

Glossary of Financing Terms.

Amortize Loan: A loan which is paid off in equal installments during its term.

Adjustable Rate Mortgage: A loan that allows the lender to adjust the borrower's interest rate and payments at prescribed times and sometimes with prescribed limits. Lower interest rates are customary.

Appraisal: An estimate of real estate value, usually issued to the standards of FHA, VA, FNMA. Recent comparable sales in the neighborhood are the most important factor in determining value.

Assumable Mortgage: Purchaser takes ownership to real estate encumbered by an existing mortgage and assumes responsibility as the guarantor for the unpaid balance of the mortgage.

Closing Costs: Expenses incurred in the closing of a real estate or mortgage transactions. Purchaser's expenses normally include, cost of title search, premiums for title policies, survey, attorney fee, lender's service and recording charges.

Conventional Mortgage: A loan neither insured by the FHA nor guaranteed by the VA.

Equity: The difference between the market value of property and the homeowner's indebtedness (mortgage).

Fixed Rate Mortgage: A loan that fixes the interest rate at a prescribed rate for the duration of the loan.

Freddie Mac: Nickname for Federal Home Loan Mortgage Corporation (FHLMC), a federally controlled and operated corporation to support the secondary mortgage market. It purchases and sells conventional home mortgages.

Fannie Mae: Nickname for Federal National Mortgage Association (FHMA), a tax paying corporation created by Congress to support the secondary mortgages insured by FHA or guaranteed by VA, as well as conventional home mortgages.

Graduated Payment Mortgage: An FHA, VA or conventional loan where the borrower initially pays only a portion of the interest due each month during the first few years of the loan. Interest payments are gradually increased to fully cover the amortized interest on the loan.

Impound/Account Escrow Payment: That portion of a mortgagor's monthly payment held in trust by the lender to pay for taxes, hazard insurance, mortgage insurance, lease payments and other items as they become due.

Investor: The holder of a mortgage or the permanent lender for whom the mortgage backer services the loan. Any personal or institution that invests in mortgages.

Lease Purchase Agreement: Buyer makes a deposit for the future purchase of a property with the right to lease the property in the interim.

Loan to Value Ratio: The ratio of the mortgage loan principal (amount borrowed) to the property's appraised value (selling price). On a \$100,000 home, with a mortgage loan principal of \$80,000 the loan to value ratio is 80%.

Mortgage/Deed of Trust: Pledge of real property to secure a debt by a written instrument given by the mortgagor. Should be recorded in the County Recorder's Office.

Mortgage Insurance Premium (MIP): The consideration paid by a mortgagor for mortgage insurance either to FHA or a private mortgage insurance (PMI) company. This insurance protects the investor from possible loss in the event of a borrower's default on a loan.

Mortgagee: The lender of money or the receiver of the mortgage document.

Mortgagor: The borrower of money or the giver of the mortgage document.

Note: A written promise to pay a certain amount of money.

Origination Fee: A fee or charge for work involved in the evaluation, preparation and submission of a proposed mortgage loan.

Point: One percent of loan amount.

Prepayment Penalty: A fee paid to the mortgagee for paying the mortgage before it becomes due. Also known as prepayment fee or reinvestment fee.

Prepayment privilege: The right given to a purchaser to pay all or part of a debt prior to its maturity. The mortgagee cannot be compelled to accept any payment other than those originally agrees to.

Private Mortgage Insurance (PMI): Insurance written by a private company protecting the mortgage lender against loss occasioned by a mortgage default.

Rent with Option: A contract which gives one the right to lease property at a certain sum with the option to purchase at a future date.

Second Mortgage/Second Trust: Junior Mortgage of Junior Lien: an additional loan imposed on property with a first mortgage. Generally at a higher interest rate and shorter terms than the "first" mortgage.

Straight Loan: A loan with periodic payments of interest only. The principal sum is due in one lump sum upon maturity.

Title: Often used interchangeably with the word ownership. It indicates the accumulation of all rights in property; the owners and others.

Title Insurance: An insurance policy which protects the insured (purchaser or lender) against events rising from defects in title.