Mortgage Glossary

Adjustable-Rate Mortgage (ARM)
Also known as a variable-rate loan, an ARM usually offers a lower initial rate than a fixed-rate loan, but your payment can go up at set times and by set amounts. The interest rate can change at a specified time, known as an adjustment period, based on a published financial index that tracks changes in the current financial market. ARMs also have caps and floors, or a maximum and minimum that the interest rate can change at each adjustment period, as well as over the life of the loan.

Amortization
Paying off a loan over a period of time and at the interest rate specified in the loan documents. The amortization of a loan includes the payment of interest and a part of the amount borrowed in each mortgage payment. For instance, on a 30-year fixed rate mortgage, the amortization period is 30 years.

Annual Percentage Rate (APR)
How much a loan costs annually. The APR includes the interest rate, points, broker fees, and certain other credit charges a borrower is required to pay. This is not the interest rate that helps set your monthly payment.

Application Fee
The fee that a mortgage lender charges to apply for a mortgage.

Assets
Items of value an individual owns, such as money in savings accounts, stocks, bonds, and automobiles.

Collateral
Property which is used as security for a debt. In the case of a mortgage, the collateral is the house and land.

Closing Costs
The costs to complete the real estate transaction. These costs are in addition to the price of the home and are paid at closing. They include points, taxes, title insurance, financing costs, items that must be prepaid or escrowed, and other costs. Your lender is required to provide you with the Good Faith Estimate and the HUD-1 Settlement Statement so that you will understand your closing costs.

Co-Borrower
Any additional borrower(s) whose name(s) appear on loan documents and whose income and credit history are used to qualify for the loan. Under this arrangement, all parties involved have an obligation to repay the loan. For mortgages, the names of applicable co-borrowers also appear on the property's title.

Co-Signer
A term used to describe an individual who signs a loan or credit application with another person and promises to pay if the primary borrower doesn't pay. A co-signer is different from a co-borrower in that a co-signer takes responsibility for the debt should the borrower default, but does not have ownership in the property.

Commitment Letter
A letter from your lender stating the amount of the mortgage loan, the number of years to repay the mortgage loan (the term), the interest rate, the mortgage loan origination fee, the annual percentage rate, and the monthly payments.

Credit
The ability of a person to borrow money, or buy goods by paying over time. Credit is extended based on a lender's assessment of the person's financial situation and ability to pay.

Credit Bureau
A company that gathers information on consumers who use credit. Lenders will ask for your permission before getting a copy of your credit report from these companies.

Credit Report
A document used by the lender to examine your use of credit. It provides information on money that you've borrowed from credit institutions, the amount of available credit you have in your name, and your payment history. Lenders obtain credit reports from credit bureaus.

Credit Score
A computer-generated number that summarizes your credit profile and predicts the likelihood that you'll repay future debts.

Debt
Money owed by one person or institution to another person or institution.

Default
Failure to fulfill a legal obligation, like paying your mortgage. A default includes failure to pay on a financial obligation, but may also be a failure to perform some action or service that is non-monetary. For example, when leasing a car, the lessee is usually required to properly maintain the car.

Down Payment
A portion of the price of a home, paid upfront, and not part of your mortgage.

Earnest Money
Funds from you to the seller, held on deposit, to show that you're committed to buying the home. The deposit will not be refunded to you after the seller accepts your offer. It will go toward your total closing costs and any remaining amount will then go toward your down payment, unless one of the sales contract contingencies is not fulfilled.

Escrow
A deposit by a borrower to the lender of funds to pay property taxes, insurance premiums, and similar expenses when they become due.

Equity
The value of your home above the total mortgage amount you owe for your home. If you owe $100,000 on your house but it is worth $130,000, you have $30,000 of equity. Your equity can fluctuate over time, based not only on your outstanding loan balance, but home price values in your local market area.

Fixed-Rate Mortgage
A mortgage with an interest rate that does not change during the entire term of the loan.

Foreclosure
A legal action that ends all ownership rights to a home when the homeowner fails to make a series of mortgage payments or is otherwise in default under the terms of the mortgage.

Good Faith Estimate
A document that provides you with an estimate of the costs associated with your mortgage loan. Your loan officer must provide you with a Good Faith Estimate within three business days of completing the loan application.

Hazard Insurance
Insurance coverage that provides compensation to the insured individual or family in case of property loss or damage.

Homeowners Insurance
A policy that protects you and the lender against losses due to fire, flood, or other acts of nature. It also offers protection against liability in the event that a visitor to your home is injured on your property.

HUD-1 Uniform Settlement Statement
A standard form that discloses the fees and services associated with closing your mortgage loan.

Liabilities
Your debts and other financial obligations.

Lien
A claim or charge on property for payment of a debt. A mortgage is a lien, meaning the lender has the right to take the title to your property if you don't make the mortgage payments.

Loan
Money you borrow from a bank with a written promise to pay it back later. Banks charge you fees and interest to borrow money.

Loan Officer
The person who takes applications for loans offered at the bank. The loan officer can answer your questions, provide written information explaining loan products, and help you fill out a loan application.

Loan Origination Fees
Fees paid to your mortgage lender for processing the mortgage loan application. These fees are usually in the form of points. One point equals one percent of the mortgage amount. For instance on a $100,000 mortgage, one point is $1,000.

Lock-In Rate
A written agreement from your lender guaranteeing a specific mortgage interest rate for a certain amount of time.

Mortgage
A loan using your home as collateral. In some states the term mortgage is also used to describe the document you sign (to grant the lender a lien on your home). It may also be used to indicate the amount

of money you borrow, with interest, to purchase your house. The amount of your mortgage is usually the purchase price of the home minus your down payment.

Mortgage Broker
A home finance professional who specializes in bringing together borrowers and lenders to facilitate real estate mortgages.

Mortgage Insurance
Insurance that protects mortgage lenders against loss in the event of default by the borrower. If you make a down payment of less than twenty percent, your lender will generally require mortgage insurance.

Mortgage Lender
The lender providing funds for a mortgage. Lenders also manage the credit and financial information review, the property review, and the mortgage loan application process through closing.

Mortgage Note
A legal document that provides evidence of your indebtedness and your formal promise to repay the mortgage loan, according to the terms you've agreed to. The note also explains the consequences of failing to make your monthly mortgage payments.

Mortgage Rate
The cost or the interest rate you pay to borrow the money to buy your house.

Mortgage Servicer
The financial institution or entity that is responsible for collecting your mortgage loan payments.

Principal
The amount of money borrowed from the lender to buy your house or the amount of the mortgage loan that has not yet been repaid to the lender. This does not include the interest you will pay to borrow that money. The principal balance (sometimes called the outstanding or unpaid principal balance) is the amount owed on the loan minus the amount you've repaid.

Real Estate Professional
An individual who provides services in buying and selling homes. A Realtor® is a real estate professional who is a member of the National Association of Realtors®.

Title
Written evidence of the right to ownership in a property.

Title Insurance
Insurance providing protection against loss arising from problems connected to the title to your property.

Truth-in-Lending Disclosure Statement
A form required by federal law for lenders to provide to you full written disclosure on the mortgage loan amount being financed, fees and charges, the payment schedule, the interest rate, the annual percentage rate, and any other costs associated with the mortgage loan.

Universal Residential Loan Application
Standard mortgage loan application where you provide the lender with information required to assess your ability to repay the loan amount and to help the lender decide whether to lend you money.

Underwriting
The process that your lender uses to assess your eligibility to receive a mortgage loan. Underwriting involves the evaluation of your ability to repay the mortgage loan.