Know the Terms.

Amortization Repayment of a mortgage loan by installments with regular payments to cover the principal and interest.

Application Fee Collected when the lender begins work processing your loan. Usually coinciding with rate lock.

Appraisal A written analysis of the estimated value of a property prepared by a qualified appraiser.

APR Annual Percentage Rate. The cost of a mortgage stated as a yearly rate; includes such items as interest, mortgage insurance and loan origination fee (points) found on the Loan Estimate (LE).

ARMs Adjustable Rate Mortgages. Mortgages that change interest rate periodically based upon the changes in a specified index.

Balloon Mortgage A mortgage that has level monthly payments that will amortize over a stated term but provides for a lump sum payment to be due at the end of an earlier specified term.

Basis Points A basis point is .01% of the loan amount - one tenth of one percent.

Binder A preliminary agreement, secured by the payment of an earnest money deposit, under which a buyer offers to purchase real estate. Sometimes called Earnest Money Deposit.

Broker A person who, for a commission or a fee, brings parties together and assists in negotiating contracts between them.

Clear Title A title that is free of liens or legal questions as to ownership of the property.

Commitment Letter A formal offer by a lender making explicit the terms under which it agrees to lend money to a borrower.

Conforming A loan that can be sold to Fannie Mae or Freddie Mac - usually 620+ credit score, 38% Debt Ratio and appropriate Loan to Value (LTV).

Contingency A condition that must be met before a contract is legally binding. For example, home purchasers often include a contingency specifying that the contract is not binding until the purchaser obtains a satisfactory home inspection report from a qualified home inspector.

Debt to Income Ratio (DTI) The ratio of the total amount that you owe to the total amount you make.

Easement A right of way giving persons other than the owner access to or over a property.

Equity A homeowner's financial interest in a property. Equity is the difference between the fair market value of the property and the amount still owed on its mortgage.

Fair Market Value The highest price that a buyer, willing but not compelled to buy, would pay, and the lowest a seller willing, but not compelled, would accept for a property.

HELOC Home Equity Line of Credit - adjustable rate, adjustable balance 2nd mortgage.

Interest Only Loan A loan that enables your mortgage payment to equal only the amount of the monthly interest on the loan. This can save you money each month.

For example, your mortgage payment on a 30-year interest only loan for your $200,000 home at 5% home would be $833 instead of a fully amortized loan amount of $1073 – monthly savings of $240.

LE Loan Estimate (LE) of closing costs. An estimate of settlement charges shown on the Closing Disclosure (CD)

Loan to Value Ratio (LTV) The ratio of the amount of your loan to the appraised value of the home. The LTV will affect programs available to the borrower and generally, the lower the LTV, the more favorable the terms of the programs offered by lenders.

Lock-in Also Rate Lock-in - A written agreement guaranteeing the homebuyer a specified interest rate provided the loan is closed within a set period of time. The lock-in also usually specifies the number of points to be paid at closing.

Pre-Approval A pre-approval is a written commitment issued by a lender after a comprehensive analysis of the creditworthiness of the applicant, including such verification of income, resources, and other matters as is typically done as part of a normal credit evaluation program, The pre-approval is conditioned solely upon the following:

1) Identification of a suitable property,
2) No material change in the applicant's financial condition or creditworthiness prior to closing,
3) Limitations not related to the financial condition of creditworthiness of the applicant that a lender ordinarily attaches to a traditional mortgage application, such as completion of a home inspection, an acceptable title insurance holder, certification of clear termite inspections, etc.

Pre-Qualification A pre-qualification is an *estimate* of borrowing power. It is a statement from your lender saying that "based on your income and debt levels" you are qualified for a mortgage for "X" amount of dollars. This can be accomplished by a simple phone call to a lender. A credit report may be run before they will "pre-qualify" you.

Second Mortgage In second lien position. The 1st mortgage holder gets paid first if the home forecloses, the 2nd mortgage holder gets paid second. Because of this risk, second mortgage rates are higher.

Subordination Having a current 2nd mortgage agree to have a new first mortgage put in 1st lien position. If you don't have the 2nd mortgage holder subordinate, when the first mortgage is paid off, the 2nd mortgage falls to 1st lien position, and any new mortgage you do is in 2nd position. Therefore the rate would have to be higher.

Sub-prime A loan that is below prime lending - typically cannot be sold to Fannie or Freddie - usually has credit issue. There is still a secondary market for these loans - but the rates are higher.

Title The evidence that one has right to possession of land.

Title Search An investigation into the history of ownership of a property to check for liens, unpaid claims, restrictions or problems, to prove that the seller can transfer free and clear ownership.

Truth-in-Lending Act (TILA) A federal law requiring a disclosure of credit terms using a standard format. This is intended to facilitate comparisons between the lending terms of different financial institutions.

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