MORTGAGE TERMS

Acceleration Clause – This is a clause used in a mortgage that can be enforced to make the entire amount of the loan and any interest due immediately. This is usually stipulated if you default on a specified number of installment payments (in some case, just one payment).

Adjustment Period – The length of time which dictates interest rate adjustments on an adjustable rate mortgage. A six-month ARM would have an adjustment every six months.

Adjustable Rate Mortgage (ARM) - A mortgage in which the interest rate changes at certain intervals during the term of the loan. *If you can not afford increases in monthly mortgage payments, this type of loan should be avoided.*

Annual Percentage Rate (APR) – Calculation which standardizes rates, point, and other costs of a mortgage loan. This figure is disclosed as part of the truth-in-lending statement, which is required by the Federal Truth-In-Lending Act. This rate is likely to be higher than the stated note rate or advertised rate on the mortgage, because it takes into account points and other credit costs such as private mortgage insurance, loan discount, origination fees, and other credit costs. The APR allows homebuyers to compare different types of mortgages based on the annual cost for each loan.

Application – the first step in the official loan approval process; this form is used to record important information about the potential borrower necessary to the underwriting process.

Appraisal - An estimate of value -- in this case for real property. For residential properties the appraiser would utilize the Uniform Residential Appraisal Report or URAR. *Ask for a copy of the appraisal report and also check with the Summit County Fiscal Office to inquiry as to the current appraised value of the property, call Customer Service at (330) 643-2623.*

Assignment of Mortgage – A document used to transfer ownership of a mortgage from one party to another.

Assumption of a Mortgage – The document that changes the liability of the payment from the buyer to the seller. The seller can still be held liable for payments if the buyer defaults, unless the buyer is qualified for the loan and seller is removed from the title. The Assumption Agreement is the written agreement that is filed to perform the transaction. The Assumption Fee is the lender charged fee to process the transaction.

Balloon Payment – A loan with fixed rate payments for the first five to seven years of the loan then a lump sum payment is due on the balance of the loan at a specified date. The mortgage does not fully amortize over the term of the mortgage.

Bankruptcy – When an individual or business is unable to pay back creditors and will stop foreclosure proceedings. The individual or business files bankruptcy with the courts surrenders all assets to the court and is no longer obligated to repay any unsecured debts.

Binder – A title binder is a written commitment from the title insurance company to insure title to the property subject to conditions listed.

Borrower – A person who has been approved to receive a loan and is then obligated to repay it and any additional fees according to the loan terms.

Budget – A detailed record of all income earned and spent during a specific period of time (normally monthly).

Buydown – A fee paid to lower the interest rate on a mortgage, the buyer, seller, or any other interested party may pay it. A permanent buy down would lower the rate for the entire term of the mortgage. A temporary buy down would lower the rate for a certain portion of the mortgage term, usually the first few years.

Caps (Interest) – Consumer safeguards on the interest rate of an adjustable rate mortgage that limit the interest that can be charged per year and the life of the loan.

Caps (Payment) – Consumer safeguards the limit on how much the monthly mortgage payment of an adjustable rate mortgage may change.

Certificate of Title – A document provided by a qualified source (such as a title company) that shows the property legally belongs to the current owner; before the title is transferred at closing, it should be clear and free of all liens or other claims.

Clear Title – Title that is free of liens or defects.

Closed-End Mortgage – A mortgage where the debt cannot be increased.

Closing Costs – Fees and costs that both buyer and seller must pay at closing. Closing costs over $3,000 inquiry before paying. They generally include origination fee, discount fee, appraisal fee, credit report, title search, recording fees and other costs described in the HUD I at settlement.

Conventional Mortgage - A mortgage not guaranteed by government such as a VA or insured by FHA, FMHA or State Bond Agencies.

Credit History – History of an individual's debt payment; lenders use this information to gauge a potential borrower's ability to repay a loan.

Credit Report – A record that lists all past and present debts and the timeliness of their repayment; it documents an individual's credit history.

Credit Bureau Score – A number representing the possibility a borrower may default; it is based upon credit history and is used to determine ability to qualify for a mortgage loan.

Debt-To-Income Ratio – This is a key ratio used to determine the amount of money an individual can borrow. It is the monthly debt (payment obligation) divided by your gross monthly income. This gives a percentage that is compared to the guidelines provided by the investor for approval on your loan.

Deed – The document that transfer ownership of a property.

Deed-in-Lieu – A loss mitigation option to avoid foreclosure ("in lieu" of foreclosure), a deed is given to the lender to fulfill the obligation to repay the debt; this process does not allow the borrower to remain in the house but helps avoid the costs, time, and effort associated with foreclosure.

Default - The non-payment of a mortgage or other loan in accordance with the terms as specified in the note.

Delinquency – When a borrower is not making monthly payments on time. If several payments are missed, this can lead to foreclosure.

Discount Point – A charge by a lender collected to buy down the interest rate.

Down Payment – Money given by the purchaser of a property to the seller to acquire the mortgage and hence the property. The difference between the sales price and the mortgage amount are the down payment.

Earnest Money – Money put down by a potential buyer to show that he or she is serious about purchasing the home; it becomes part of the down payment if the offer is accepted, is returned if the offer is rejected, or is forfeited if the buyer pulls out of the deal.

Escrow - Money held by a third party on behalf of the first party to be utilized for requirements of a second party. A servicer is a third party, which holds an escrow on behalf of the borrower to pay taxes and insurance payments to the applicable entities when they become due.

Escrow Account – An account created by the mortgage company where amounts are put in every month to pay property taxes, insurance, and private mortgage insurance.

Equity – Refers to the value a homeowner builds into their property that is above and beyond what is owed on the property.

Fair Market Value – The price that a willing buyer and seller will agree upon when they are acting freely, carefully, and with complete knowledge of the market situation.

FHA – Federal Housing Administration; established in 1934 to advance homeownership opportunities for all Americans; assists homebuyers by providing mortgage insurance to lenders to cover most losses that may occur when a borrower defaults; this encourages lenders to make loans to borrowers who might not qualify for conventional mortgages.

Fixed Rate Mortgage - A mortgage in which the interest rate (and usually the payment) does not change over the term of the mortgage.

Forbearance – A loss mitigation option that is an agreement between lender and borrower that legal action will not be taken against the borrower if the borrower agrees to make up the payments in arrears by a specific date.

Foreclosure – A legal procedure where if the loan is defaulted – it can be sold through legal procedures to pay off any debt owed to the lender.

Good Faith Estimate – An estimate of all closing fees including pre-paid and escrow items as well as lender charges; must be given to the borrower within three days after submission of a loan application.

Home Inspection – An examination of the structure and mechanical systems to determine a home's safety; makes the homebuyer aware of any repairs that may be needed.

Home Warranty - Offers protection for mechanical systems and attached appliances against unexpected repairs not covered by homeowner's insurance; overage extends over a specific time period and does not cover the home's structure.

Homeowner's Insurance – An insurance policy that combines protection against damage to a dwelling and is contents with protection against claims of negligence or inappropriate action that result in someone's injury or property damage.

Housing Counseling Agency - Provides counseling and assistance to individuals on a variety of issues, including loan default, foreclosure, fair housing, and home buying or refinancing.

HUD – The U.S. Department of Housing and Urban Development; established in 1965, HUD works to create a decent home and suitable living environment for all Americans; it does this by addressing housing needs, improving and developing American communities, and enforcing fair housing laws.

HUD-1 Settlement Statement – Also know as the "Settlement Sheet," it itemizes all closing costs; must be given to the borrower at or before closing.

HVAC – Heating, Ventilation and Air Conditioning; a home's heating and cooling system.

Index – A measurement used by lenders to determine changes to the Interest rate charged on an adjustable rate mortgage.

Interest – A fee charged for the use of money.

Interest Rate – The amount of interest charged on a monthly loan payment; usually expressed as a percentage.

Investor – The owner of a mortgage for whom the mortgage banker services the loan. This can be any person or institution that buys mortgage loans from the lenders.

Judgment – A legal decision; when requiring debt repayment, a judgment may include a property lien that secures the creditor's claim by providing a collateral source.

Lease Purchase – Assists purchasing a home by allowing the borrower to lease a home with an option to buy; the rent payment is made up of the monthly rental payment plus an additional amount that is credited to an account for use as a down payment.

Lien – A legal claim against property that must be satisfied when the property is sold.

Loan Fraud – Purposely giving incorrect information or purposely agreeing to incorrect information on a loan application in order to qualify for a loan; can result in civil liability or criminal penalties.

Loan-To-Value (LTV) Ratio – A percentage calculated by dividing the amount borrowed by the price or appraised value of the home to be purchased; the higher the LTV, the less cash a borrower is required to pay as down payment.

Loss Mitigation - If in default with payments, the borrower needs to inquiry into loss mitigation options offered by the lender (if any) that would be an alternative to foreclosure such as repayment plans, loan modification, forbearances, pre-foreclosure sale, deed-in-lieu, etc.

Mortgage – A lien on the property that secures the promise to repay a loan.

Mortgage Banker – A company that originates loans and resells them to secondary mortgages.

Mortgage Broker – An individual or company that brings borrowers and lenders together for the purpose of a loan origination. Mortgage brokers typically process loans for a number of lenders and require a fee or commission for their services.

Mortgage Insurance – A policy that protects lenders against some or most of the losses that can occur when a borrower defaults on a mortgage loan; mortgage insurance is required primarily for borrowers with a down payment of less than 20% of the home's purchase price.

Mortgage Insurance Premium (MIP) - A monthly payment, usually part of the mortgage payment, paid by a borrower for mortgage insurance.

Mortgage Modification – A loss mitigation option that allows a borrower to refinance and/or extend the terms of the mortgage loan and thus, reduce the monthly payments.

Negative Amortization – The principal balance of your loan increases rather than decreases. This happens when the money you pay on the loan doesn't cover the cost of the interest due on the loan.

Offer – Indication by a potential buyer of willingness to purchase a home at a specific price; generally put forth in writing.

Originator – The process of preparing, submitting, and evaluating a loan application; generally includes a credit check, verification of employment, and a property appraisal.

Originator Fee – The charge for originating a loan; is usually calculated in the form of points and paid at closing.

Partial Claim – A loss mitigation option offered by the FHA that allows a borrower, with help from a lender, to get an interest-free loan from HUD to bring their mortgage payments up-to-date.

PITI – The total mortgage payment comprised of (P) principal and (I) interest, as well as (T) real estate taxes and (I) insurance (if the latter two are applicable).

Point - A charge by a lender. One point is equal to 1% of the mortgage amount.

Pre-Approval – This allows you the ability to get approved for a specific loan amount prior to finding the home you want to purchase. This can give you a great advantage with a homeowner or realtor if someone else is interested in the same home at the same time. Also, if you're thinking about refinancing and wanting to payoff creditors or take cash out but not sure you would qualify – you can apply for a pre-approval and save on the cost of getting an appraisal on your home until you know if you qualify.

Pre-Foreclosure Sale – Also know as "Short Sale," allows a defaulting borrower to sell the mortgaged property to satisfy the loan and avoid foreclosure.

Pre-Payment Penalty – A financial penalty imposed when a borrower pays off the loan early. This fee is intended to reimburse the lender for any lost interest due to the loan being paid off early. *This feature is in favor of the lender, not the borrower.*

Pre-Qualification – A lender informally determines the maximum amount an individual is eligible to borrow.

Principal – The amount borrowed from a lender; does not include interest or additional fees.

Private Mortgage Insurance (PMI) – On a conventional loan PMI is required if you borrow over 80.01% of your appraised value. This protects the lender against financial loss if the loan is defaulted.

Realtor – An individual who is licensed to negotiate and arrange real estate sales and a member of the National Association of Realtors, and its local and state associations.

Refinancing – Paying off one loan by obtaining another; refinancing is generally done to secure better loan terms (like a lower interest rate or fix rate).

RESPA – Real Estate Settlement Procedures Act; a law protecting borrowers from abuses during the residential real estate purchase and loan process by requiring lenders to disclose all settlement costs, practices, and relationships. Also, borrower can write to servicers or lender asking to document all payments through a letter.

Reverse Mortgage - A reverse mortgage enables older homeowners (62+) to convert part of the equity in their homes into tax-free income without having to sell the home, give up title, or take on a new monthly mortgage payment.

Servicer – A company hired by the lender to handle customer service inquiries, receive mortgage payments, and work with delinquent borrowers.

Title Insurance – Insurance that protects the lender against any claims that arise from arguments about ownership of the property; also available for homebuyers.

Title Search – A check of public records to be sure that the seller is the recognized owner of the real estate and that there are no unsettled liens or other claims against the property.

Truth-In-Lending – A federal law obligating a lender to give full written disclosure of all fees, terms, and conditions associated with the loan initial period and then adjusts to another rate that lasts fro the term of the loan.

Underwriting – Refers to the decision making process lenders use to review all the information on a borrower and a proposed property.

Uniform Residential Loan Application Form – A form accepted by all major mortgage sources for application of residential mortgage loans. It may also be referred too as Form 1003.

Uniform Settlement Statement (HUD-1) - Settlement summary form required by RESPA to be used by closing agents.

VA - Department of Veterans Affairs: a federal agency, which guarantees loans, made to veterans; similar to mortgage insurance, a loan guarantee protects lenders against loss that may result from a borrower default.