

GLOSSARY

100+ mortgage terms
explained clearly

FROM YOUR FRIENDS AT

NETWORK  FUNDING^{LP}

RESIDENTIAL MORTGAGE LENDER

GLOSSARY OF TERMS

A

Accrued Interest – interest on a loan that has accumulated since the initial investment

Adjustable Rate Mortgage (ARM) – a mortgage structure with an interest rate that fluctuates according to predetermined guidelines

The interest rate is based on the current market index the loan is tied to, plus the additional ARM margin (varies from one ARM program to the next). The initial interest rate remains fixed for a specified period of time (usually 1, 3 or 5 years) and adjusts periodically (usually annually).

Adjustable Rate Mortgage (ARM) Margin – a fixed percentage added to the index value of an adjustable rate mortgage that determines the rate paid by a borrower

Adjustment Date – the date at which an adjustable rate mortgage (ARM) interest rate is eligible to change to a new interest rate

American Dream – Usually associated with homeownership, it is the belief that anyone is able to achieve their own version of success through hard work and sacrifice due to the inherent qualities of the American free-market system.

Amortization – the term used to describe the timeframe by which your monthly mortgage payments are calculated to payoff your debt.

For example, a loan that is amortized for 30 years will structure the monthly payments to payoff the debt after a period of 360 monthly payments (30 years worth).

B

Balloon payment – a large payment due at the end of a mortgage agreement

Some homeowners decide to finance the balloon payment into a secondary mortgage in order to avoid making such a large payment all at once.

Bank – a financial institution that invests money deposited by businesses and individuals, pays out available moneys to its customers, makes loans with interest, and invests on behalf of its customers

Bank-Owned Property – properties acquired by banking institutions after successful foreclosure proceedings

Bankruptcy – the act of eliminating the financial obligations of an individual due to the inability to pay back outstanding debts

This process can negatively affect an individual's credit rating for several years.

Better Business Bureau – an organization dedicated to promoting ethical business practices, by providing consumers with information about the quality of services from business owners

C

Caps – On an Adjustable Rate Mortgage (ARM), caps are the percentage points that the interest rate is eligible to increase by or to, based on the cap. For example, most ARMs have 3 caps:

The Initial Cap - the max amount the interest rate is eligible to increase the first time the rate is allowed to change

The Annual Cap - the max amount the interest rate is eligible to increase every year after the initial adjustment

The Lifetime Cap - the max amount the interest rate is eligible to increase over the lifetime of the loan

Cash Flow – the money flowing into and out of a borrower's financial accounts

Records of cash flows are used to determine the ability of a borrower to repay a loan.

Annual Percentage Rate (APR) – the annual percent that is charged for borrowers in order to secure a mortgage loan, represented by a percentage that represents the cost of funds borrowed over the life of the loan

Appraisal – the process of determining the value of a home, based on the inspection of a certified home appraiser

Appraisal Fee – the fee charged by a licensed appraiser for estimating the value of a home or residence

Arrears – refers to paying a debt incurred for use

Meaning, you pay for what you have used rather than what you intend to use. Think of it as the opposite of rent; when you are renting, you pay for the upcoming month that you are going to use; with mortgages, you pay in arrears, which means you pay for the month you just used the home for.

Asset – a valuable holding with economic value that an individual owns

Biweekly Payment Loan – a loan requiring a payment every two weeks instead of each month, allowing the borrower to build equity and repay back the loan much faster than with monthly payments

Bona Fide Points – a discount point that directly affects the rate of the loan

In other words, there is no inflated cost or premium for the discount point. Whatever the cost is for the rate is what is actually charged.

Borrower – (Consumer) an individual who takes out a loan from a Lender (Creditor) at interest, specifically to obtain a house

Bridge Loan – a short-term loan lent by a bank allowing a homebuyer to purchase a home while the transaction for the sale of their current home is being processed

Broker – a person who charges for managing the home-buying and -selling process

Buy-Downs – the act of "buying-down" the rate by paying Discount Points, when a rate lower than the market rate is desired

Cash-Out Refinance – a refinance transaction by which the borrower refinances the current mortgage and also liquidates equity from the subject property, receiving a lump sum of "cash" when the loan funds

Ceiling – the maximum interest rate allowed for Adjustable-Rate Mortgages

Certificate of Occupancy – a document issued by a local government stating that a property meets the minimum health and building requirements for livability

"Clear-to-Close" (CTC) – a term used by Underwriters meaning all conditions for closing the loan have been satisfied.

Most approved loans come out with conditions that must be satisfied before the Underwriter can "clear" the file for Closing.

Closer – an employee of the lender who prepares the final documents for the closing/ consummation of the loan, works closely with the title company and documents attorneys to prepare the documents, and sends the wire and issues the funding for the loan once everything is complete

Closing – (Consummation) the finalizing and agreeing upon of all documentation regarding the purchasing/selling of real estate

Closing Costs – the costs associated with securing a mortgage

There are closing costs from the lender as well as other third party service providers, such as the title company and the appraiser.

Closing Department – the department responsible for the issuing of the closing documents and instructions, as well as the sending of the wire and funding of the loan

Closing Disclosure – the document signed by the borrower at least 3 days prior to closing/consummation, which provides the breakdown of the closing costs in comparison to the Loan Estimate

Commission – the fees paid to a broker for executing the sale and buying of real estate

Compounding Interest – the interest earned on the initial principal and gained interest of previous periods of a loan, also known as “interest on interest”

Conditions – items assigned by the underwriter that must be addressed prior to the final approval and issuing of the “clear-to-close” (CTC), which may include additional documentation, clearer copies of documents, letters or explanation, etc.

Conforming Loan – (See Conventional Loan) a loan eligible for purchase by Fannie Mae and Freddie Mac

D

Debt Obligation – any outstanding loans or financial obligations owed by a homeowner
Debt obligations are considered liabilities.

Debt-to-Income Ratio – a metric calculating the ability of a borrower to repay a loan, based on their income in relation to the monthly mortgage payments.

The higher the percentage, the more likely a borrower is to default.

E

Earnest Money – a “good faith” payment made to a seller by a buyer, in order to give the buyer additional time to seek financing

Effective Rate – the true interest rate earned on a mortgage, including all compounding interest

Equity – the difference between the amounts a person owes on a mortgage and the value of the property

This the amount a person would receive, if they sold their home and paid off the remaining balance of the mortgage.

F

Fannie Mae – (Federal National Mortgage Association) a government sponsored organization that re-packages mortgages for the secondary market

Federal Housing Administration (FHA) – a federal agency providing mortgage insurance to FHA-approved lenders.

The FHA will pay a specific amount to the lender if an approved borrower defaults on the loan.

Consumer – (Borrower) as of October 3, 2015, the correct term used to refer to an individual who takes out a loan from a Lender (Creditor) at interest, specifically to obtain a house

Consummation – (Closing) as of October, 3 2015, the correct term used to refer to the finalizing and agreeing upon of all documentation regarding the purchasing/selling of real estate

Conventional Loan – a type of mortgage loan that meets the funding requirements for purchase from Fannie Mae and Freddie Mac for the secondary market.

Qualifications include but are not limited to a 5% minimum down payment, 620 minimum credit score, and Fixed or Adjustable monthly payment options. This is also known as a “Conforming Loan.”

Co-Sign – to sign for another person’s debt, by establishing a legally binding contract where an individual will cover another person’s debt if they were to default on their financial obligations

Credit Rating – the analysis of a borrower’s ability to repay a loan or any financial debts

Credit Report – a report outlining the creditworthiness of an individual, including their payment history and debt-to-income ratio

Credit Score – a numeric range from 300 to 850 that expresses the likelihood that an individual has the ability to pay back borrowed moneys

Creditor – (Lender) as of October 3, 2015, the correct term used to refer to the entity that makes loans at interest to consumers (borrowers), specifically to obtain a house

Current Index Value – the value of an interest rate that is used to calculate the payment index of an adjustable rate mortgage

Deflation – an increase in the price of goods and services relating to the reduction of the supply of money or available credit

Discount Points – a one-time cost, charged at closing/consummation in order to acquire a lower-than-market rate

Down Payment – a non-refundable, up-front payment that represents a percentage of the total cost of a particular product, including a home

Escrow Account – an account held by a third-party used to secure ownership of a home, in the event there are obstacles to closing

FHA 203K Loan – a certain loan program that provides funds for renovation in addition to the mortgage.

This program is not always available through Network Funding and may have restrictions, check with your Loan Officer for more details.

FICO® – (Fair Isaac Corporation abbreviation) The Fair Isaac Corporation develops the criteria for determining credit scores for determining an individual’s risk of default. This term is used interchangeably with “credit score.”

Fixed-Rate Mortgage – a mortgage structure with an interest rate that does not change over the life of the loan

Foreclosure – the process of a lender taking possession of a property under contract that a borrower is unable to afford and defaults, due to lack of payment

G

Gift Funds – funds paid by a borrower's relative or loved one to a seller to help with closing costs, appraisal fees, and/or down payments

H

Home Equity Conversion Mortgage (HECM) – a type of reverse mortgage insured by the FHA

The FHA insures the lender against loss in case the amount borrowed is more than the value of the home

Home Equity Loan – a type of secondary mortgage allowing borrowers to use the equity in their homes to finance improvements or other projects

I

Impound Account – see "Escrow Account"

Inflation – a fluctuating percentage that represents the price at which goods and services increases

Interest Rate – the percentage charged to the borrower, in addition to the principle owed

It is the profitable part of the mortgage payment to the lender.

Interest Only Mortgage – a type of mortgage where the borrower only pays off the interest owed on the loan

Although, eventually, the borrower will have to pay back the remaining balance.

J

Jumbo Loan – a mortgage amount that exceeds the Office of Federal Housing Enterprise Oversight and cannot be purchased by Fannie Mae and Freddie Mac

L

Lender – (Creditor) the entity that makes loans at interest to borrowers, specifically to obtain a house

Liability – all debts and financial obligations that a homeowner owes

Libor – (London Interbank Offered Rate) the average interest rate determined by the leading banks in London to be charged to other banks for short-term loans

It is also used to determine the interest rate for adjustable rate mortgages.

Loan Amortization – a loan structure where the principal of the loan is paid over the life of the loan based on a predetermined repayment schedule

Loan Application – A Creditor is said to have a completed Loan Application when they are in possession of the following from a Consumer: name, income, SSN, subject property address, estimate of value of subject property, and mortgage loan amount.

Loan Disclosures – the documents sent from the lender to the borrower that the borrower must review and sign in order for the loan to proceed in the Loan Process

The disclosures cover the terms of the loan, the borrower's information and more.

Freddie Mac – (The Federal Home Loan Mortgage Corporation) a government sponsored organization that re-packages mortgages for the secondary market

Funding – After a loan has closed/completed consummation, the Closer issues the funding number, releasing the "wire" for disbursement of the funds to complete the mortgage transaction.

Good Faith Estimate (GFE) – a 3-page document that provides a breakdown of the closing costs associated with the mortgage

As of October 3, 2015, this document has been replaced by the Loan Estimate (LE).

Home Inspection – the process of evaluating a real estate property's value by an approved home inspector

Homeowner – an individual who owns their home

HUD – (The United States Department of Housing and Urban Development) a government agency created to increase homeownership and affordable rental opportunities for low-income individuals

Interest Rate Ceiling – the maximum interest rate charged to borrowers by financial institutions

Investment Property – a property that is not inhabited by the homeowner, but is used as an investment, generally through leasing out to tenants

"Items-Needed List" – the list of documentation needed in order to process and underwrite a mortgage

Some of the features include, but are not limited to, a 20% down payment (some options may require more), 690 minimum credit score, and Fixed or Adjustable rate mortgage options.

Loan Estimate – the disclosure that details the closing costs associated with the loan

The Loan Estimate replaced two other disclosures on 10/3/15, the Good Faith Estimate (GFE) and the Truth In Lending (TIL) disclosure.

Loan Officer – individuals representing banks and financial institutions that help individuals acquire mortgage loans

Loan Process – the process through which a mortgage transaction must go to progress from Loan Application to Funding

See Network Funding's helpful illustration of The Loan Process in our Mortgage Handbook.

Loan-to-Value Ratio – ratio between the unpaid financial obligation and the value of a particular property

M

Market Value – the amount that an asset would be sold for in the current marketplace

Mortgage – a legally binding agreement where an individual borrows money from a lender in order to purchase property from a buyer

The borrower pays off the balance of the loan by agreeing to a set repayment schedule.

Mortgage Broker – an individual who connects borrowers with mortgage lenders without using their own funds to originate the loan

A mortgage broker collects the appropriate paperwork and provides it to a lender for approval.

Mortgage Calculator – a tool used to determine the monthly payments of a mortgage, by evaluating the amount financed, the term of the loan, and the interest rate

Mortgage Insurance – insurance paid for by borrowers in order to protect lenders against default

N

NMLS – (The National Mortgage Licensing Service) the system used to license individuals for mortgage loan origination

O

Origination – the activity of organizing and processing all information necessary for the creation and approval of a mortgage loan

P

Payoff Amount – the principal balance (plus interest and fees if applicable) required to pay in order remove a lien or debt

Points – a one-time closing cost associated with acquiring a lower interest rate or in some cases, the necessary fee paid to secure a certain type of mortgage

Pre-Approval – the act of evaluating and approving a borrower for a mortgage prior to the actual purchasing of a particular home or residence

This involves assessing a borrower's credit score, annual income, and likelihood of repayment.

Pre-Qualification – the assessment of the amount a borrower is qualified to borrow and the likelihood of a borrower's ability to pay back a loan based on several factors including credit score and income

Primary Residence – (Principal Residence) the main location that an individual occupies as their home

Prime Rate – the lowest commercial interest rate charged by banks to their most credit-worthy customers

Principal – the amount a lender borrows for a mortgage loan or the amount still owed an existing mortgage loan

R

Real Estate Agent – an individual licensed to execute the buying and selling of real estate transactions in a specified area

Refinance – the process of homeowners renegotiating the terms of their mortgage in order to save money over the life of the loan

Mortgage Note – also known as a "real estate lien" or "promissory note," it is a written guarantee to repay a certain sum of money (plus interest usually) at a specified rate and length of time and is tied to a specific property for collateral

Mortgage Payment – a monthly payment that includes principal and interest paid to a lender in order to satisfy a debt incurred by a borrower

The payment includes principal, interest, property tax, and may include mortgage insurance.

Mortgagee Clause – the specific way in which a lender puts their name and address on legal documents

Mortgagor – a borrower; the person who receives a loan to purchase a property with the intention of paying it back with an agreed upon rate of interest

Nominal Interest Rate – the interest rate before accounting for inflation

The nominal rate can be calculated as
 $(1 + \text{nominal rate}) = (1 + \text{real interest rate})(1 + \text{inflation rate})$.

Origination Fee – the fees charged by a lender for processing a mortgage loan application, which is a percentage of the total loan amount and is usually between .5% and 1%

PMI – (Private Mortgage Insurance) insurance required for securing a conventional loan when a borrower has less than 20% equity in their home

Processing – the part of the loan process prior to underwriting that organizes and prepares the loan application for the underwriter

This step also involves the ordering of certain documents (verification of employment, tax transcripts, appraisal, survey, etc).

Processor – the individual who processes the loan application, preparing it for the underwriter

This person may or may not have direct contact with the borrower and usually works as the liaison between the Loan Originator and the Underwriter.

Property Insurance – also referred to as Hazard Insurance, the insurance that protects the homeowner from certain types of damage to the property

This is not the same thing as Mortgage Insurance (PMI).

Property Tax – The tax levied on property owners by a local government, usually based on the property's value

Replacement Cost – the cost (usually determined by the appraiser or insurance company) regarding what it would take to rebuild the home in the event of a major catastrophe

Rescission – the cancellation of a contract within the 3-day grace period

Reverse Mortgage – a type of mortgage reserved for homeowners 62 and older that allows them to sell their homes while maintaining residency

Once the homeowner dies, the lender takes ownership of the home unless the balance of the reverse mortgage is paid back.

S

Sales Contract – the legal document by which a home seller and a home buyer agree to terms on the transaction of a specific property

Second Home – (see Vacation Home) a home other than the homeowner's primary residence, used for recreation and vacation

Second Mortgage – a supplementary mortgage loan that is issued while the original loan is still in effect

In case of default, the original loan holder would receive repayment first. Since the original mortgage is paid back first, the second mortgage usually has a much higher interest rate to make up for the risk of default.

T

Tax Lien – a claim against a property for unpaid taxes

Third-Party Fees – closing costs that may be charged by entities other than the lender that are responsible for providing services in association with a specific mortgage transaction, such as an appraisal or title work

Title – the document outlining ownership and possession of a property

Title Insurance – insurance provided by a title company, that protects against financial loss from defects in the title to a property, should there be invalidity or unenforceability of a mortgage loan

Essentially, it ensures the lender and the homeowner that there are no other claims of ownership or lien against the subject property.

U

Underwriter – the individual responsible for reviewing the loan application and issuing the approval or denial of the mortgage

Underwriting – the process of bankers raising investment capital in order to finance mortgages on behalf of investment corporations and governments issuing mortgages and other investment securities

V

VA Loans – a loan program created by the United States Department of Veteran Affairs established to provide veterans and active-duty service men and women with affordable financing for home mortgages

The VA does not originate loans, but insures VA loans and creates the rules for qualification.

VA Funding Fee – a one-time closing cost fee that is applied to most veterans using their eligibility

This fee may be rolled into the loan amount or paid for at closing. The VA Funding Fee is waivable and variable in certain circumstances.

W

Walkthrough – the final inspection of a property addressing any outstanding issues that may need correction before consummation

Secondary Mortgage Market – the market where mortgage lenders sell primary mortgages in order to raise funds to originate more mortgage loans

Investors include Fannie Mae and Freddie Mac.

Seller Contribution – the financial contributions made by a seller in order to incentivize borrowers to purchase a particular home

Short Sale – an alternative to foreclosure proceedings that allows a borrower to sell their home to pay off the current mortgage based on financial difficulties

TRID – (Tila-Respa Integrated Disclosure) a rule created by the CFPB (Consumer Financial Protection Bureau) with the authority of the Dodd-Frank Act that brought a wave of changes to the mortgage industry on October 3, 2015

Changes included the integration and formation of new disclosure forms, new terminology, new timeline requirements, and new definitions for loan-specific terminology.

Truth In Lending (TIL) – a 2-page document that provides a specific breakdown of the cost associated with financing a property

As of October 3, 2015, this document has been replaced by the Loan Estimate.

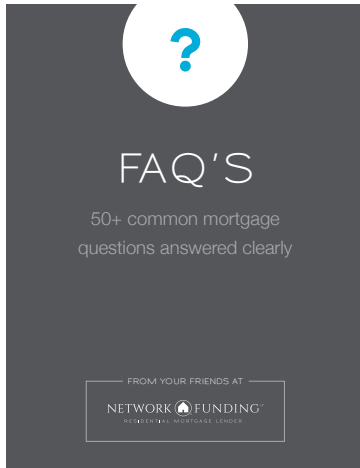
USDA loans – (USDA Rural Development Guaranteed Housing Loan Program) offers mortgage loans for properties designated as rural areas by the United States Department of Agriculture

Vacation Home – (see Second Home) a home other than the homeowner's primary residence, used for recreation and vacation

Verification of Employment – a document signed by a borrower's employer affirming their employment status including current position and salary

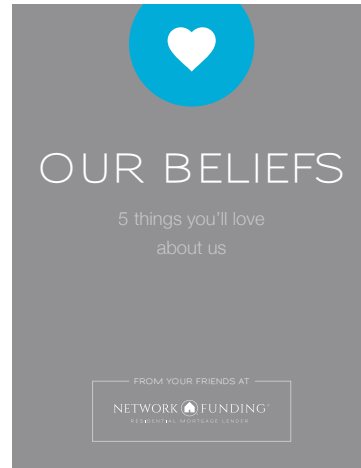
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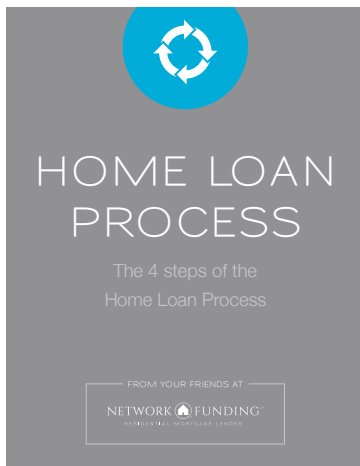
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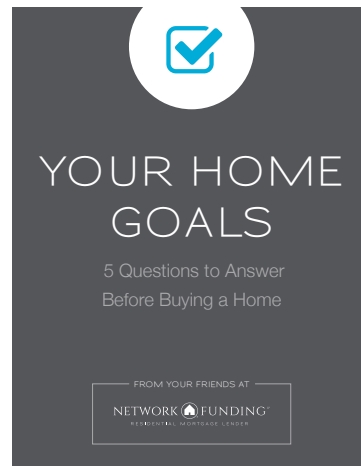
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THE 4 STEPS OF THE
HOME LOAN PROCESS



YOUR HOME GOALS

5 QUESTIONS TO ANSWER
BEFORE BUYING A HOME

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