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## MORTGAGE ABCs

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**Annual Percentage Rate (APR):** calculated by using a standard formula, the APR shows the cost of a loan; when expressed as a yearly interest rate, it includes the interest, points, mortgage insurance and other fees associated with the 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:** 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

**Closing:** in real estate, the delivery of a deed, the signing of a note and the disbursement of funds necessary to consummate a sale or loan transaction

**Closing costs** customary costs above and beyond the sale price of the property that must be paid to cover the transfer of ownership at closing; these costs generally vary by geographic location and are typically detailed by the borrower after submission of a loan application

**Comparables:** comparable properties which are used in the determination of the value of a property in an appraisal; properties of approximate size, location, amenities and quality of construction which have been recently sold are compared to determine the value of the subject property

**Cost of Funds Index (COFI):** Index used to determine interest rate changes for adjustable rate mortgages. It is based on the cost of funds of the 11<sup>th</sup> District of the Federal Home Loan Bank.

**Credit history:** history of an individual's debt payment used 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

**Credit bureau score:** a number based upon credit history and used to determine ability to qualify for a mortgage loan

**Debt-to-Income Ratio (DTI):** Relationship of a borrower's monthly payment obligation on long-term debts divided by gross monthly income, expressed as a percentage

**Equity:** The value in which the owner has in real estate over and above the mortgages against it. When the mortgage and all other debts against the property are paid in full, the owner has 100% equity in his property.

**Fannie Mae (FMNA):** The nation's largest mortgage investor created in 1968 by an amendment to Title III of the National Housing Act. This stockholder-owner corporation, a portion of whose board of directors is appointed by the President, supports the secondary market in mortgages on residential property with mortgage purchase and securitization programs.

**Federal Housing Administration (FHA):** A federal agency with the Department of Housing and Urban Development (HUD) that provides mortgages insurance for residential mortgages and sets standards for construction and underwriting. The FHA does not lend money, nor does it plan or construct housing.

**Freddie Mae (Federal Home Loan Mortgage):** Created by Congress in Title III of the Emergency Home Finance Act of 1970, this stockholder-owned corporation, a portion of whose board is appointed by the President, supports the secondary market in mortgages on residential and multi-family properties with purchase and securitization programs

**Gift of Equity:** This is a down payment that is gifted to the buyer(s) from the seller(s). It is a paper transfer since the gift is based on how much equity the seller(s) currently has in the subject property.

**Good Faith Estimate (GFE):** A document, which tells borrowers the approximate cost, they will pay, at or before settlement, based on common practice in the locality. Under requirements of the Real Estate Settlement Procedures Act (RESPA), the mortgage banker or broker, if any, must deliver or mail the GFE to the applicant within three business days after the application is received.

**Home Equity Line of Credit:** An open-end loan, usually recorded as a second mortgage, that permits the borrower to obtain cash advances based on an approved line of credit.

**HUD-1 Uniform Settlement Statement:** Standard form to disclose costs at closing. All charges imposed in the transaction, including mortgage broker fees, must be disclosed separately.

**Income Property:** Real estate that is owned for investment purposes and not used as the owner's residence.

**Interest Rate:** percentage paid for use of money, usually expressed as an annual percentage.

**Lender:** Person or entity that invests in or originates mortgage loans, such as a mortgage banker, credit union, commercial bank, or savings and loan.

**Loan-to-Value Ratio (LTV):** The ratio of the amount of the loan to the appraised value or sales price of real property (expressed as a percentage).

**Mortgage:** A pledge of property, usually real property, as security for a debt and, by extension, the document evidencing the pledge. In many states, this document is a deed of trust. The document may contain the terms of repayment of the debt. By further extension, “mortgage” may be used to describe both the mortgage proper and the separate promissory note evidencing the debt and providing terms of the debt’s repayment.

**Mortgage Banker:** An individual, firm or corporation that originates, sells or services loans secured by mortgages on real property.

**Mortgage Broker:** A firm or individual who, for a commission, matches borrowers and lenders. A mortgage broker takes applications and sometimes processes loans, but does not use its own funds for closing.

**Mortgage Note:** A written promise to pay a sum of money at a stated interest rate during a specified term. A mortgage note is secured by a mortgage.

**Origination Fee:** This fee is charged to a borrower by the lender to prepare documents, conduct a credit check, inspect and sometimes appraise a property. This is usually stated as a percentage of the face value of the loan.

**Power of Attorney:** A legal document authorizing one person to act on behalf of another, for example if a spouse is traveling on business when a closing is being held. The spouse would give the other spouse power of attorney to sign document on his/her behalf.

**Prepaid Items:** Costs paid at closing for taxes, interest and insurance. Since prepaid items are recurring costs that do not relate to the acquisition of the property itself, they cannot be financed. They can also be referred to as “life of loan” charges.

**Prepaid Interest:** Mortgage interest that is paid in advance of when it is due to obtain tax advantages, such as points paid to buy down the quoted mortgage rate.

**Prepayment:** the payment of all or part of a mortgage debt before it is due.

**Processing:** The completion of a mortgage loan application and supporting documents for underwriting.

**Purchase Agreement:** A written agreement between a buyer and seller of real property, setting forth the price and terms of the sale. Also known as a Contract of Sale.

**Real Estate Settlement Procedures Act (RESPA):** This is a Federal law that regulates the settlement practices within the real estate industry. The law requires the provision of a Good Faith Estimates of Closing Costs, prohibits kickbacks for referrals of related services and standardizes the closing with a required form and format (HUD-1).

**Right of Recession:** Period of three full days after closing in which the consumer is allowed to negate an owner-occupied refinance transaction.

**Title:** Written evidence of the right to or ownership in certain property. In the case of real estate, the documentary evidence of ownership is the title deed that specifies in whom the legal title is vested and the history of ownership and transfers. Title may be acquired through purchase, inheritance, devise, and gift or through foreclosure of a mortgage.

**Title Insurance Policy:** A contract by which the insurer agrees to pay the insured a specific amount for any loss caused by defects of title to real estate, wherein the insured has an interest as the purchaser, mortgagee or otherwise.

**Title Searching:** an examination of public records, laws and court decisions to ensure that no one except the seller has a valid claim to the property and to disclose past and current facts regarding ownership of the subject property.

**VA Loan:** This is a mortgage loan made by an approved VA lender and guaranteed by the Department of Veterans Affairs. VA loans are made to eligible veterans and those currently serving in the military, and can have a lower down payment than other types of loans.