Glossary of Loan Terminology

A B C D E F G H I J L M N O P Q R S T V

A

Abstract (of Title)
A historical summary of all the recorded transactions that affect the title to the property. An attorney or a title company will review an abstract of title to determine if there are any problems affecting the title to the property. All such problems must be cleared before the buyer can be issued a clear and insurable title.

Abutting
Bordering upon or next to; the joining or touching of adjoining land; sharing a common boundary.

Acceleration Clause
A loan provision giving the lender the power to declare all sums owing lender immediately due and payable upon the violation of a specific loan provision, such as the sale of the property, or the failure to make loan payments on time. Example: John sells his property to Mary who takes over John's mortgage payments. They do not notify the lender of this transaction. The lender finds out that the title to the property has transferred and calls the loan, since the loan documents state that the loan is due on the sale of the property. John is now liable to pay his lender in full.

Acceptance
An offeree’s consent to enter into a contract and be bound by the terms of the offer. In a real estate transaction an offer is made from the buyer to the seller. If the seller accepts the offer within the prescribed time limit, it becomes a binding contract. In this case Acceptance is documented by the Seller signing and delivering the signed document.

Accretion
The addition to land through natural forces like wind or water.
Example: Soil carried by a river then deposited on land.

Acknowledgment
Formal declaration before a public official (typically a Notary Public) that one has signed a document. Required before recording real estate legal documents, such as a deeds of trust.

Acre
A measure of land equal to 43,560 square feet.

Additional Principal Payment
A payment by a borrower of more than the scheduled principal amount due in order to reduce the remaining balance on the loan.

Adjustable-rate mortgage (ARM)
A mortgage in which the interest rate is adjusted periodically based on a pre-selected index. Also sometimes known as the re-negotiable rate mortgage, the variable rate mortgage or the Canadian rollover mortgage. View a list of common indexes.

Indexes

Your ARM is referenced to a particular index that changes. Lenders use that published index to serve as the basis for determining interest rate changes on adjustable rate mortgage loans. As the indices published rate fluctuates, so does your mortgage rate. You can find these indices in the Wall Street Journal. The most commonly used indexes are:

Treasury Indexed- Adjustments are based on the average interest rate that the government pays on its debt.

CD Indexed (certificate of deposit) - Adjusts to certificate of deposit index.

LIBOR (London interBank offer rate) - The rate on the dollar-denominated deposits, also known as Eurodollars, traded between banks in London.

The LIBOR Index

LIBOR stands for London Inter-Bank Offered Rate and is the interest rate at which highly rated American and International banks lend to one another. The LIBOR is an index that follows international economic conditions. There are various maturities associated with the LIBOR, including 1-month, 3-month, 6-month and 1-year.

Use of LIBOR indices has increased due to the U.S. Treasury Department's decision to stop issuing shorter-term bonds like the One-Year Treasury bill in an effort to cut government costs. The LIBOR has proven to be the most popular substitute to the US Treasury bill for Adjustable Rate Mortgages (ARMs).

LIBOR-indexed ARMs offer aggressive initial rates. Borrowers are also protected from interest rate fluctuations by both periodic and lifetime interest rate caps.

COFI (cost of funds index) - The cost of funds is indexed to the average interest rate that banks in particular states pay their customers. One of the most common indexes is the 11th district cost of funds index, which covers banks in California, Nevada and Arizona.

Adjusted Basis
The adjusted basis figure is the value used to determine capital gains when you sell real property. The original cost of a property plus the value of any capital expenditures for improvements to the property minus any depreciation taken.

Adjustment date
The date on which the interest rate changes for an adjustable-rate mortgage (ARM).

Adjustment period
The length of time for which the interest rate is fixed on an adjustable. If the adjustment period is six months, then the interest rate will remain fixed for six months, after which time it will adjust.

Affordability Analysis
A detailed analysis to determine whether you can afford the purchase of a home. An affordability analysis takes into consideration your income, liabilities, and available funds, along with the type of mortgage you plan to use, the area where you want to purchase a home, and the closing costs that you might expect to pay.

Agreement of Sale
A written signed agreement between the seller and the purchaser in which the purchaser agrees to buy certain real estate and the seller agrees to sell upon terms of the agreement. Also known as contract of purchase, purchase agreement, offer and acceptance, earnest money contract or sales agreement.

Amenity
A feature of real property that enhances its attractiveness and increases the occupant’s or user’s satisfaction, although the feature is not essential to the property’s use. Natural amenities include a pleasant or desirable location near water, scenic views of the surrounding area, etc. Human-made amenities include swimming pools, tennis courts, community buildings, and other recreational facilities.

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

Amortization term
The amount of time required to amortize the mortgage loan. The amortization term is expressed as a number of months. For example, for a 30-year fixed-rate mortgage, the amortization term is 360 months.

Annual Percentage Rate (APR)
An interest rate reflecting the cost of a mortgage as a yearly rate The percentage relationship of the total finance charge to the amount of the loan, over the life of the loan. Do not confuse APR with your quoted interest rate, which is used to determine your monthly principal and interest payment. The APR reflects the cost of our mortgage loan as a yearly rate. It will be higher than the interest rate stated on the note because it includes (in addition to the interest rate) loan points, fees and mortgage insurance. The APR allows home buyers to compare different types of mortgages based on the annual cost for each loan.

Application
A form, commonly referred to as a 1003 form, used to apply for a mortgage and to provide information regarding a prospective mortgagor and the proposed security.

Appraisal
A report written by a qualified expert – Appraiser, that states an opinion on the value of a property based on its characteristics and the selling prices of similar or comparable properties in the area.

Appraiser
A person qualified by education, training, and experience to estimate the value of real property and personal property.

Appreciation
An increase in the value of a property due to changes in market conditions or other causes. The opposite of depreciation.

Asset
Anything of monetary value that is owned by a person. Assets include real property, personal property, and enforceable claims against others (including bank accounts, stocks, mutual funds, and so on).

Assessment
The process of placing a value on property for the strict purpose of taxation. May also refer to a levy against property for a special purpose, such as a street or traffic light or sewer assessment.

Assessment Rolls
The public record of taxable property.

Assignment
The transfer of a mortgage from one person to another.

Assumable mortgage
A mortgage loan which allows a new home buyer to take over the obligation of making loan payments with no change in the terms of the loan. Assumable loans do not have a due-on-sale clause. The lender has to be notified and agree to the assumption. The lender may require the buyer to qualify for the loan and may charge an assumption fee. The seller should obtain a written release from the lender stating clearly that he/she is no longer liable to make mortgage payments.

Assumption
The transfer of the seller's existing mortgage to the buyer, or taking over a loan and becoming personally liable for the repayment.

Assumption clause
A provision in an assumable mortgage that allows a buyer to assume responsibility for the mortgage from the seller. The loan does not need to be paid in full by the original borrower upon sale or transfer of the property.

Assumption fee
The fee paid to a lender (usually by the purchaser of real property) resulting from the assumption of an existing mortgage.

B

Back-end ratio, or debt ratio
The amount you pay in monthly debt (car payments, credit cards, student loans, etc.) divided by your gross monthly income.

Balance sheet

A financial statement that shows assets, liabilities, and net worth as of a specific date.

Balloon payment Mortgage
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.

Bankrupt
A person, firm, or corporation that, through a court proceeding, is relieved from the payment of all debts after the surrender of all assets to a court-appointed trustee.

Bankruptcy
A proceeding in a federal court in which a debtor who owes more than his or her assets can relieve the debts by transferring his or her assets to a trustee. A provision of Federal Law whereby a debtor surrenders his assets to the Bankruptcy Court and is relieved of the future obligation to repay his unsecured debts. After bankruptcy, the debtor is discharged and his unsecured creditors may not pursue further collection efforts against him. Secured creditors, those holding deeds of trust or judgment liens, continue to be secured by the property, but they may not take other action to collect from the debtor.

Before-tax income
Income before taxes are deducted, also called gross income.

Bill of Sale
A written document that transfers title to personal property

Beneficiary
The person named to receive the income from a trust, estate, or a deed of trust.

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

Biweekly Mortgage
A mortgage which requires half the normal monthly payment every two weeks. Over the course of the year, twenty-six half payments are made which is equivalent to thirteen full mortgage payments. As a result of this extra payment the loan amortizes much faster than a loan with normal monthly payments

Blanket mortgage
The mortgage that is secured by a cooperative project, as opposed to the share loans on individual units within the project.

Bond
An interest-bearing certificate of debt with a maturity date. An obligation of a government or business corporation. A real estate bond is a written obligation usually secured by a mortgage or a deed of trust.

Borrower (mortgagor, trustor)
One who applies for a loan secured by real estate and is responsible for repaying the loan (mortgage).

Bridge loan
A form of second trust that is collateralized by the borrower's present home (which is usually for sale) in a manner that allows the proceeds to be used for closing on a new house before the present home is sold. Also known as "swing loan."

Broker
A person who, for a commission or a fee, brings parties together and assists in negotiating contracts between them. An individual in the business of assisting in arranging funding or negotiating contracts for a client but who does not loan the money herself.

Buy-down mortgage
A temporary buydown is a mortgage on which an initial payment is made by any party to reduce a borrower's monthly payments during the first few years of a mortgage. A permanent buydown reduces the

interest rate over the entire life of a mortgage.

C

Cap
A provision of an adjustable-rate mortgage (ARM) that limits how much the interest rate or mortgage payments may increase or decrease, may change per year and/or over the life of the loan.

Cash-out refinance
A refinance transaction in which the amount of money received from the new loan exceeds the total of the money needed to repay the existing first mortgage, closing costs, points, and the amount required to satisfy any outstanding subordinate mortgage liens. In other words, a refinance transaction in which the borrower receives additional cash that can be used for any purpose.

Caveat emptor
Buyer need to be ware. The buyer must inspect the property and satisfy himself it is adequate for his needs. The seller is under no obligation to disclose defects but may not actively conceal a known defect or lie if asked.

Certificate of title
A statement provided by an abstract company, title company, or attorney stating that the title to real estate is legally held by the current owner as shown on the public records. The certificate does not certify as to matters not of record and affords no protection unless the author was negligent.

Change frequency
The frequency (in months) of payment and/or interest rate changes in an adjustable-rate mortgage (ARM).

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

Closing
The final step after a lender approves a loan application. The homebuyer and lender sign the security agreement note for the mortgage, which states all the terms and conditions of the loan and the loan funds are turned over to the homebuyer's closing agent.

Closing cost item
A fee or amount that a home buyer (and sometimes the seller) must pay at closing for a single service, tax, or product. Closing costs are made up of individual closing cost items such as origination fees and attorney's fees. Many closing cost items are included as numbered items on the HUD-1 statement. Click here to see some closing cost items from a HUD-1 statement. Expenses (over and above the price of the property) incurred by buyers and sellers in transferring ownership of a property. Closing costs normally include an origination fee, an attorney's fee, taxes, an amount placed in escrow, and charges for obtaining title insurance and a survey. Closing costs percentage will vary according to the area of the country.

Closing statement
Also referred to as the HUD-1. The final statement of costs incurred to close on a loan or to purchase a home.

Cloud on title
Any conditions revealed by a title search that adversely affects the title to real estate. Usually clouds on title cannot be removed except by a quitclaim deed, release, or court action.

Collateral
An asset (such as a car or a home) that guarantees the repayment of a loan. The borrower risks losing the asset if the loan is not repaid according to the terms of the loan contract.

Collection
The efforts used to bring a delinquent mortgage current and to file the necessary notices to proceed with foreclosure when necessary.

Combination loan
With this type of loan, you receive a first mortgage for 80 percent of the loan amount, and a second mortgage at the same time for the remainder of the balance. If avoiding PMI (mortgage insurance) is important to you, consider combination loans--known as 80/10/10 loans or 80/20's.

Combined loan-to-value (CLTV)
The unpaid principal balances of all the mortgages on a property (first and second usually) divided by the property's appraised value.

Co-maker
A person who signs a promissory note along with the borrower. A co-maker's signature guarantees that the loan will be repaid, because the borrower and the co-maker are equally responsible for the repayment. See endorser.

Commission
The fee charged by a broker or agent for negotiating a real estate or loan transaction. A commission is generally a percentage of the price of the property or loan.

Commitment letter
A formal offer by a lender stating the terms under which it agrees to lend money to a home buyer. Also known as a "loan commitment." A promise by an investor to purchase mortgages from a lender with specific terms or conditions.

Common areas
Those portions of a building, land, and amenities owned (or managed) by a planned unit development (PUD) or condominium project's homeowners' association (or a cooperative project's cooperative corporation) that are used by all of the unit owners, who share in the common expenses of their operation and maintenance. Common areas include swimming pools, tennis courts, and other recreational facilities, as well as common corridors of buildings, parking areas, means of ingress and egress, etc.

Community Home Improvement Mortgage Loan
An alternative financing option that allows low- and moderate-income home buyers to obtain 95 percent financing for the purchase and improvement of a home in need of modest repairs. The repair work can account for as much as 30 percent of the appraised value.

Community property
A form of ownership under which property acquired during a marriage is presumed to be owned jointly unless acquired as separate property of either spouse.

Comparables
An abbreviation for "comparable properties"; used for comparative purposes in the appraisal process. Comparables are properties like the property under consideration; they have reasonably the same size, location, and amenities and have recently been sold. Comparables help the appraiser determine the approximate fair market value of the subject property.

Condominium
A real estate project in which each unit owner has title to a unit in a building, an undivided interest in the common areas of the project, and sometimes the exclusive use of certain limited common areas. Each individual may sell or encumber his own unit.

Conforming loan
The current conforming loan limit is $417,000 and below. Conforming loan limits change annually.

Construction loan
A short-term, interim loan for financing the cost of construction. The lender advances funds to the builder at periodic intervals as the work progresses.

Consumer reporting agency (or bureau)
An organization that prepares reports that are used by lenders to determine a potential borrower's credit

history. The agency obtains data for these reports from a credit repository as well as from other sources.

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

Contract
An oral or written agreement to do or not to do a certain thing.

Conventional mortgage
A mortgage that is not insured or guaranteed by the federal government.

Convertible ARM
An adjustable-rate mortgage (ARM) that can be converted to a fixed-rate mortgage under specified conditions.

Cooperative (co-op)
A type of multiple ownership in which the residents of a multiunit housing complex own shares in the cooperative corporation that owns the property, giving each resident the right to occupy a specific apartment or unit.

Corporate relocation
Arrangements under which an employer moves an employee to another area as part of the employer's normal course of business or under which it transfers a substantial part or all of its operations and employees to another area because it is relocating its headquarters or expanding its office capacity.

Cost of funds index (COFI)
An index that is used to determine interest rate changes for certain adjustable-rate mortgage (ARM) plans. It represents the weighted-average cost of savings, borrowings, and advances of the 11th District members of the Federal Home Loan Bank of San Francisco.

Covenant
A clause in a mortgage that obligates or restricts the borrower and that, if violated, can result in foreclosure.

Credit
An agreement in which a borrower receives something of value in exchange for a promise to repay the lender at a later date.

Credit history
A record of an individual's open and fully repaid debts. A credit history helps a lender to determine whether a potential borrower has a history of repaying debts in a timely manner.

Credit report
A report issued documenting the credit history and current status of a borrower's credit standing, by an independent agency that contains certain information concerning a mortgage applicant's credit history and current credit standing. Used by a lender in determining a loan applicant's creditworthiness.

Credit repository
An organization that gathers, records, updates, and stores financial and public records information about the payment records of individuals who are being considered for credit.

D

Debt
An amount owed to another.

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 net effective income (FHA/VA loans) or gross monthly income (conventional loans).

Deed
The written legal document conveying title to a real property. Once recorded at the Courthouse, the original piece of paper is not needed to convey title in the future.

Deed-in-lieu
A deed given by a mortgagor to the mortgagee to satisfy a debt and avoid foreclosure.

Deed of trust
A voluntary lien to secure a debt deeding the property to Trustees who foreclose and sell the property at public auction, in the event of default on the Note the Deed of Trust secures. 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.

Delinquency
Failure to make mortgage payments on time. This can lead to foreclosure.

Delivery
The final, unconditional and absolute transfer of a deed to the Grantee so that the Grantor may not revoke it. A Deed, signed but held by the Grantor, does not pass title.

Deposit
A sum of money given to bind the sale of real estate, or a sum of money given to ensure payment or an advance of funds in the processing of a loan.

Depreciation
A decline in the value of property; the opposite of appreciation.

Down payment
A portion of the sales price paid to the seller by the homebuyer to close the sales transaction. Also, the difference between the sales price and the mortgage amount.

Due-on-interest
A clause inserted in a mortgage that allows the lender to call the loan due and payable at its option upon the transfer of the property also known as paragraph "17" in FNMA / FHLMC Mortgage

Due-on-sale provision
A provision in a mortgage that allows the lender to demand repayment in full if the borrower sells the property that serves as security for the mortgage.

E

Earnest money deposit
A deposit made by the potential home buyer to show that he or she is serious about buying the house.

Easement
The right to use the land of another for a specific limited purpose.

Encumbrance

Anything that affects or limits the fee simple title to a property, such as mortgages, leases, easements, or restrictions.

Endorser
A person who signs ownership interest over to another party. Contrast with co-maker.

Equal Credit Opportunity Act (ECOA)
A federal law that requires lenders and other 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.

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.

Escrow
An item of value, money, or documents deposited with a third party to be delivered upon the fulfillment of a condition. Funds that are set aside and held in trust, usually for payment of taxes and insurance on real property. Also earnest deposits held pending loan closing.

Escrow accounts
A holding account into which the mortgage borrower pays each month and from which the loan services pay the borrower’s taxes, other periodic debts against the property, homeowners insurance, and mortgage insurance, if applicable.

Escrow payment
The portion of a mortgagor's monthly payment that is held by the service to pay for taxes, hazard insurance, mortgage insurance, lease payments, and other items as they become due. Known as "impounds" or "reserves" in some states.

Estate
The ownership interest of an individual in real property. The sum total of all the real property and personal property owned by an individual at time of death.

Eviction
The lawful expulsion of an occupant from real property.

F

Fair Credit Reporting Act
A consumer protection law that regulates the disclosure of consumer credit reports by consumer/credit reporting agencies and establishes procedures for correcting mistakes on one's credit record.

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 to sell, would accept.

Fee simple
The greatest possible interest a person can have in real estate.

Federal Home Loan Mortgage Corporation (FHLMC)
The Federal Home Loan Mortgage Corporation provides a secondary market for mortgage financing by purchasing conventional loans. Also known as "Freddie Mac."

Federal Housing Administration (FHA)
An agency of the U.S. Department of Housing and Urban Development (HUD). Its main activity is the insuring of residential mortgage loans made by private lenders. The FHA sets standards for construction and underwriting but does not lend money or plan or construct housing.

Federal National Mortgage Association (FNMA)

A secondary mortgage institution which is the largest single holder of home mortgages in the United States. FNMA buys VA, FHA, and conventional mortgages from primary lenders. Also known as "Fannie Mae."

FHA mortgages
A mortgage that is insured by the Federal Housing Administration (FHA). Also known as a government mortgage. Open to all qualified home purchasers. While there are limits to the size of FHA loans, they are generous enough to handle moderately-priced homes almost anywhere in the country.

First mortgage
A mortgage that is the primary lien against a property.

Fixed-rate mortgage (FRM)
A mortgage in which the interest rate will remain the same during the entire term of the loan.

Fixed second mortgage
See home equity loan.

Flood insurance
Insurance required by a lender against flood damage for properties located in areas designated by the federal government as special flood hazard areas.

Foreclosure
The legal process by which a borrower in default under a mortgage is deprived of his or her interest in the mortgaged property. This usually involves a forced sale of the property at public auction with the proceeds of the sale being applied to the mortgage debt.

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.

G

Good Faith Estimate
An estimate of charges which a borrower is likely to incur in connection with a settlement, which tells mortgage borrowers the approximate costs they will pay at or before closing, based on common practice in the locality.

Click here to see items show on the GFE (HUD).

Government National Mortgage Association (GNMA)

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

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.

Gross Income
Incomes that before taxes are deducted.

Guaranty
A promise by one party to pay a debt or perform an obligation contracted by another if the original party fails to pay or perform according to a contract.

H

Hazard Insurance (also called Homeowners Insurance)
A real estate insurance policy required of the buyer to protect the property against loss caused by fire, some natural causes, vandalism and other events. May also include added coverage such as personal liability and theft away from the home.

Home equity line of credit
a credit line normally secured by a second deed of trust on a house. Equity lines of credit are revolving accounts that work like a credit card, which can be paid down or charged up for the term of the loan. The minimum payment due each month is interest only. Equity is difference between what the lien on your house and what your home is worth.

Home equity loan
a loan normally secured by a second deed of trust on a house, typically used as a home improvement loan. The monthly payment includes principal and interest.

Housing to income ratio
The ratio of the monthly housing payment in total (PITI - Principal, Interest, Taxes, and Insurance) divided by the gross monthly income. This ratio is sometimes referred to as the top ratio or front end ratio.

HUD
The U.S. Department of Housing and Urban Development.

HUD-1 Settlement Statement
A standard from used to disclose costs at closing. Click here to see some closing cost items from a HUD-1 statement

HUD Numbers and Explanation

We recommend that you carefully compare closing costs between lenders before selecting a loan. This task is complicated by the fact that different lenders and brokers use different names for the same item. The good news is that all lenders and brokers are required to provide you with a HUD Good Faith Estimate detailing the services you may be required to get and pay for in connection with your loan. In order to help you make comparisons, we have included the standard line item numbers used on the Good Faith Estimate form. Clicking on the number will show you an explanation of the item.

801 ***Loan Origination Fee***
By eliminating commissions and streamlining the loan process, Loanontime does not charge you origination fee.

802 ***Loan Discount Points***
Often referred to as "points"; this is a one-time charge from the lender that you pay to buy down the interest rate on your loan. Generally, the higher the charge, the lower the interest rate. Each point equals 1% of the loan amount.

803 ***Appraisal Fee***
The appraisal fee covers the cost of a professional appraiser evaluating your home to estimate its fair market value. The appraisal is used to calculate the loan amount as a percent of the property value. This loan-to-value (LTV) ratio is one of the factors that dictate whether a lender is willing to approve the mortgage application and whether additional fees may be required (e.g., mortgage insurance). The cost of the appraisal will depend on the location of your property (rural vs. urban), the complexity of the appraisal and the going rates for appraisers in that area.

804 ***Credit Report***
This fee covers the cost of a credit report that will be used by the lender to review your credit history and help determine whether to approve your application. Although the fee is collected by Loanontime, that payment goes to the credit service agency. Because lenders require an independent credit report, we cannot reuse any prior credit reports you may have. The cost of

a credit report is $15 per report. One report is required per borrower, unless the borrowers are married to each other in which case a combined report can be used.

809 ***Tax Service Fee***

The lender needs to know that the property taxes are being paid in full and on time because a tax lien would take priority over their lien as a lender. This fee covers the cost of a tax service agency hired to monitor your account. If your taxes are impounded, the agency provides the lender with your tax bills so that the lender can pay your taxes on time. If you pay the taxes yourself, the agency monitors the tax rolls for the life of the loan, and informs the lender if they ever become delinquent so that they can take action to protect their lien position. This one-time fee is set by the lender, and generally runs between $50 and $120.

810 ***Processing Fee***

A processing fee is often charged to cover the cost of processing the loan, and usually costs from $395 to $750.

811 ***Underwriting Fee***

This fee covers the cost of reviewing your loan application, is lender-specific, and usually costs from $300 to $600.

812 ***Wire Transfer Fee***

When your loan funds, it is a common practice for a lender to wire the funds to the settlement provider (escrow holder, title company, or attorney). This is a fast and efficient way to transfer funds in a transaction where time is crucial. The receiving account charges a nominal fee for the wire transfer of $10 to $50.

Additional Items

Administrative Fee

This is a fee charged by other lenders to cover some of their expenses. Some lenders charge this fee, while others roll this cost up into their other fees. It can range from zero to $700.

Courier Fee

Lenders will often charge for the costs of sending documents to various parties using couriers or express mail services. These costs are generally based on actual usage and will generally be higher when the process is rushed, but some lenders may use a fixed charge. These fees generally run $25 to $50.

Document Preparation Fee

This charge covers the cost of drafting the loan documents and is typically $75 to $350.

Flood Certification

Lenders want to ensure your property (their collateral) is well protected from likely hazards. In addition to requiring hazard insurance to cover events like a fire, they want to know if floods are a concern in your area. This fee covers the cost of a report to determine if the property is in a flood- risk area. The Federal Emergency Management Agency (FEMA) designates flood zones to indicate that certain areas have a high risk of flood damage. If your home is located in one of these flood zones, you will be required to secure flood insurance. Most homeowner's policies do not cover flood damage, so a separate policy will be required.

901 ***Interest Prepaid***

Lenders require that you pay the interest due on the new loan from the date of funding to the time of the first monthly payment (usually the first day of the next month). The interest due is calculated using the loan's interest rate and the appropriate number of days. We have conservatively assumed a full 30 days of interest, but on average borrowers pay 15 days of interest.

902 ***Mortgage Insurance***
Private mortgage insurance (PMI) is required by lenders when your loan-to-value ratio (loan amount divided by property value) is greater than 0.8 or 80%. This insurance protects the lender in case the value of your property decreases to the point where it is worth less than your loan balance. The lender typically requires that the borrower prepay two months premium. We have estimated your premiums using industry standard rates for the type of product you selected and your loan-to-value ratio.

903 ***Hazard Insurance Premium***
Lenders will require that you insure the property you are buying, since the property is collateral for the loan. At the time of closing you must pay the entire first year's premium or prove that you already have sufficient coverage (i.e., in the case of refinancing). If you are purchasing a condominium, your association policy will already cover your unit and you will not need to make this payment though proof of coverage is still required. The cost of hazard or homeowners' insurance depends on many factors, including location, property value, types of coverage and deductibles. We have used an estimate based on actual costs of funded loans by state. It is calculated as a percentage of the property value, but we recommend you consult with an insurance company for a more accurate quote.

1001 ***Hazard Insurance Impound***
This impound represents the amount the lender withholds to ensure you pay your hazard insurance on time. Typically, the lender will impound two months of premiums at closing, and then collects 1/12th of the annual premium with each monthly payment. We have used a standard industry estimate of 0.35% of the property value to calculate the premiums, but the actual amount will be established by your insurance company.

1002 ***Mortgage Insurance Impound***
This impound represents an estimated one month mortgage insurance premium. It will be calculated using your actual premium rate as set by the lender. A monthly premium amount will be collected with every monthly payment thereafter.

1004 ***Property Tax Impound***
The amount of property tax impounded can vary dramatically by county and the date you purchase your home. For example, in some counties the amount withheld equals the county tax rate times the number of months from the time you close until your first tax payment is due. You can get a rough idea of the amount due by using your county tax rate and an average of 6 months, but we recommend you consult directly with your real estate agent or county authorities for a more dependable figure.

1101 ***Closing/Escrow Fee***
This fee pays for the services of the escrow or settlement agent that handles all the financial transfers and payments associated with the transaction.

1105 ***Document Prepare Fee***
This cost charge by the Escrow company to prepare the loan documents and cost $75 to $350

1106 ***Notary Fee***
This fee covers the cost of hiring a licensed notary public to certify that the individuals signing documents are who they claim.

1107 ***Attorney Fee***
In some states an attorney performs the functions of an escrow agent, in which case this fee is in place of the Settlement or Closing Fee described above. This fee could vary widely by area of the country and by the individual attorney you select. Please consult **with your local real**

estate agent to understand if an attorney is customary and to get an estimate of the associated fees.

1108 ***Title Insurance: Lender's Coverage***
Title insurance insures against the possibility that there is an unknown lien on your property and ensures your undisputed ownership. The title company will check that no other entity has a lien, unpaid claim or other restriction on your ownership of the property and protects the lender in case a lien does exist that the search did not uncover.

Additional Items

Title Insurance: Owner's Coverage
Owner's coverage also guarantees that your home has no other liens. The difference is that it protects the owner and insures you for the entire value of the property (not just the loan amount). The premiums depend on the property value and range from 0.3% to 0.6%. On purchase transactions, in most states, this coverage is optional and is frequently paid for by the seller. Please contact the Title Company you are using for this transaction to obtain a quote, should you decide to purchase this coverage. Your Loan Consultant can also help you obtain this information. The owner's policy is not necessary in a refinance situation as that policy remains in full force and effect for as long as the owner owns the property.

Delivery/Courier Service
This fee is similar to the courier fee charged by other lenders, but covers the title company's or attorney's delivery costs. The fee is approximately $30-$50.

Wiring
When your loan funds, it is a common practice for a lender to wire the funds to the settlement provider (escrow holder, title company, or attorney). This is a fast and efficient way to transfer funds in a transaction where time is crucial. The receiving account charges a nominal fee for the wire transfer of $10 to $50.

Environmental Endorsement Fee
Endorsements are used to change the coverage of the title insurance policy. This fee insures the insured against loss or damage sustained by reason of lack of priority of the lien of the insured mortgage over any environmental protection lien.

1201 ***Recording Fee***
Once your transaction closes, your mortgage or deed of trust is recorded at the county recorder's office to make your transaction a matter of public record. The recording fee varies by the county being paid.

1202 **City/*County Tax/Stamps***
Stamps tax on the sale of real property, based on the sale price of equity transferred.

1203 ***State Tax/Stamps***
This is a tax charged by some states as an additional means of collecting tax revenue and ranges from 3/4% to 1-3/4% depending on the jurisdiction. The current states charging a mortgage tax include Alabama, Florida, Georgia, Hawaii, Kansas, Maryland, Minnesota, New York, Oklahoma, Tennessee and Virginia.

Other ***Homeowner's Association Certification Letter***
This fee covers the cost of getting a letter from a condominium's homeowner's association that provides background information on the property. For example, they will notify the lender whether they are involved in any litigation, the number of units that are owner-occupied, the number of units that are past due on fees, etc. We have estimated this cost from $50 to $150,

but the fee will be set by the homeowner's association. This fee will generally only apply for purchases of a condominium, but there may be exceptions. There is no predefined line item number used for this charge, therefore, it will appear under different numbers for different loans.

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Index
A published interest rate to which the interest rate on an Adjustable Rate Mortgage (ARM) is tied. Some commonly used indices include the 1 Year Treasury Bill, 6 Month LIBOR, and the 11th District Cost of Funds (COFI).

Type of Index often use in mortgage:
Prime rate: The rate offered to a bank's best customers.
Treasury bill rates: Treasury bills are short-term debt instruments used by the U.S. Government to finance their debt. Commonly called T-bills they come in denominations of 3 months, 6 months and 1 year. Each treasury bill has a corresponding interest rate (i.e. 3-month T-bill rate, 1-year T-bill rate).
Treasury Notes: Intermediate-term debt instruments used by the U.S. Government to finance their debt. They come in denominations of 2 years, 5 years and 10 years.
Treasury Bonds: Long-debt instruments used by the U.S. Government to finance its debt. Treasury bonds come in 30-year denominations.
Federal Funds Rate: Rates banks charge each other for overnight loans.
Federal Discount Rate: Rate New York Fed charges to member banks.
Libor: London Interbank Offered Rates. Average London Eurodollar rates.
6 month CD rate: The average rate that you get when you invest in a 6-month CD.
11th District Cost of Funds: Rate determined by averaging a composite of other rates.
Fannie Mae-Backed Security rates: Fannie Mae pools large quantities of mortgages, creates securities with them, and sells them as Fannie Mae-backed securities. The rates on these securities influence mortgage rates very strongly.
Ginnie Mae-Backed Security rates: Ginnie Mae pools large quantities of mortgages, secures them and sells them as Ginnie Mae-backed securities. The rates on these securities influence mortgage rates on FHA and VA loans.

Impound Account
An impound account is an account established by the lender to pay a borrower's tax and insurance costs. The borrower's monthly mortgage payment is then increased to cover these costs, with the additional amount being held in the impound account and disbursed by the lender when the payments are due. Lenders typically prefer this arrangement because it reduces the possibility of a lapse in tax or insurance payments that could diminish the value of the lender's investment (your house). Therefore, while it is often possible to opt out of an impound account it will result in additional charges.

Interest-only loan option
Loan payments have two components, principal and interest. An interest-only loan has no principal component for a specified period of time. These special loans minimize your monthly payments by eliminating the need to pay down your balance during the interest-only period, giving you greater cash flow control and/or increased purchasing power.

Interest Rate
The portion of the mortgage amount that is paid to the lender fro the use of the money advanced through the loan, usually expressed as an annual percentage.

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

J

Jumbo mortgage
The current loan limit for a conforming loan is $417,000. Loan amounts of $417,001 and above are considered non-conforming or jumbo mortgages, rate for Jumbo loan normally higher than Confirming.

Joint Ownership Agreement
An agreement between owners defining their rights, ownership, monetary obligations and responsibilities. This could be between an investor and an occupant or the occupants. If an investor is involved, the investor does not take depreciation deductions and none of the occupant's payment is deemed rent for tax purposes.

L

Lien
A claim or charge against property, either voluntary or involuntary. Property is said to be encumbered by a lien must removed to clear title.

Lender
The bank, mortgage company, or mortgage broker offering the loan.

LIBOR
LIBOR stands for London Inter-Bank Offered Rate. This is a favorable interest rate offered for U.S. dollar deposits between a group of London banks. There are several different LIBOR rates, defined by the maturity of their deposit. The LIBOR is an international index that follows world economic conditions. LIBOR-indexed ARMs offer borrowers aggressive initial rates and have proven to be competitive with popular ARM indexes like the Treasury bill.

Lifetime cap
A provision of an ARM that limits the highest rate that can occur over the life of the loan.

Loan to value ratio (LTV)
The unpaid principal balance of the mortgage on a property divided by the property's appraised value. 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 period
The amount of time that a lender will guarantee a loan's interest rate. Once you've locked in the interest rate on a loan, the lender will guarantee that rate for a certain period of time, usually for 30, 45 or 60 days.

Lock-in
A written agreement guaranteeing the home buyer 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.

M

Margin
The number of percentage points a lender adds to the index value to calculate the ARM interest rate at each adjustment period.

Market Value
The highest price that a buyer would pay and the lowest price a seller would accept on a property. Market value may be different from the price a property could actually be sold for at a given time.

Mortgage
A legal document that pledges a property to the lender as security for payment of a debt. A voluntary lien filed against property to secure a debt, usually a loan. To foreclose, the lender must often institute a court action and the borrower may have the right to reclaim the property after foreclosure.

Mortgage insurance (MI)
An insurance policy that will repay a portion of the loan if the borrower does not make payments ass agree upon in the note. Mortgage insurance may be required when the borrower makes a down payment of less

than a 20% on a home, and only borrow one loan. If 2nd loan been apply the mortgage insurance may be avoid.

Mortgagee
The person or company who receives the mortgage as a pledge for repayment of the loan. The mortgage lender.

Mortgagor
The mortgage borrower who gives the mortgage as a pledge to repay.

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N

Negative Amortization
Negative Amortization, or "deferred interest," 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.

Non-Assumption clause
A statement in a mortgage contract forbidding the assumption of the mortgage without the prior approval of the lender.

No income verification
See "stated income".

Non-conforming loan
Also called a jumbo loan. Conventional home mortgages not eligible for sale and delivery to either Fannie Mae (FNMA) or Freddie Mac (FHLMC) because of various reasons, including loan amount, loan characteristics or underwriting guidelines. Non-conforming loans usually incur a rate and origination fee premium. The current non-conforming loan limit is $417,001 and above.

Note
A written promise to pay agreement containing a named person, or order, or bearer, a definite sum of money at a specified date or on demand.

O

Origination fee
The fee charged by a lender to cover certain processing expenses in connection with making a real estate loan Such as prepare loan documents, perform 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 property seller provides all or part of the financing.

P

Permanent Loan
A long term mortgage, usually ten years or more. Also called an "end loan."

Periodic cap
The maximum rate increase for a specific period for a specific loan (ARM) only.

PITI
Principal, interest, taxes and insurance. Also called monthly housing expense

Planned Unit Developments (PUD)
A subdivision of five or more individually owned lots with one or more other parcels owned in common or

with reciprocal rights in one or more other parcels.

Points
Charges by the mortgage lender and usually payable at closing. A point is 1% of your loan amount. (e.g., two points on a $100,000 mortgage would cost $2,000).

Power of Attorney
A written document authorizing another to act on his or her behalf as an Attorney in Fact. One does not need to be a licensed attorney to act as an attorney in fact but, power of attorney forms are powerful legal document that should be used only under advice of a licensed attorney at law.

Prepaid Items
The portion of your loan closing costs which must be collected at closing, usually be prorated upon sale, such as taxes, insurance, rent, etc.

Prepayment penalty
An additional charge imposed by a mortgage lender on a borrower who wants to pay off part or all of a mortgage loan in advance of schedule.

Primary mortgage market
Lenders making mortgage loans directly to borrower's such as savings and loan associations, commercial banks, and mortgage companies. These lenders sometimes sell their mortgages into the secondary mortgage markets.

Principal
Amount of debt, not including interest. The face value of a note or mortgage.

Private mortgage insurance (PMI)
Insurance provided by nongovernmental insurers that protects lenders against loss if a borrower defaults. Fannie Mae generally requires private mortgage insurance for loans with loan-to-value (LTV) percentages greater than 80%.In the event that you do not have a 20 percent down payment, lenders will allow a smaller down payment as low as 5 percent in some cases. With the smaller down payment loans, however, borrowers are usually required to carry private mortgage insurance. Private mortgage insurance will require an initial premium payment of 1.0 percent to 5.0 percent of your mortgage amount and may require an additional monthly fee depending on you loan's structure. On a $75,000 house with a 10 percent down payment, this would mean either an initial premium payment of $2,025 to $3,375, or an initial premium of $675 to $1,130 combined with a monthly payment of $25 to $30.

Q

Qualifying ratios
The ratio of your fixed monthly expenses to your gross monthly income, used to determine how much you can afford to borrow. The fixed monthly expenses would include PITI along with other obligations such as student loans, car loans, or credit card payments.

Quitclaim Deed
A deed releasing whatever interest you may hold in a property but making no warranty whatsoever.

R

Rate
The annual rate of interest on a loan, expressed as a percentage of 100.

Rate cap
A limit on how much the interest rate can change, either at each adjustment period or over the life of the loan.

Rate lock-in
The borrower and the lender agree to protect the interest rate, points and term of the loan while it is processed, the loan closes within a set period of time.

REAL ESTATE SETTLEMENT PROCEDURES ACT (RESPA)
RESPA is a federal law that allows consumers to review information on known or estimated settlement costs once after application and once prior to or at a settlement. The law requires lenders to furnish the information after application only.

REALTOR®
A real estate broker or an associate holding active membership in a local real estate board affiliated with the National Association of Realtors.

Recision
The cancellation of a contract. With respect to mortgage refinancing, the law that gives the homeowner 3 days to cancel a contract in some cases once it is signed if the transaction uses equity in the home as security.

Refinancing
The process of obtaining a new mortgage loan on a property already owned. Often to replace existing loans on the property.

Residential mortgage credit report (RMCR)
A report requested by your lender that utilizes information from at least two of the three national credit bureaus and information provided on your loan application.

REVERSE ANNUITY MORTGAGE
Form of mortgage in which the lender makes periodic payments to the borrower using the borrower's equity in the home as Satisfaction of Mortgage: The document issued by the mortgagee when the mortgage loan is paid in full. Also called a "release of mortgage."

S

Second Mortgage
A mortgage made subsequent to another mortgage and subordinate to the first one.

Secondary Mortgage Market
The place where primary mortgage lenders sell the mortgages they make to obtain more funds to originate more new loans. It provides liquidity for the lenders

Seller carries back
An agreement in which the owner of a property provides financing, often in combination with an assumed mortgage.

Servicing
All the steps and operations a lender performs to keep a loan in good standing, such as collection of payments, payment of taxes, insurance, property inspections and the like.

Shared Appreciation Mortgage
A mortgage in which a borrower receives a below-market interest rate in return for which the lender (or another investor such as a family member or other partner) receives a portion of the future appreciation in

the value of the property. May also apply to a mortgage where the borrowers share the monthly principal and interest payments with another party in exchange for part of the appreciation.

Simple Interest
Interest which is computed only on the principle balance.

Stated/documented income
Some loan products require only that applicants "state" the source of their income without providing supporting documentation such as tax returns.

Subordination
If you are refinancing your first mortgage and have an existing second or home equity line, one option is to "subordinate" the second mortgage: request that your second mortgage holder go back into the second lien position when you replace your existing first mortgage with the new refinance loan.

Survey
A measurement of land, prepared by a registered land surveyor, showing the location of the land with reference to known points, its dimensions, and the location and dimensions of any buildings.

Sweat Equity
Equity created by a purchaser performing work on a property being purchased.

T

Tenants-in-common
An undivided interest in property taken by two or more persons. The interest need not be equal. Upon death of one or more persons, there is no right of survivorship. To review title holding please do to Vesting.

Term
The period of time which covers the life of the loan. For example, a 30 year fixed loan has a term of 30 years.

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

Title insurance
Insurance that provides an indemnity against loss or damage as a result of defect in title ownership to a particular piece of property. Title insurance covers mistakes made during a Title Search as well as matters which could not be discovered in the public records such as missing heirs, mistakes, fraud and forgery.

Title search
An examination of public records, laws, and court decisions to ensure that no one except the seller has valid claim to the property and to disclose past and current facts regarding ownership of the property.

Total debt ratio
Monthly debt and housing payments divided by gross monthly income. Also known as Obligations-to-Income Ratio or Back-End Ratio.

Truth-in-Lending Act)
A federal law requiring disclosure of the Annual Percentage Rate to home buyers shortly after they apply for the loan. This is intended to facilitate comparisons between the lending terms of different financial institutions.

Two-step mortgage
Mortgage in which the borrower receives a below-market interest rate for a specified number of years (most often 7 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 7 or 10 years. Also called "Super Seven" or "Premier" mortgage.

Underwriting

U

The decision whether to make a loan to a potential home buyer based on credit, employment, assets, and other factors and the matching of this risk to an appropriate rate and term or loan amount.

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

V

VA Loan
Home loan guaranteed by the U.S. Veterans Administration, enabling a veteran to buy a home with no money down.

Verification of Deposit (VOD)
A document signed by the bank or other financial institution verifying the account balance and history.

Verification of Employment
A document signed by the employer verifying borrower's employment history, job title, salary and probability of continued employment.

Vesting
How the owners holding title. Title to real property in California may be held by individuals, either in Sole Owner Ship or in Co-Ownership. Co-ownership of real property occurs when title is held by two or more persons. There are several variations as to how title may be held in each type of owner ship. Click here to check the brief summaries reference eight of the more common examples of Sole Ownership and Co-Ownership. The preceding summaries are a few of the more common ways to take title to real property in California and are provided for information purpose only, For a more comprehensive understanding of the legal and tax consequences, appreciate consultation is recommended. There are significant tax and legal consequences on how you hold title. We strongly suggest contacting an attorney and/or CPA for specific advice on how you should actually vest your title.

Sole Ownership

A Single Man/Woman
A man or woman who is not legally married. Example: John Doc, a single man.

An Unmarried Man/Woman
A man or woman, who having been married is legally divorced. Examples: John Doe, unmarried man**.**

A Married Man/Woman, As His/Her sole And Separate Property
When a married man or woman wishes to acquire title in his or her name alone, the spouse must consent to transfer thereby relinquishing all right, title and interest in the property. Example: John Doe, a married man, as his sole and separate property.

Co-Ownership

Community Property
The California Civil Code defines community property as property acquired by husband and wife, or by either. Real property conveyed to a married man or woman is presumed to be community property, unless otherwise stated. Under community property, both spouses have to right to dispose of one half of the community property. If a spouse does not exercise his/her right to dispose of one-half to someone other than his/her spouse, and then the one-half will do to the surviving spouse without administration. If a spouse exercises his/her right to dispose of one-half that half is subject to administration in the estate. Example: John Doe & Mary Doe, husband and wife, as community property. Example: John Doe & Mary Doe, husband and wife. Example: John Doe, a married man.

John Tenancy
A joint tenancy estate is defined in the Civil Code as follows: "A joint interest is one owned by two or more persons in equal shares, by a title created by a single will or transfer, when expressly declared in the will or transfer to be joint tenancy." A chief characteristic of joint tenancy property is the right of survivorship. When a joint tenant dies, title to the property immediately vests in the surviving joint tenant(s). As a consequence, joint tenancy property is not subject to disposition by will. Example: John Doe and Mary Doe, husband and

wife, as joint tenants.

Tenancy In Common
Under tenancy in common, the co-owners own undivided interests; but unlike joint tenancy, these interests need not be equal in quantity or duration, and may arise at different times. There is no right of survivorship; each tenant owns an interest which, on his or her death, vests in his or her hers or devisees. Example: John Doe, a single man, as to an undivided 3/4ths interest, and George Smith, a single man, as to an undivided 1/4th interest, as tenants in common.

Trust
Title to real property in California may be held in a title holding trust. The trust holds legal and equitable title to the real estate. The trustee holds title for the trustor/beneficiary who retains all of the management right and responsibilities.

Community Property with Right Of Survivorship
Community Property of a husband and wife, when expressly declared in the transfer document to be community property with the right of survivorship, and which may be accepted in writing on the face of the document by a statement signed or initialed by the grantees, shall, upon the death of one of the spouses, pass to the survivor, without administration, subject to the same procedures as property held in joint tenancy.

Veterans Administration (VA)
A government agency guaranteeing mortgage loans with no down payment to qualified veterans.

VA Loans
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
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.

Verification of deposit (VOD)
Document signed by the borrower's financial institution verifying the status and balance of his/her financial accounts.

Verification of employment (VOE)
Document signed by the borrower's employer verifying his/her position and salary.

Walk-Through Inspection
A final walk-through immediately prior to closing to verify that no changes have taken place and no new damage has occurred.

W

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
The debt secured includes an existing debt already on the property. The payments made to the holder of the wraparound include payments due on the existing loan and the holder must forward the appropriate portion of each payment to the existing note holder.

Zoning
Areas may be zoned to specify use of a property i.e. residential, commercial, and agricultural. These zoning ordinances are normally enforced by the city or the county.

Z