Mortgage Glossary

Acceleration Clause

Provision in a mortgage that allows the lender to demand payment of the entire principal balance if a monthly payment is missed or some other default occurs.

Additional Principal Payment

A way to reduce the remaining balance on the loan by paying more than the scheduled principal amount due.

Adjustable-Rate Mortgage (ARM)

A mortgage with an interest rate that changes during the life of the loan according to movements in an index rate. Sometimes called AMLs (adjustable mortgage loans) or VRMs (variable-rate mortgages).

Adjusted Basis

The cost of a property plus the value of any capital expenditures for improvements to the property minus any depreciation taken.

Adjustment Date

The date that the interest rate changes on an adjustable-rate mortgage (ARM).

Adjustment Period

The period elapsing between adjustment dates for an adjustable-rate mortgage (ARM).

Affordability Analysis

An analysis of a buyer's ability to afford the purchase of a home. Reviews income, liabilities, and available funds, and considers the type of mortgage you plan to use, the area where you want to purchase a home, and the closing costs that are likely.

Amortization

The gradual repayment of a mortgage loan, both principal and interest, by installments.

Amortization Term

The length of time required to amortize the mortgage loan expressed as a number of months. For example, 360 months is the amortization term for a 30-year fixed-rate mortgage.

Annual Percentage Rate (APR)

The cost of credit, expressed as a yearly rate including interest, mortgage insurance, and loan origination fees. This allows the buyer to compare loans, however APR should not be confused with the actual note rate.

Appraisal

A written analysis prepared by a qualified appraiser and estimating the value of a property.

Appraised Value

An opinion of a property's fair market value, based on an appraiser's knowledge, experience, and analysis of the property.

Asset

Anything owned of monetary value including real property, personal property, and enforceable claims against others (including bank accounts, stocks, mutual funds, etc.).

Assignment

The transfer of a mortgage from one person to another.

Assumability

An assumable mortgage can be transferred from the seller to the new buyer. Generally requires a credit review of the new borrower and lenders may charge a fee for the assumption. If a mortgage contains a due-on-sale clause, it may not be assumed by a new buyer.

Assumption Fee

The fee paid to a lender (usually by the purchaser of real property) when an assumption takes place.

Balance Sheet

A financial statement that shows assets, liabilities, and net worth as of a specific date.

Balloon Mortgage

A mortgage with level monthly payments that amortizes over a stated term but also requires that a lump sum payment be paid at the end of an earlier specified term.

Balloon Payment

The final lump sum paid at the maturity date of a balloon mortgage.

Before-tax Income

Income before taxes are deducted.

Biweekly Payment Mortgage

A plan to reduce the debt every two weeks (instead of the standard monthly payment schedule). The 26 (or possibly 27) biweekly payments are each equal to one-half of the monthly payment required if the loan were a standard 30-year fixed-rate mortgage. The result for the borrower is a substantial savings in interest.

Bridge Loan

A second trust that is collateralized by the borrower's present home allowing the proceeds to be used to close on a new house before the present home is sold. Also known as "swing loan."

Broker

An individual or company that brings borrowers and lenders together for the purpose of loan origination.

Buydown

When the seller, builder or buyer pays an amount of money up front to the lender to reduce monthly payments during the first few years of a mortgage. Buydowns can occur in both fixed and adjustable rate mortgages.

Cap

Limits how much the interest rate or the monthly payment can increase, either at each adjustment or during the life of the mortgage. Payment caps don't limit the amount of interest the lender is earning and may cause negative amortization.

Certificate of Eligibility

A document issued by the federal government certifying a veteran’s eligibility for a Department of Veterans Affairs (VA) mortgage.

Certificate of Reasonable Value (CRV)

A document issued by the Department of Veterans Affairs (VA) that establishes the maximum value and loan amount for a VA mortgage.

Change Frequency

The frequency (in months) of payment and/or interest rate changes in an adjustable-rate mortgage (ARM).

Closing

A meeting held to finalize the sale of a property. The buyer signs the mortgage documents and pays closing costs. Also called "settlement."

Closing Costs

These are expenses - over and above the price of the property- that are incurred by buyers and sellers when transferring ownership of a property. Closing costs normally include an origination fee, property taxes, charges for title insurance and escrow costs, appraisal fees, etc. Closing costs will vary according to the area country and the lenders used.

Compound Interest

Interest paid on the original principal balance and on the accrued and unpaid interest.

Consumer Reporting Agency (or Bureau)

An organization that handles the preparation of reports used by lenders to determine a potential borrower's credit history. The agency gets data for these reports from a credit repository and from other sources.

Conversion Clause

A provision in an ARM allowing the loan to be converted to a fixed-rate at some point during the term. Usually conversion is allowed at the end of the first adjustment period. The conversion feature may cost extra.

Credit Report

A report detailing an individual's credit history that is prepared by a credit bureau and used by a lender to determine a loan applicant's creditworthiness.

Credit Risk Score

A credit score measures a consumer's credit risk relative to the rest of the U.S. population, based on the individual's credit usage history. The credit score most widely used by lenders is the FICO® score, developed by Fair, Issac and Company. This 3-digit number, ranging from 300 to 850, is calculated by a mathematical equation that evaluates many types of information that are on your credit report. Higher FICO® scores represents lower credit risks, which typically equate to better loan terms. In general, credit scores are critical in the mortgage loan underwriting process.

Deed of Trust

The document used in some states instead of a mortgage. Title is conveyed to a trustee.

Default

Failure to make mortgage payments on a timely basis or to comply with other requirements of a mortgage.

Delinquency

Failure to make mortgage payments on time.

Deposit

This is a sum of money given to bind the sale of real estate, or a sum of money given to ensure payment or an advance of funds in the processing of a loan.

Discount

In an ARM with an initial rate discount, the lender gives up a number of percentage points in interest to reduce the rate and lower the payments for part of the mortgage term (usually for one year or less). After the discount period, the ARM rate usually increases according to its index rate.

Down Payment

Part of the purchase price of a property that is paid in cash and not financed with a mortgage.

Effective Gross Income

A borrower's normal annual income, including overtime that is regular or guaranteed. Salary is usually the principal source, but other income may qualify if it is significant and stable.

Equity

The amount of financial interest in a property. Equity is the difference between the fair market value of the property and the amount still owed on the mortgage.

Escrow

An item of value, money, or documents deposited with a third party to be delivered upon the fulfillment of a condition. For example, the deposit of funds or documents into an escrow account to be disbursed upon the closing of a sale of real estate.

Escrow Disbursements

The use of escrow funds to pay real estate taxes, hazard insurance, mortgage insurance, and other property expenses as they become due.

Escrow Payment

The part of a mortgagor's monthly payment that is held by the servicer to pay for taxes, hazard insurance, mortgage insurance, lease payments, and other items as they become due.

Fannie Mae

A congressionally chartered, shareholder-owned company that is the nation's largest supplier of home mortgage funds.

FHA Mortgage

A mortgage that is insured by the Federal Housing Administration (FHA). Also known as a government mortgage.

FICO Score

FICO® scores are the most widely used credit score in U.S. mortgage loan underwriting. This 3-digit number, ranging from 300 to 850, is calculated by a mathematical equation that evaluates many types of information that are on your credit report. Higher FICO® scores represent lower credit risks, which typically equate to better loan terms.

First Mortgage

The primary lien against a property.

Fixed Installment

The monthly payment due on a mortgage loan including payment of both principal and interest.

Fixed-Rate Mortgage (FRM)

A mortgage interest that are fixed throughout the entire term of the loan.

Fully Amortized ARM

An adjustable-rate mortgage (ARM) with a monthly payment that is sufficient to amortize the remaining balance, at the interest accrual rate, over the amortization term.

GNMA

A government-owned corporation that assumed responsibility for the special assistance loan program formerly administered by Fannie Mae. Popularly known as Ginnie Mae.

Growing-Equity Mortgage (GEM)

A fixed-rate mortgage that provides scheduled payment increases over an established period of time. The increased amount of the monthly payment is applied directly toward reducing the remaining balance of the mortgage.

Guarantee Mortgage

A mortgage that is guaranteed by a third party.

Housing Expense Ratio

The percentage of gross monthly income budgeted to pay housing expenses.

HUD-1 statement

A document that provides an itemized listing of the funds that are payable at closing. Items that appear on the statement include real estate commissions, loan fees, points, and initial escrow amounts. Each item on the statement is represented by a separate number within a standardized numbering system. The totals at the bottom of the HUD-1 statement define the seller's net proceeds and the buyer's net payment at closing.

Hybrid ARM (3/1 ARM, 5/1 ARM, 7/1 ARM)

A combination fixed rate and adjustable rate loan - also called 3/1,5/1,7/1 - can offer the best of both worlds: lower interest rates (like ARMs) and a fixed payment for a longer period of time than most adjustable rate loans. For example, a "5/1 loan" has a fixed monthly payment and interest for the first five years and then turns into a traditional adjustable rate loan, based on then-current rates for the remaining 25 years. It's a good choice for people who expect to move or refinance, before or shortly after, the adjustment occurs.

Index

The index is the measure of interest rate changes a lender uses to decide the amount an interest rate on an ARM will change over time. The index is generally a published number or percentage, such as the average interest rate or yield on Treasury bills. Some index rates tend to be higher than others and some more volatile.

Initial Interest Rate

This refers to the original interest rate of the mortgage at the time of closing. This rate changes for an adjustable-rate mortgage (ARM). It's also known as "start rate" or "teaser."

Installment

The regular periodic payment that a borrower agrees to make to a lender.

Insured Mortgage

A mortgage that is protected by the Federal Housing Administration (FHA) or by private mortgage insurance (MI).

Interest

The fee charged for borrowing money.

Interest Accrual Rate

The percentage rate at which interest accrues on the mortgage. In most cases, it is also the rate used to calculate the monthly payments.

Interest Rate Buydown Plan

An arrangement that allows the property seller to deposit money to an account. That money is then released each month to reduce the mortgagor's monthly payments during the early years of a mortgage.