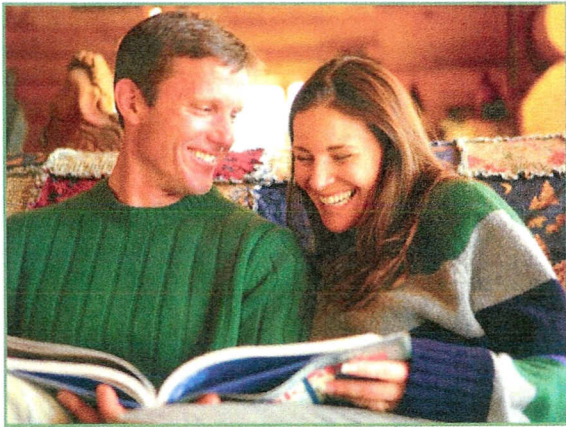
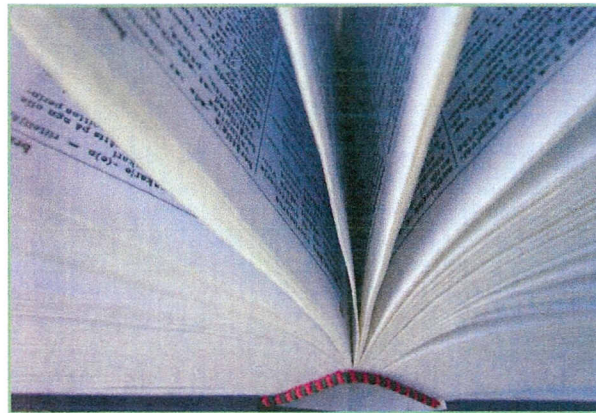
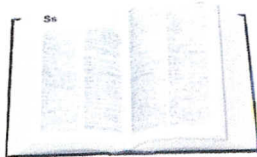


UNDERSTANDING MORTGAGE TERMS



FINANCING WON'T FEEL LIKE A FOREIGN LANGUAGE
WHEN YOU UNDERSTAND THE BASIC TERMINOLOGY



Inexperienced homebuyers can end up feeling like their mortgage professional is speaking a foreign language. It's understandable - the many terms used to describe loan programs can be overwhelming and confusing to someone who is unfamiliar with the industry. This handy reference of the most common terms should help alleviate that confusion.

COMMON MORTGAGE-RELATED TERMS

ARM: (Adjustable Rate Mortgage) A mortgage with interest rates that fluctuate.

Amortization: Part of each payment is applied to the interest and part to the balance. The newer the loan, the greater the amount applied to interest. Over time, the more interest you have paid, the greater the payment applied to the balance until the loan is paid in full.

Amortization schedule: Illustrates how much each scheduled mortgage payment is and the amount applied to the interest and balance each time.

APR: (Annual Percentage Rate) This is not the actual note rate. It is higher than the note rate because it reflects the annual cost of borrowing as a percentage.

Appraisal: A written estimate of the value of the home generally including living area and permanent fixtures.

Assessed value: The value that the tax assessor places on the home for tax purposes.

Broker: Realtors who work under a broker are considered agents. Sometimes agents are also brokers who work for themselves or someone else. A broker in the mortgage industry is someone who brokers a loan to a lender or investor.

Cash-out refinance: Borrowers can refinance their mortgages for a greater amount than the current loan balance to use for personal reasons.

Certificate of eligibility: From the Veterans Administration (VA), used to certify eligibility for a VA loan.

Closing: In some states, a loan is closed when the paperwork has been signed and funds distributed. In others, a loan is closed when all the documents have been recorded at the clerk and recorder's office.

Collateral: Your home is considered collateral for your mortgage. You could lose it if the loan isn't repaid.

Construction Loan: A short-term loan that is obtained to finance construction.

Conventional Mortgage: A non-government backed loan.

Convertible ARM: An ARM that allows the borrower to switch to a fixed rate mortgage at a certain time.

COFI: (Cost of Funds Index) An index that helps determine interest rate changes on adjustable rate mortgages.

Default: When a payment on a first mortgage is more than 30-days late.

Earnest money deposit: Given to the sellers by the buyers in anticipation of buying the home. After a particular date, if you back out on the sale of the home, you may lose this deposit.

Discount points: This refers to government-backed loans such as FHA or VA. This applies to points, which are paid in addition to the loan origination fee.

Down payment: Portion of purchase price paid in cash. If this is less than 20% of the price of the home, you'll probably have to pay for Private Mortgage Insurance.

Due-on-sale provision: The lender can demand repayment in full if you sell the property on which the mortgage is based.

ECOA: (Equal Credit Opportunity Act) Federal law that bans discrimination regarding credit on the basis of race, color, religion, gender or marital status.

Equity: To determine your equity, the loan officer will take the market value of your home and subtract the amount you still owe on your current mortgage.

Federal Home Loan Mortgage Corporation (Freddie Mac): A governmental agency, which makes home loans and rentals more accessible to individuals who normally may not qualify - those with low incomes for instance.

FHA Loan (Federal Housing Administration): These loans are insured by the government and made available to those who qualify. There is a dollar limit on these loans depending on the area in which you live.

Fixed Rate Mortgage: The interest rate remains the same for the life of the loan.

Foreclosure: The lender forces the sale of a property because the borrower hasn't met the financial obligation.

Guaranty: One party promises to pay a debt that was contracted by another party if that other party fails to meet its financial obligations.

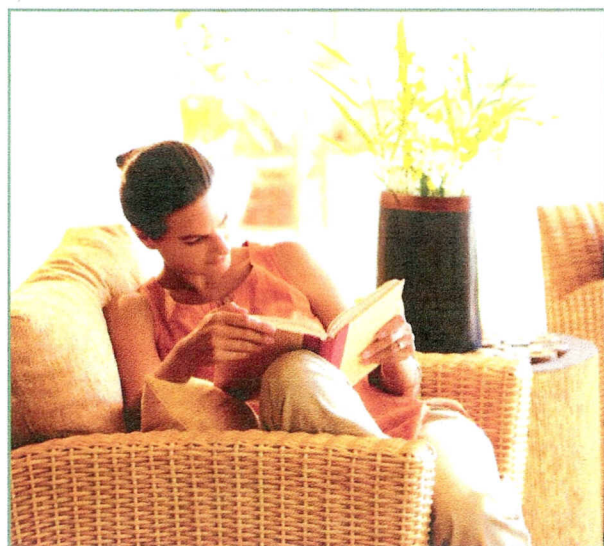
Housing Expenses to Income Ratio: This is the number you get when you divide your housing expenses by your gross monthly expenses.

Index: Lenders take the difference between the current interest rate on an ARM and the interest rate earned by other investments and then use this number to adjust the ARM interest rate.

Interim Financing: A construction loan you can obtain while your new home is being built.

Jumbo Loan: Fannie Mae and Freddie Mac set annual loan limits and this loan exceeds these limits. A loan like this has higher interest rates and is considered non-conforming.

PMI (Private Mortgage Insurance): When your down payment is less than 20%, your lender will require you to carry insurance on the loan.



Negative Amortization: When your monthly payments are actually less than the interest due on the loan, the difference is added to the overall unpaid balance on the loan. In this case you end up owing more than the original amount of the loan.

Origination Fee: The fee you pay the lender to prepare documents, credit checks, inspections, and so on. It's usually a percentage of the value of the loan.

PITI: Principal, Interest, Taxes and Insurance. Usually added together and paid as a part of your loan.

Points: Prepaid interest that is expressed as 1% of the loan amount per point. Two points on a \$100,000 mortgage would equal \$2,000.

Prepayment Penalty: A charge imposed when you pay off a loan early.

Principal: The amount of debt on a loan that doesn't include the interest.

Refinance: A new mortgage on a home that already has a mortgage.

Truth-In-Lending: Also known as Regulation Z. Lenders are required by the federal government to notify buyers of the Annual Percentage Rate before they close on the home.

VA Loan: This loan is restricted to individuals who have served in the armed services. It generally allows a low down payment or even no down payment.

