITY LOAN

As a homeowner, you have the option to tap into your home's equity and borrow money using it as collateral. This is called a home equity loan, but is also known as a second mortgage since it is in addition to the actual home loan.

## HOME INSPECTION

As a borrower, you may need to get a home inspection done, where a professional evaluates the condition of the house based on a visual assessment. The report will give you details on any problems with condition of the home.

## IDENTITY THEFT

Identity theft is serious crime where your personal information, such as your full name, social security number, date of birth, is stolen in order to commit fraudulent activities.

## INTEREST RATE

The interest rate on your loan is a percentage of the loan amount that you pay the lender as the cost for borrowing money. A mortgage can have a fixed or adjustable interest rate.

## JOINT LOAN

When you enter a mortgage agreement with a co-borrower who is equally responsible to repay the loan, it is called a joint loan. Having another credit score and income contributing the loan application can help qualify for a home loan.

## JUMBO LOAN

A jumbo loan is a mortgage with an amount that exceeds the limits set by Fannie Mae and Freddie Mac. A jumbo loan is a good option if you're looking to buy an expensive, luxury home, can afford a large down payment, and have a great credit score.

## LENDER

Your lender is the person or institution granting you a mortgage loan. Lenders loan you money to buy a home, with the understanding that you will make regular payments, with interest, to pay off the loan.

## LOAN APPLICATION

To get the mortgage process underway, you have to fill out and submit a loan application to your lender. The application form and its supporting documents are used to determine your eligibility for the home mortgage.

## LOAN APPROVAL

Your loan is approved when the lenders officially grant you a mortgage, based on the information you proved in your loan application.

## LOAN BALANCE

Your loan balance is the amount you still owe on the mortgage principal, which is the original sum you borrowed. A portion of your monthly payments go towards paying off the balance.

## LOAN CALCULATOR

Using a loan calculator, you can determine your monthly payments for a fixed-rate mortgage. Input your loan amount, interest, and term in the loan calculator to see how much you need to pay every month.

## LOAN GUIDELINES

In order to be approved for a mortgage, all borrowers must meet certain guidelines. When it comes to FHA loans, the guidelines are a little more lenient and easier for first-time buyers to meet.

## LOAN ADVISOR

The loan advisor works at the lending institution where you've applied for a mortgage at. They are responsible for matching a mortgage program to your needs and processing your loan application.

## LOAN TERM

A loan term is the amount of time during which a borrower makes monthly payments towards a home loan. The loan term is subject to change, depending on the borrower's payment habits and possible refinancing of the mortgage.

## LOAN-TO-VALUE RATIO

The loan-to-value ratio compares the loan amount to the actual value of the house. The LTV metric is used to determine the risk of granting a mortgage loan, as well as the mortgage insurance rates and costs that go with it.

## MIP

In order to qualify for an FHA-approved loan, you will be required to pay a mortgage insurance premium. This insurance protects lenders from incurring a loss in case you are unable to make monthly payments.

## MONTHLY PAYMENT

Monthly payments are made to pay off a mortgage loan. The amount goes towards paying the principal balance and interest, and is determined according to the down payment, term, interest rate and cost of the property.

## MORTGAGE

When shopping for a new home, most people apply for a mortgage in order to finance it. This is a loan that allows you to borrow money to buy the property, and then make monthly payments to repay the debt with interest.

## MORTGAGE CLOSING

When buying a home, the mortgage closing on a home is the final step in the transaction between you and the seller. This settlement meeting is when property title is handed over to the new homeowner, and funds are transferred to the seller in exchange.

## ORIGINATION FEE

A lot of work goes into processing a mortgage transaction. As the one borrowing money, you will be required to pay an origination fee to cover the costs of putting the mortgage in place.

## OWNER OCCUPIED

When applying for a mortgage, it's important to note that the FHA will insure your home loan only if you plan on purchasing or refinancing a property that serves as your primary residence. In other words, an FHA mortgage product is available exclusively.

## PMI

In the case of conventional loans, you will need to pay for Private Mortgage Insurance. Many lenders require it so that they are protected from huge losses in the event of a borrower defaulting on a mortgage.

## PRE-APPROVAL

Getting pre-approved gives you more credibility as a buyer, since a lender has certified that you are likely to qualify for a mortgage loan based on a preliminary assessment.

## PREPAYMENT

By making prepayments on a home loan, you are paying off your principal loan earlier than the amortization schedule, and reducing the total amount you pay in interest towards the mortgage.

## PREQUALIFICATION

Before shopping for a home,you should have an idea of how much you can afford to spend. With a prequalification, you can get an initial estimate of the mortgage amount a lender will loan you.

## PRINCIPAL

The loan balance is what you as a borrower have left to pay on the mortgage principal. Excluding interest, this is the amount you owe in order to pay back the money borrowed from the lender.

## PROPERTY TAX

Property taxes are paid to the governing body of the area your house is located in. The amount you pay depends on the area and the type of property.

## PROPERTY TITLE

At closing, you will receive the property title that states you are the owner of the home you purchased. The title company issues the document as evidence that you bought the property legally, and no one else has claims to it.

## REVERSE MORTGAGE

A reverse mortgage's loan balance increases over time, because payments are not made until the borrower moves or dies. This is a popular option for seniors, if they are looking to supplement their income.

## SECOND MORTGAGE

Second mortgages are loans taken out on property that is already being used as collateral for a home loan. These loans can be in the form of a home equity loan, or home equity line of credit.

## SINGLE FAMILY HOME

A single family home is classified as an individual, unattached dwelling structure. For the purposes of an FHA loan, it is an owner occupied home, which means that the borrower must intend to use the home as their primary residence.

## STREAMLINE REFINANCE

The FHA Streamline Refinance is an option for homeowners looking to lower the interest rate and monthly payments on their existing FHA mortgage. This lets borrowers refinance with a process that is streamlined to cut down on the time and effort spent.

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