

GLOSSARY

7/23 and 5/25 Mortgages

Mortgages with a one time rate adjustment after seven years and five years respectively.

3/1, 5/1, 7/1 and 10/1 ARMs

Adjustable-rate mortgages in which rate is fixed for three-year, five-year, seven-year and 10-year periods, respectively, but may adjust annually after that.

Acceleration

The right of the mortgagee (lender) to demand the immediate repayment of the mortgage loan balance upon the default of the mortgagor (borrower), or by using the right vested in the Due-on-Sale Clause.

Adjustment Date.

As to each Mortgage Loan, a date on which the related Mortgage Rate may adjust, as provided in the related Mortgage Note.

Adjustable rate mortgage (ARM)

A mortgage in which the interest rate is adjusted periodically based on a pre-selected index. An ARM is also known as the renegotiable rate mortgage, the variable rate mortgage or the Canadian rollover mortgage.

Adjusted Basis

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

Adjustment interval

On an adjustable rate mortgage, the time between changes in the interest rate and/or monthly payment, typically one, three or five years depending on the index.

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

Loan payment by equal periodic payment calculated to pay off the debt at the end of a fixed period, including accrued interest on the outstanding balance.

Amortization Term

The length of time required amortizing 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 (A.P.R.)

APR is a measurement of the full cost of a loan including interest and loan fees expressed as a yearly percentage rate. Because all lenders apply the same rules in calculating the annual



percentage rate, it provides consumers with a good basis for comparing the cost of loans. This rate is likely to be higher than the stated note rate on the mortgage because it takes into account points and other credit costs.

Appraisal

An opinion of value that is objective, unbiased, and is supported by research and data.

Appraised Value:

The least of (i) the appraised value of the Mortgaged Property based upon the appraisal made by or for the originator at the time of the origination of the related Mortgage Loan, or (ii) the appraised value determined by a Approved Appraisal Review Firm prior to the purchase of a Mortgage Loan by MoneyCorp or (iii) the sales price of the Mortgaged Property at the time of such origination; or with respect to any Mortgage Loan originated in connection with a refinancing, the lesser of (i) the appraised value of the Mortgage Property based upon the appraisal made at the time of such refinancing or (ii) the appraised value determined by an SecondaryMarkets.com Approved Appraisal Review Firm prior to the purchase of a Mortgage Loan by SecondaryMarkets.com

Appraisal Review

Desk Review – Prepared with or without validating the data in the appraisal report.

Field Review – Whereby the review appraiser examines the property.

Appreciation

An increase in value due to a greater demand, improved economic conditions, increase in reproduction costs, and other factors.

Arm's Length

A transaction in which both parties act completely independently from each other and have no connection or Relationship to each other.

As Is

An appraisal term that indicates the market value of the property on the date of the appraisal, including any defects, depreciation, or partially completed improvements.

Assessment

A local tax levied against a property for a specific purpose, such as a sewer or streetlights.

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

The agreement between buyer and seller where the buyer takes over the payments on an existing mortgage from the seller. Assuming a loan can usually save the buyer money since this is an existing mortgage debt, unlike a new mortgage where closing cost and new, probably higher, market-rate interest charges will apply.



Balloon Payment

Usually a short-term fixed-rate loan, which involves small payments for a certain period of time and one large payment for the remaining amount of the principal at a time, specified in the contract.

Assumption Fee

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

Balloon Mortgage

A loan which is amortized for a longer period than the term of the loan. Usually this refers to a thirty-year amortization and a five year term. At the end of the term of the loan, the remaining outstanding principal on the loan is due. This final payment is known as a balloon payment.

Balloon Payment

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

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.

Blanket Mortgage

A mortgage covering at least two pieces of real estate as security for the same mortgage.

Borrower (Mortgagor)

One who applies for and receives a loan in the form of a mortgage with the intention of repaying the loan in full.

Bonus Income

Usually irregular or annual payments, which are not recurring on a monthly basis. Income may fluctuate, increasing or decreasing based on various factors at the will of the employer. Due to the inconsistency of the income, it is generally averaged for underwriting purposes.

Bracketing

The analysis of both superior and inferior properties in the valuation process.

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."

Buy-down

When the lender and/or the home builder subsidized the mortgage by lowering the interest rate during the first few years of the loan. While the payments are initially low, they will increase when the subsidy expires.



Cash Flow

The amount of cash derived over a certain period of time from an income-producing property. The cash flow should be large enough to pay the expenses of the income producing property (mortgage payment, maintenance, utilities, etc.).

Caps (interest)

Consumer safeguards which limit the amount the interest rate on an adjustable rate mortgage which might change annually and/or for the life of the loan.

Caps (payment)

Consumer safeguards, which limit the amount monthly payments on an adjustable rate mortgage, may change.

Certificate of Eligibility

The document given to qualified veterans, which entitles them to VA guaranteed loans for homes, business and mobile homes. Certificates of eligibility may be obtained by sending form DD-214 (Separation Paper) to the local VA office with VA form 1880 (request for Certificate of Eligibility).

Certificate of Reasonable Value (CRV)

An appraisal issued by the Veterans Administration showing the property's current market value

Certificate of veteran status

The document given to veterans or reservists who have served 90 days of continuous active duty (including training time). It may be obtained by sending DD 214 to the local VA office with form 26-8261a (request for certificate of veteran status. This document enables veterans to obtain lower down payments on certain FHA insured loans).

Closed-End Credit

Installment loans for which all of the proceeds are disbursed at closing and that are repayable in regularly scheduled payments (usually monthly) until the balance is paid in full. Customers may renew installment loans to borrow more money and/or to pay off the first loan – by reapplying and signing all new loan documents.

Closing

The meeting between the buyer, seller and lender or their agents where the property and funds legally change hands, also called settlement. Closing costs usually include an origination fee, discount points, appraisal fee, title search and insurance, survey, taxes, deed recording fee, credit report charge and other costs assessed at settlement. The cost of closing usually are about 3 percent to 6 percent of the mortgage amount.

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.

COFI

Adjustable-rate mortgage with rate that adjusts based on a cost-of-funds index, often the 11th District Cost of Funds.



Commitment Letter:

A written acknowledgment from Lender/Purchaser and by a Lender/Purchaser to the Seller that the Lender/Purchaser will purchase a Mortgage Loan from the Seller subject to the Seller satisfying all requirements set forth by the Lender/Purchaser.

Compensating Factors

Positive factors that work to offset any weaknesses in the credit package. Can include stability in job or home, low LTV, good mortgage payment history, large down payment, good liquid assets, etc.

Concurrent Fundings:

Mortgage Loans which are originated by a Seller, underwritten by the Seller and by the Lender/Purchaser prior to funding or origination of the Mortgage Loan and for which the Lender/Purchaser provides the source of funds.

Condominium

A form of ownership in which each owner owns an individual unit and a percentage of the land under the unit. He/she also owns a percentage of the common areas. Condominiums are generally located in multistory buildings.

Construction loan

A short term interim loan to pay for the construction of buildings or homes. These are usually designed to provide periodic disbursements to the builder as he or she progresses.

Construction to Permanent

A construction loan that is refinanced into a regular mortgage, referred to as “permanent financing”, once construction has been completed.

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.

Contract for Deed

Contracts between a purchaser and seller of real estate to convey title after certain conditions have been met. It is a form of installment sale. Seller remains on title until the lien is refinanced or paid off.

Conventional loan

A mortgage not insured by FHA or guaranteed by the VA.

Conversion Clause

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

Cost Approach

A method of appraising property based on the depreciated reproduction or replacement cost (new) of improvements plus the market value of the sight.



Credit / Risk Upgrade

Where a credit grade established by the standard matrix is enhanced to the next highest credit grade by use of compensating factors.

Credit Report

A report documenting the credit history and current status of a borrower's credit standing.

Credit Risk Score

A credit risk score is a statistical summary of the information contained in a consumer's credit report. The most well known type of credit risk score is the Fair Isaac or FICO score. This form of credit scoring is a mathematical summary calculation that assigns numerical values to various pieces of information in the credit report. The overall credit risk score is highly relative in the credit underwriting process for a mortgage loan.

Debt-to-Income Ratio

The ratio, expressed as a percentage, which results when a borrower's monthly payment obligation on long-term debts is divided by his or her gross monthly income. See housing expenses-to-income ratio.

Deed of trust

In many states, this document is used in place of a mortgage to secure the payment of a note.

Default

Failure to meet legal obligations in a contract, specifically, failure to make the monthly payments on a mortgage.

Deferred interest

When a mortgage is written with a monthly payment that is less than required to satisfy the note rate, the unpaid interest is deferred by adding it to the loan balance. See *negative amortization*.

Deferred Maintenance

Repairs to real estate property that are necessary to rehabilitate, but that have not yet been done.

Delivery Date:

As to any Mortgage Loan, the date on which the Mortgage File in respect of such Mortgage Loan is delivered to the Lender/Purchaser by the Seller.

Department of Veterans Affairs (VA)

An independent agency of the federal government, which guarantees long-term, low-or no-down payment mortgages to eligible veterans.

Down Payment

Money paid to make up the difference between the purchase price and the mortgage amount.

Due-on-Sale-Clause

A provision in a mortgage or deed of trust that allows the lender to demand immediate payment of the balance of the mortgage if the mortgage holder sells the home.



Due Date:

As to any Mortgage Loan, the first day of each month.

Duplex

A building having two dwelling units either side by side, with a common roof and wall, or one above the other. Both units are encompassed by a single deed.

Earnest Money

Money given by a buyer to a seller as part of the purchase price to bind a transaction or assure a payment.

Effective Age

The age of a property influenced by its condition and updating or lack thereof.

Escrow

Unbiased third party responsible for collecting all information and funds needed to close a loan. In addition, escrow often handles signing of loan documents and hold funds for later disbursement.

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 Hold Backs

Money held in an escrow account to ensure availability of funds to complete repairs on the subject property after funding of the loan has occurred. Funds are usually held in an amount equal to 1 ½ times the amount needed to complete repairs. The Lender usually allows escrow holdbacks on a case-by-case basis.

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.

Fair Market Value

The most probable price at which a property will sell assuming a knowledgeable buyer and a knowledgeable seller, each acting in his/her own best interest, and neither under any undue time constraints or duress.

Farmers Home Administration (FmHA)

Provides financing to farmers and other qualified borrowers who are unable to obtain loans elsewhere.

FDIC:

The Federal Deposit Insurance Corporation, or any successor thereto.

FHLMC aka Freddie Mac:

The Federal Home Loan Mortgage Corporation, a corporate instrumentality of the United States created and existing under Title III of the Emergency Home Finance Act of 1970, as amended, or any successor thereto.



Federal Home Loan Bank Board (FHLBB)

The former name for the regulatory and supervisory agency for federally chartered savings institutions. Agency is now called the *Office of Thrift Supervision*

Federal Housing Administration (FHA)

FHA is a division of the Department of Housing and Urban Development. Its main activity is the insuring of residential mortgage loans made by private lenders. FHA also sets standards for underwriting mortgages.

FHA mortgage insurance

Requires a fee (up to 2.25 percent of the loan amount) paid at closing to insure the loan with FHA. In addition, FHA mortgage insurance requires an annual fee of up to 0.5 percent of the current loan amount, paid in monthly installments. The lower the down payment, the more years the fee must be paid.

Federal National Mortgage Association (FNMA) also know as "Fannie Mae"

A tax-paying corporation created by Congress that purchases and sells conventional residential mortgages as well as those insured by FHA or guaranteed by VA. This institution, which provides funds for one in seven mortgages, makes mortgage money more available and more affordable. The Federal National Mortgage Association, a federally chartered and privately owned corporation organized and existing under the Federal National Mortgage Association Charter Act, or any successor thereto.

Fee Simple

The most complete form of ownership available on a piece of real estate. Under fee simple ownership, the owner is entitled to the entire property with unconditional power of disposition during the owner's life, and upon his death the property descends to his designated heirs.

Fixed Rate Mortgage

The mortgage interest rate will remain the same on these mortgages throughout the term of the mortgage for the original borrower.

Floor Rate

The lowest interest rate a variable rate loan could ever have.

Foreclosure

A legal process by which the lender or the seller forces a sale of a mortgaged property because the borrower has not met the terms of the mortgage. Also known as a repossession of property.

Foreign Nationals

A person who is not a citizen or a permanent resident alien of the United States.

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.

Functional Depreciation

A negative impact on a property resulting from an impairment or defect within the confines of the property itself. **Example:** a property with a poor floor plan.



Gift Funds

Money is given to a borrower by a close relative as all or part of the down payment on a house. A gift letter is required and must specify the amount of the gift, the relationship of the donor to the recipient, and that no repayment is required. Gift funds are acceptable from close relatives only.

Gift Equity

Equity in a property given to the borrower when the borrower is purchasing a home from a relative. A gift letter is required and must specify the amount of the gift equity, the relationship of the donor to the recipient, and that no repayment is required. The purchase contract must reflect the gift equity granted. Gift equity is acceptable from close relatives only.

Example: \$100,000. Purchase price with 30% gift equity from father to son. Son (borrower) needs only to obtain financing of \$70,000. + closing costs to close escrow on the house because father is gifting \$30,000. In equity.

Government National Mortgage Association (GNMA)

Also known as "Ginnie Mae," provides sources of funds for residential mortgages, insured or guaranteed by FHA or VA.

Graduated Payment Mortgage (GPM)

A type of flexible-payment mortgage where the payments increase for a specified period of time and then level off. This type of mortgage has negative amortization built into it.

Grand Fathered

When a law is changed or a new law is passed, those whose specific activity was legal under the previous law are often allowed to continue by virtue of this provision. This usually pertains to zoning when dealing with underwriting.

Gross Margin:

With respect to each Mortgage Loan, the percentage set forth in the related Mortgage Note to be added to the Index to determine the Mortgage Rate on each Adjustment Date.

Gross Rent Multiplier (GRM)

An element of the income approach, which is derived by taking, the sales price of a property and dividing it by its monthly income. Once a GRM can be developed for a market, it can be multiplied by the monthly income of a particular property and used as an indicator of value.

Gross Up

The term used when working with non-taxable income. The dollar figure is multiplied by an estimated tax savings/percentage amount to determine what the income would be as a gross figure for qualifying purposes. Typically, a borrower is qualified from gross income before deductions as opposed to net income. Therefore it is common to calculate a gross figure on non-taxable income. Examples of income, which can be grossed up, are disability and SSI.

Hard Cost

The costs of materials used in building a house. Hard costs typically do not include labor costs.



Hazard insurance

Hazard insurance is an insurance policy to protect homeowners against property damage. Lenders require that you get a hazard insurance policy before you buy or refinance a home. Hazard insurance shields you against property damage caused by a fire or a severe storm. If a catastrophe does happen, hazard insurance should cover the costs to rebuild your home. Generally, you have to pay for the first year of hazard insurance on the closing date.

Health & safety Issues

Pertain to issues related to collateral we are lending on which may put the occupants at risk of life or bodily harm due to unhealthy or unsafe conditions.

Example: Security bars on windows with no release latches, no railing on stairwell, etc.

Highest and Best Use

The utilization of a property for a reasonable and probable use that supports the highest present value. This use should be legal, physically possible, and financially feasible.

Housing Allowance

An employer's contribution towards housing expenses. Typically, military personnel not living on base and clergy receive a housing allowance.

Housing Expenses-to-Income Ratio

The ratio, expressed as a percentage, which results when a borrower's housing expenses are divided by his/her gross monthly income. See *debt-to-income ratio*.

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. This disclosure is required by RESPA and is provided at loan closing.

Impound/escrow account

An impound account is an account that is set up by the lender for you to prepay certain recurring costs on a monthly basis rather than all at once when they are due. These expenses include; your property taxes, hazard insurance and mortgage insurance, if required.

Each month as part of your payment, you will send in these impound dollars. The lender then puts the money into an account to pay the specific bills when they come due. There will also be an initial deposit with your closing.

With a refinance loan, you will get a new impound account and the old lender will close your current account and send you a check for the remaining balance of that amount. If you are not using an impound account the lender will require proof that these expenses are paid on time.

Income Approach

One of the main approaches to value, which takes into account the future income a property may generate to estimate its value. This approach is typically utilized for income producing properties such as apartments, commercial property, etc.



Index:

As to each Mortgage Loan, the index for the adjustment of the Mortgage Rate set forth as such in the related Mortgage Note, such index being the average of the London Interbank offered rates for six month dollar deposits in the London market based on quotations at five major banks, as set forth in the "Money Rates" section of The Wall Street Journal, or, if the Money Rates section ceases to be published or becomes unavailable for any reason, then as set forth in a comparable publication selected by the Lender, in each case as most recently announced as of a date 45 days preceding such Mortgage Loan's Adjustment Date. Should the Index become unavailable, the Lender will select a new index that is based upon comparable information.

Indexed rate

The sum of the published index plus the margin. For example if the index were 9% and the margin 2.75%, the indexed rate would be 11.75%. Often, lenders charge less than the indexed rate the first year of an adjustable-rate mortgage.

Initial Adjustment Date:

As to each Mortgage Loan, the first Adjustment Date following the origination of such Mortgage Loan.

Initial Mortgage Rate:

As to each Mortgage Loan, the Mortgage Rate in effect prior to the Initial Adjustment Date.

Installment Debt

Debt made with the agreement for goods or services to be repaid in fixed fractional amounts over a specified period of time, which allows for full payment of debt.

Initial Rate of Interest

The beginning rate that is applied to the unpaid principal balance on a loan. Applicable to variable rate loans only.

Insured Mortgage

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

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.

Interest Rate Ceiling

For an adjustable-rate mortgage (ARM), the maximum interest rate, as specified in the mortgage note.



Interest Rate Floor

For an adjustable-rate mortgage (ARM), the minimum interest rate, as specified in the mortgage note.

Interim Financing

A construction loan made during completion of a building or a project. A permanent loan usually replaces this loan after completion.

Leasehold

A mortgage secured by the tenant's interest in a property. The lease may or may not contain right to purchase or guarantee renewal options. In the event of foreclosure, the lender takes over the tenant's right to occupy and use the property as set forth in the lease, together with the obligation to pay rent and comply with the other terms and conditions of the lease.

Lease Option

A lease that gives the lessee (tenant) the right to purchase the property at an agreed-upon price under certain conditions. A portion of each monthly rent payment is often credited toward the down payment.

Leasehold / Leased Land

1. The right of use and occupancy of real property that is subject to terms and conditions set forth in a lease.
2. An estate or interest in real property held by virtue of a lease, which has a specific duration.

Note: In a leasehold, borrowers do not own the land under their property. The land is leased from a third party.

Legal Operating Instructions (LOIS)

A state-by-state listing of interest rates and state-specific restrictions on the various loan products, which may be offered within each state.

Lien

A claim upon a piece of property for the payment or satisfaction of a debt or obligation.

Lien Perfection Documents

Documents that must be signed by the borrower's spouse who has a community interest in the subject property (and who might or might not be on title) but who will not be on the new loan. The mortgage or deed of trust, TIL, and rescission notice (and waiver of homestead rights where applicable) must be signed in order to make the lien valid and enforceable.

Lifetime Payment Cap

For an adjustable-rate mortgage (ARM), a limit on the amount that payments can increase or decrease over the life of the mortgage.

Lifetime Rate Cap

For an adjustable-rate mortgage (ARM), a limit on the amount that the interest rate can increase or decrease over the life of the loan. See cap.



Line Adjustments

An appraisal term related to the dollar figure or percentage an appraiser adjusts the value on any line of the comparable sales grid to make up for differences between the subject property and comps.

Loan-to-Value Ratio: The fraction, expressed as a percentage of the numerator, which is the original principal balance of the related Mortgage Loan and the denominator, which is the Appraised Value of the related Mortgage Property.

Lock

Lender's guarantee that the mortgage rate quoted will be good for a specific number of days from day of application.

Manufacture Housing

A dwelling that is built in a factory and transported to its site, including single, double, and triple wide mobile homes.

Margin

The amount a lender adds to the index on an adjustable rate mortgage to establish the adjusted interest rate.

Market Value

The most probable price a property should bring in a competitive and open market under all conditions requisite to a fair sale, the buyer and seller each acting prudently and knowledgeably, and assuming the price is not affected by undue stimulus.

Marketing Time

The typical amount of time it takes a reasonably priced property to sell in the subject's market area.

Maturity

The date on which the principal balance of a loan becomes due and payable.

MIP (Mortgage Insurance Premium)

Insurance from FHA to the lender against incurring a loss on account of the borrower's default.

Modular Homes

A structure with walls and partitions that are assembled in a factory, but final construction is completed on-site. Structure conforms to local building codes for a site-built home.

Mortgage

The mortgage, deed of trust or other instrument creating a first lien on or first priority ownership interest in an estate in a fee simple real property securing a Mortgage Note together with all required riders.

Mortgage Banker

A company that originates mortgages exclusively for resale in the secondary mortgage market.

Mortgage Broker



An individual or company that charges a service fee to bring borrowers and lenders together for the purpose of loan origination.

Mortgagee

One who holds a lien on a property or title to a property as security for a debt. Mortgagee is another term for the lender

Mortgage Insurance

This is an insurance policy that protects the lenders risk if the borrower defaults on the loan and the lender has to foreclose. The lender will use the money to offset any loss. The good news is that the borrower does not have to pay mortgage insurance on every loan and does not have to pay forever. Mortgage Insurance may be required if the loan to value is greater than 80% on typical transactions. This will vary depending on the program; as an example the insurance varies depending on whether the home is owner occupied or an investment. It can also vary depending on many other variables.

The Mortgage Insurance will drop off when you have the required equity in your property. If the lender does not do this when it is due all you need to do is request that it be done. Loans that close after July 29th 1999, will have the insurance automatically drop off when the requirements are met. Most lenders will also let you stop this insurance if you can prove the value went up by giving them a new appraisal.

Mortgage Note:

The original executed note or other evidence of indebtedness evidencing the indebtedness of a Mortgagor under a Mortgage Loan.

Mortgage Rate:

The annual rate of interest borne by a Mortgage Note from time to time.

Mortgaged Property:

The underlying property securing a Mortgage Loan.

Mortgagor

The obligor on a Mortgage Note. The borrower or homeowner

Negative Amortization

Occurs when your monthly payments are not large enough to pay all the interest due on the loan. This unpaid interest is added to the unpaid balance of the loan. The danger of negative amortization is that the home buyer ends up owing more than the original amount of the loan.

Negative Items a.k.a. Derogatory Credit

Any items on a credit report that has a delinquency, collection, judgments, or charge-off status. These items demonstrate poor payment habits and are considered "negative" when analyzing credit.

Net Effective Income

The borrower's gross income minus federal income tax.



Non Assumption Clause

A statement in a mortgage contract forbidding the assumption of the mortgage without the prior approval of the lender. Note: The signed obligation to pay a debt, as a mortgage note.

Non-Occupying Co-Borrower

A co-borrower that will not be living in subject property, but whose income has been used to qualify the loan. Although the co-borrower does not occupy the subject property, he/she is jointly responsible (with the primary borrower) for repaying the loan.

Non-Recurring Closing Cost

Any one-time fee associated with closing a loan or arranging financing for a property.

Example: Loan origination fee (also called points), processing fee, appraisal fee, credit report fee, tax service fee, escrow fee, association transfer fee, recording fees, title insurance fees.

One-year adjustable

Mortgage whose annual rate changes yearly. The rate is usually based on movements of a published index plus a specified margin, chosen by the lender.

Open-End Credit

A loan transaction, which establishes a line of credit for a customer. The customer may borrow any part of the available credit at various times, without signing new loan documents (and can then pay the balance down and borrow again). The customer then repays the loan advance according to the terms of the original loan agreement. Also called Revolving Credit.

Origination Fee

The fee charged by a lender to prepare loan documents, make credit checks, inspect and sometimes appraise a property; usually computed as a percentage of the face value of the loan.

Owner Financing

A property purchase transaction in which the party selling the property provides all or part of the financing.

Periodic Rate Cap

With respect to an ARM loan, the limit on the percentage increase that may be made on the Note Rate on any Interest Rate Change Date, as set forth in the note.

Periodic Payment Cap

With respect to an ARM loan, a limit on the percentage increase that may be made on the monthly payment that may be made on any Payment Change Date as set forth in the Note.

Periodic Rate Cap: The provision in each Mortgage Note that limits permissible increases and decreases in the Mortgage Rate on any Adjustment Date to not more than one percentage point.

Physical Depreciation

The loss in value to a property caused by wear, tear, age, and use.

PITI:

The sum of monthly principal and interest payments, property taxes, hazard insurance premiums and flood insurance premiums due on a related mortgage loan.



Planned Unit Development (PUD)

Subdivision consisting of separately owned lots and areas owned in common by the individual lot owners.

Point

One percent of the amount financed of a loan. A lender may charge points at the time of the closing fee as fee for making the loan. Points are disclosed separately from the agreed rate of interest and regular interest charges. Points are always calculated on the Amount Financed to avoid taking points on points.

Pre-paid interest

This amount represents the interest that accrues between the close of your loan and the last day of the month in which the loan closes. Interest on your loan after that date is included in your regular monthly payments.

Pre-Payment Penalty

A fee paid to the lending institution for repaying a loan prior to the scheduled maturity date.

Note: Prepayment penalties are allowed in some form (but not necessarily imposed) in many states.

Primary Mortgage Insurance Policy:

A policy of primary mortgage guaranty insurance issued by a Qualified Insurer.

Primary Mortgage Market

Lenders, such as savings and loan associations, commercial banks, and mortgage companies, who make mortgage loans directly to borrowers. These lenders sometimes sell their mortgages to the secondary mortgage markets such as to *FNMA* or *GNMA*, etc.

Prime Interest Rate

The interest rate on short-term loans charged by a commercial bank to its most creditworthy customers.

Principal Balance

The amount of money being borrowed by the customer, including loan fees, service charges, and points. Principal and amount financed are not synonymous.

Principal Dwelling

An owner-occupied residential structure, which may or may not be real property, as long it is the customer's principal place of residence.

Privately Held note

A promissory note that is held by a seller for another individual who is not a mortgage company or financial institution.

Quitclaim Deed

A deed that conveys only the grantor's rights or interest in real estate, without stating the nature of the rights and with no warranties of ownership.

Example: It is discovered during a title search that a certain property was at one time held by a partnership that later abandoned the property. To obtain a marketable title, the current owner obtains quitclaim deeds from all partners in the old partnership.



Rate & Term

A refinanced loan where the only items at closing is mortgage and closing cost. No cash in hand is received at closing (amount less than \$1,000.00 is not considered cash out).

Rate Lock

A rate lock is a lender's guarantee that the interest rate that you are quoted will remain the same. Until you request a rate lock, interest rates and points will fluctuate up and down. After the rate lock the rates and points will hold constant for a specific period of time.

Rebuild Letter

A document or letter provided by a local governing body which states that a property may be rebuilt if destroyed, regardless of the fact that it may be a non-conforming property zoned for purposes other than the property's current use.

Recert of Value

An appraisal form or document which is commonly requested when 120 days have passed since the effective date of the original appraisal to verify that there have been no changes in value since the original date.

Real-Estate Owned (REO)

Property acquired through foreclosure or deed-in-lieu of foreclosure.

RESPA

Short for the Real Estate Settlement Procedures Act. RESPA is a federal law that allows consumers to review information on known or estimated settlement cost once after application and once prior to or at a settlement. The law requires lenders to furnish the information after application only.

Right of Rescission

The legal right to void or cancel your mortgage contract in such a way as to treat the contract as if it never existed. The right of rescission is not applicable to purchase money mortgages or to mortgages on investment properties, but may be applicable to home equity loans.

Rural Properties

Pertaining to the area outside the larger and moderate-sized cities and surrounding population concentrations. Generally characterized by farms, ranches, small towns, and unpopulated regions which is less than 25% developed, as noted on the appraisal.

Seller Carry-back

An agreement in which the owner of a property provides financing, often in combination with an assumable mortgage. See owner financing.

Sales Comparison

The process of estimating the value of the subject property by comparing it with recent sales and listings of similar properties. This approach is usually given most weight in valuing single family residences.



Seasoned Loan

A loan on which several payments have been collected. In most cases, a 12-month payment history is a fully seasoned loan.

Second/Vacation Home

A single family property that is not the primary residence of the Borrower, is suitable for year-round occupancy, available for the Borrower's use and enjoyment and does not produce rental income. In addition, the Borrower must be the predominant occupant and vacancy must exceed 20%.

Seller Carry Back

A second mortgage (junior lien) that is a private mortgage held by the seller

Seller Contributions

Any cost paid by the seller in a purchase transaction. The maximum allowable contribution depends on the loan to value ratio. Some lenders allow the seller to pay a maximum of 6% of the purchase price toward the non-recurring closing costs on loans with LTV's of 80% or less and 3% on loans over 80% LTV.

Step-Rate Mortgage

A mortgage that allows for the interest rate to increase according to a specified schedule (i.e., seven years), resulting in increased payments as well. At the end of the specified period, the rate and payments will remain constant for the remainder of the loan.

Subordination Agreement

An agreement signed by a note holder wherein the note holder agrees that its lien will be subordinate, or junior, to another lien on title. A subordination agreement is commonly used when a borrower is refinancing his first mortgage but not paying off the second mortgage on title. The second mortgage lender signs a subordination agreement which assures the new first mortgage lender that its lien will go into first position on title while the second mortgage remains in second position and does not become the new first mortgage lien upon payoff of the existing first mortgage.

Sweat Equity

Equity in a property created when the purchasers make improvements to the property being purchased (instead of having a contractor do the work) and are given credit for their labor.

Example: The Smiths are renting a house that they intend to buy. They remodel the kitchen, the labor for which would normally cost \$3,000. The seller gives the borrowers a \$3,000 equity credit in the house because the seller saved the money he/she would have paid to a contractor for the work. All lenders do not allow sweat equity.

Third-party Origination

When a lender uses another party to completely or partially originate, process, underwrite, close, fund, or package the mortgages it plans to deliver to the secondary mortgage market.

Title Insurance

Title insurance supplied by a Title Company is required to prove that no other existing liens are on the property except for those that we are aware of. If a lien shows up later, and if you did not have Title Insurance, the lien would be owed by you as the legal owner of the Real Estate. With the insurance, the Title Company will pay the lien.



Title Policy

An insurance policy provided by a Title Company to a property owner or lender to indemnify against loss caused by defects in the title that are discovered after the loan closes. A title policy ensures that a lien is in the proper (first or second, etc.) lien position.

Title Search

A search and chronological listing of all recorded transactions against an applicant's property, which are made in order to determine the current status of a property's ownership. This includes transfer of title, mortgage liens, tax liens, mechanic's liens, and judgment liens.

Townhouse

A form of ownership in which each owner owns an individual unit and the ground under it. He/She also owns a percentage of all common areas. Townhouses share common walls with other units.

TREASURY CONSTANT MATURITY SERIES

Yields on Treasury securities at "constant maturity" are interpolated by the U.S. Treasury from the daily yield curve. This curve, which relates the yield on a security to its time to maturity, is based on the closing market bid yields on actively traded Treasury securities in the over-the-counter market. These market yields are calculated from composites of quotations obtained by the Federal Reserve Bank of New York. The constant maturity yield values are read from the yield curve at fixed maturities, currently 1, 3 and 6 months and 1, 2, 3, 5, 7, 10 and 20 years. This method provides a yield for a 10-year maturity, for example, even if no outstanding security has exactly 10 years remaining to maturity.

Truth-In-Lending

A federal law requiring disclosure of the Annual Percentage Rate to home buyers shortly after they apply for the loan. Also known as Regulation Z.

Two-Step Mortgage

A mortgage in which the borrower receives a below-market interest rate for a specified number of years (most often seven or 10), and then receives a new interest rate adjusted (within certain limits) to market conditions at that time. The lender sometimes has the option to call the loan due with 30 days notice at the end of seven or 10 years. Also called "Super Seven" or "Premier" mortgage.

Twin

The same type of structure as a duplex. However, each unit is encompassed by a separate legal description and will generally have separate ownership.

Usury

Interest charged in excess of the legal rate established by law.

VA Loan

A long-term, low- or no-down payment loan guaranteed by the Department of Veterans Affairs. Restricted to individuals qualified by military service or other entitlements.



VA Mortgage Funding Fee

A premium of up to 1-7/8 percent (depending on the size of the down payment) paid on a VA-backed loan. On a \$75,000 fixed-rate mortgage with no down payment, this would amount to \$1,406 either paid at closing or added to the amount financed.

Value Variance

The difference between the value assigned to a property by the appraiser and the value assigned to it by the review appraiser. It is common to have a small value variance from one appraiser to another.

Warehouse Fee

Many mortgage firms must borrow funds on a short term basis in order to originate loans which are to be sold later in the secondary mortgage market (or to investors). When the prime rate of interest is higher on short-term loans than on mortgage loans, the mortgage firm has an economic loss, which is offset by charging a warehouse fee.

Wraparound mortgage

Results when an existing assumable loan is combined with a new loan, resulting in an interest rate somewhere between the old rate and the current market rate. The payments are made to a second lender or the previous homeowner, who then forwards the payments to the first lender after taking the additional amount off the top.

Zoning Variance

Permission granted by a zoning authority to a property owner to allow for a specified violation of the zoning requirements. A variance is generally granted when a property was built under a zoning code, which was subsequently changed. In such a case, enforcing compliance would render a property virtually unusable.

