MORTGAGE TERMS

Adjustable Rate Mortgage (ARM) - A mortgage in which the interest rate changes at certain intervals during the term of the loan. *If you can not afford increases in monthly mortgage payments, this type of loan should be avoided.*

Acceleration Clause – This is a clause used in a mortgage that can be enforced to make the entire amount of the loan and any interest due immediately. This is usually stipulated if you default on a specified number of installment payments (in some case, just one payment).

Adjustment Period – The length of time which dictates interest rate adjustments on an adjustable rate mortgage. A six-month ARM would have an adjustment every six months.

Annual Percentage Rate (APR) – Calculation which standardizes rates, point, and other costs of a mortgage loan. This figure is disclosed as part of the truth-in-lending statement, which is required by the Federal Truth-In-Lending Act. This rate is likely to be higher than the stated note rate or advertised rate on the mortgage, because it takes into account points and other credit costs such as private mortgage insurance, loan discount, origination fees, and other credit costs. The APR allows homebuyers to compare different types of mortgages based on the annual cost for each loan.

Appraisal - An estimate of value -- in this case for real property. For residential properties the appraiser would utilize the Uniform Residential Appraisal Report or URAR. *Ask for a copy of the appraisal report and also check with the Summit County Fiscal Office to inquiry as to the current appraised value of the property, call Customer Service at (330) 643-2623.*

Assignment of Mortgage – A document used to transfer ownership of a mortgage from one party to another.

Assumption of a Mortgage – The document that changes the liability of the payment from the buyer to the seller. The seller can still be held liable for payments if the buyer defaults, unless the buyer is qualified for the loan and seller is removed from the title. The Assumption Agreement is the written agreement that is filed to perform the transaction. The Assumption Fee is the lender charged fee to process the transaction.

Balloon Payment – A loan with fixed rate payments for the first five to seven years of the loan then a lump sum payment is due on the balance of the loan at a specified date. The mortgage does not fully amortize over the term of the mortgage.

Bankruptcy – When an individual or business is unable to pay back creditors and will stop foreclosure proceedings. The individual or business files bankruptcy with the courts surrenders all assets to the court and is no longer obligated to repay any unsecured debts.

Binder – A title binder is a written commitment from the title insurance company to insure title to the property subject to conditions listed.

Buydown – A fee paid to lower the interest rate on a mortgage, the buyer, seller, or any other interested party may pay it. A permanent buy down would lower the rate for the entire term of the mortgage. A temporary buy down would lower the rate for a certain portion of the mortgage term, usually the first few years.

Caps (Interest) – Consumer safeguards on the interest rate of an adjustable rate mortgage that limit the interest that can be charged per year and the life of the loan.

Caps (Payment) – Consumer safeguards the limit on how much the monthly mortgage payment of an adjustable rate mortgage may change.

Clear Title – Title that is free of liens or defects.

Closed-End Mortgage – A mortgage where the debt cannot be increased.

Closing Costs – Fees and costs that both buyer and seller must pay at closing. Closing costs over $3,000 inquiry before paying. They generally include origination fee, discount fee, appraisal fee, credit report, title search, recording fees and other costs described in the HUD I at settlement.

Conventional Mortgage - A mortgage not guaranteed by VA or insured by FHA, FMHA or State Bond Agencies.

Debt-To-Income Ratio – This is a key ratio used to determine the amount of money an individual can borrow. It is the monthly debt (payment obligation) divided by your gross monthly income. This gives a percentage that is compared to the guidelines provided by the investor for approval on your loan.

Default - The non-payment of a mortgage or other loan in accordance with the terms as specified in the note.

Delinquency – When a borrower is not making monthly payments on time. If several payments are missed, this can lead to foreclosure.

Discount Point – A charge by a lender collected to buy down the interest rate.

Down Payment – Money given by the purchaser of a property to the seller to acquire the mortgage and hence the property. The difference between the sales price and the mortgage amount are the down payment.

Escrow - Money held by a third party on behalf of the first party to be utilized for requirements of a second party. A servicer is a third party, which holds an escrow on behalf of the borrower to pay taxes and insurance payments to the applicable entities when they become due.

Equity – Refers to the value a homeowner builds into their property that is above and beyond what is owed on the property.

Fixed Rate Mortgage - A mortgage in which the interest rate (and usually the payment) does not change over the term of the mortgage.

Forbearance – Agreement between lender and borrower that legal action will not be taken against the borrower if the borrower agrees to make up the payments in arrears by a specific date.

Foreclosure – A legal procedure where if the loan is defaulted – it can be sold through legal procedures to pay off any debt owed to the lender.

Loss Mitigation - If in default with payments, the borrower needs to inquiry into loss mitigation options offered by the lender (if any) that would be an alternative to foreclosure such as repayment plans, loan modification, forbearances, etc.

Negative Amortization – The principal balance of your loan increases rather than decreases. This happens when the money you pay on the loan doesn't cover the cost of the interest due on the loan.

PITI – The total mortgage payment comprised of (P) principal and (I) interest, as well as (T) real estate taxes and (I) insurance (if the latter two are applicable).

Point - A charge by a lender. One point is equal to 1% of the mortgage amount.

Pre-Approval – This allows you the ability to get approved for a specific loan amount prior to finding the home you want to purchase. This can give you a great advantage with a homeowner or realtor if someone else is interested in the same home at the same time. Also, if you're thinking about refinancing and wanting to payoff creditors or take cash out but not sure you would qualify – you can apply for a pre-approval and save on the cost of getting an appraisal on your home until you know if you qualify.

Prepayment Penalty – A financial penalty imposed when a borrower pays off the loan early. This fee is intended to reimburse the lender for any lost interest due to the loan being paid off early. *This feature is in favor of the lender, not the borrower.*

Private Mortgage Insurance (PMI) – On a conventional loan PMI is required if you borrow over 80.01% of your appraised value. This protects the lender against financial loss if the loan is defaulted.

Truth-In-Lending – The TIL is required by law to be disclosed on a mortgage loan. The document includes the Annual Percentage Rate (APR) and other costs.

Underwriting – Refers to the decision making process lenders use to review all the information on a borrower and a proposed property.

Uniform Residential Loan Application Form – A form accepted by all major mortgage sources for application of residential mortgage loans. It may also be referred too as Form 1003.

Uniform Settlement Statement (HUD-1) - Settlement summary form required by RESPA to be used by closing agents.