

# Glossary

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## A

### **Amortization Schedule**

(Payment Schedule, Monthly Schedule) The dollar figures in the Payment Schedule represent principal, interest, plus Private Mortgage Insurance (if applicable) over the life of the loan. These figures will not reflect taxes, insurance, escrows, or any temporary buy down payment contributed by the seller.

### **Amortize**

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.

### **Amount Financed**

The loan amount applied for less the prepaid finance charges (found on the Good Faith Estimate). For example, if the borrower's note is for \$100,000 and the Prepaid Finance Charges total \$5,000, the amount financed would be \$95,000. The Amount Financed is the figure on which the Annual Percentage Rate is based.

### **APR (Annual Percentage Rate)**

This is not the Note rate for which the borrower applied. The Annual Percentage Rate (APR) is the cost of the loan in percentage terms, taking into account various loan charges of which interest is only one. Other charges used to calculate the Annual Percentage Rate are Private Mortgage Insurance or FHA Mortgage Insurance Premium (when applicable) and Prepaid Finance Charges (loan discount, origination fees, prepaid interest, and other credit costs). The APR is calculated by spreading these charges over the life of the loan, which results in a rate higher than the interest rate shown on your Mortgage/Deed of Trust Note. If interest were the only Finance Charge, the interest rate and Annual Percentage Rate would be the same.

### **ARM (Adjustable Rate Mortgage)**

A mortgage in which the interest rate is adjusted periodically based on a preselected index. Also sometimes known as the re-negotiable rate mortgage, the variable rate mortgage, or the Canadian rollover mortgage.

### **ASCII (American Standard for Computer Information Interchange)**

The most common format for text files in computers and on the Internet. In an ASCII file, each alphabetic, numeric, or special character is represented with a 7-bit binary number (a string of seven 0s or 1s). 128 possible characters are defined.

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## B

### **Balloon Loan**

A short term mortgage with some features of a fixed rate mortgage. The loan provides a level payment feature during the term of the loan, but does not fully amortize over the original term. Balloon loans can have different maturities, but most balloons that are first mortgages have a term of 5 to 7 years. At the end of the loan term there is still a principal loan balance; the mortgage company generally requires that the loan be paid in full, which can be accomplished by refinancing. Many companies have other options, such as a conversion feature at the end of the term. For example, the loan might convert to a 30 year fixed loan at the thirty year market rate plus 3/8 of a percentage point. Your conversion can be guaranteed based on certain criteria like having made your last 24 payments on time. The balloon mortgage program with the conversion option is often called a 7/23 Convertible or 5/25 Convertible.

### **Buydown**

A loan subsidized by the builder where money is put into an escrow to buydown the interest rate for a period of time. The borrower is qualified at the reduced payment level, therefore allowing him/her to obtain a larger mortgage than would otherwise be possible. An example of a 2/1 buydown would be where the builder buys the loan down by 2% the first year, and 1% the second year. After the second year, the loan reverts to the full rate.

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## C

### **Cardex**

Point contains a database for collecting and storing the names, addresses, and phone numbers of people, companies, and institutions relating to your business. This information can be pulled into many of the forms in Point.

### **CLTV**

COMBINED LOAN TO VALUE – The ratio of loan to value. The LTV and CLTV will show as the same when there is one lien on a

property. The CLTV ratio will change when there is more than one mortgage on the subject property.

**Cmt Expires**

COMMITMENT EXPIRES (Conventional) A loan is not backed by government insurance or a government guarantee should it default. Loans with LTV ratios greater than 80% might require private mortgage insurance. Conventional loans typically require higher down payments (minimum 10%) and allow for higher loan limits than FHA or VA loans.

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**D****DO/DU**

Desktop Originator/Desktop Underwriter from Fannie Mae.

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**E****ECOA**

EQUAL CREDIT OPPORTUNITY ACT – (Also known as Regulation B) A federal law requiring creditors to make credit equally available without discrimination based on race, color, religion, national origin, age, sex, marital status or receipt of income from public assistance programs.

**Electronic Data Interchange**

Doing business/carrying out transactions electronically instead of on paper (placing orders with suppliers and carrying out financial transactions. e. g.); "r;paperless trading." Point has EDI capabilities.

**Escrow Account**

The segregated trust account in which escrow funds are held.

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**F****FARM**

FOCUS AREA of REAL ESTATE MARKETING – Lists that mortgage brokers sometimes use to import new prospect files.

**FHA**

FEDERAL HOUSING ADMINISTRATION – The US government insures loans (the VA guarantees loans) against default, therefore requiring a small down payment (usually 5% minimum).

**FICO**

FairIsaac Corporation. FICO scores are designed to indicate if a borrower might be delinquent within the next 24 months. They are used by banks and other institutions to make their lending decisions.

**fixed rate**

A loan that allows for "r;fixed," or level, payments over the life of the loan (normally 15 to 30 years). Each payment contributes toward reducing principal until the loan is fully amortized. Payments can be monthly or bi-weekly.

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**G****GPM**

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

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**H****HMDA**

HOME MORTGAGE DISCLOSURE ACT – Requires lenders to disclose annually all home loans made or purchased and all applications taken by census tract by the race, gender and income of the applicants and borrowers.

**Hybrid option ARM**

A relatively new combination of option ARMs and hybrid ARMs. They allow greater payment flexibility like option ARMs (including the potential for negative amortization), but also have more rate stability like hybrid ARMs. They offer the best features of both by allowing borrowers to fix the interest rate for the first three, five, or seven years after the note date.

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## I

### index

A published interest rate against which lenders measure the difference between the current interest rate on an adjustable rate mortgage and that earned by other investments (such as one - three - and five-year U.S. Treasury security yields, the monthly average interest rate on loans closed by savings and loan institutions, and the monthly average costs-of-funds incurred by savings and loans), which is then used to adjust the interest rate on an adjustable mortgage up or down.

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## L

### Libor

London InterBank Offered Rate.

### LTV

LOAN-TO-VALUE – The percentage of the appraised value (or the sales price, whichever is less) to the loan amount of the property. Determines if an impound account is required, the term of mortgage insurance, the down payment and qualifying debt ratios.

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## M

### margin

The amount a lender adds to the index on an adjustable rate mortgage to establish the adjusted interest rate and determine the interest rate actually paid. The margin added to the index is known as the fully indexed rate. For example, if the current index value is 5.50% and your loan has a margin of 2.5%, your fully indexed rate is 8.00%. Margins on loans range from 1.75% to 3.5% depending on the index and the amount financed in relation to the property value.

### MCAW

MORTGAGE CREDIT ANALYSIS WORKSHEET – FHA worksheet (HUD 92900).

### MERS

MORTGAGE ELECTRONIC REGISTRATION SYSTEMS – Electronic registry for tracking ownership of mortgage rights. Uses MIN numbers.

### MIN

Mortgage Identification Number used in the MERS system.

### MIP/FF

MORTGAGE INSURANCE PREMIUM/FUNDING FEE – Insurance from FHA to the lender against incurring a loss because of the borrower's default.

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## N

### negative amortization

Occurs when monthly payments are not 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.

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## O

### 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.

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## P

### PFC

PREPAID FINANCE CHARGE – Charges made in connection with the loan that must be paid upon the close of the loan. These charges are defined by the Federal Reserve Board in Regulation Z and must be paid by the borrower. Examples of such charges are Loan origination fee, "Points" or Discount, Private Mortgage Insurance or FHA Mortgage Insurance, Tax Service Fee. Some loan charges, such as appraisal fees and credit report fees, are specifically excluded from the Prepaid Finance Charge.

### PMI

Protection for lenders against borrower default; money paid to insure the mortgage when the down payment is less than 20 percent of the appraised value.

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## R

### ratios

Consist of a top ratio and a bottom ratio that determine eligibility for a loan.

Top ratio (also called the Front-End Ratio or Housing Ratio) is calculated by dividing the proposed total monthly mortgage payment (which includes principal, interest, taxes, insurance, and mortgage insurance) by the gross monthly income.

Bottom Ratio (also called the Back-End Ratio or Total-Debt Ratio) is calculated by dividing the total monthly mortgage payment + the monthly recurring debt by the gross monthly income.

Ratio Guidelines: 80%LTV = 33/38 90%LTV = 28/36 95% LTV = 25/33

### REO

Real Estate Owned.

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## T

### TCP/IP

A set of network protocols that connect the Internet. TCP is at the transport layer in the network model, and IP delivers TCP and UDP packets across a network.

### title insurance

A policy, usually issued by a title insurance company, that insures a home buyer against errors in the title search. The cost of the policy is usually a function of the value of the property, and is often bought by the purchaser and/or seller. Policies are also available to protect the lender's interest.

### Truth In Lending

A written disclosure to the borrower from the lender, required by Federal law, of the mortgage terms (including the APR and other charges) after the loan application is completed. The rights include a rescission period. Also known as Regulation Z.

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## V

### 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. The U.S. government guarantees these loans against default; therefore, they do not require a down payment.

### VOD

VERIFICATION OF DEPOSIT – A document signed by the borrower's financial institution verifying the status and balance of his/her financial accounts. This document is generally not needed if recent bank statements are available.

### VOE

VERIFICATION OF EMPLOYMENT – A document signed by the borrower's employer verifying his/her position and salary. This document is generally not needed if recent pay stubs are available.

**VOL**

VERIFICATION OF LOAN

**VOM**

VERIFICATION OF MORTGAGE or RENT

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**#**

**1003**

Loan Application

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