KPL Select Mortgage, Inc.
Glossary of Mortgage Terms

ADJUSTABLE-RATE MORTGAGE (ARM)
A mortgage in which the interest changes periodically, according to corresponding fluctuations in an index. All ARMs are tied to indices such as COFI, CODI, etc.

AMORTIZATION
The period of time over which a loan is paid – generally 10, 15 or 30 years.

AMORTIZATION SCHEDULE
A table that shows how much of each payment will be applied toward principal and how much toward interest over the life of the loan. It also shows the gradual decrease of the loan balance until it reaches zero.

ANNUAL PERCENTAGE RATE (APR)
A value created according to a government formula intended to reflect the true annual cost of borrowing, expressed as a percentage. The following can be used as a guideline: deduct the closing costs from your loan amount, then using your actual loan payment, calculate what the interest rate would be on this amount instead of your actual loan amount. You will come up with a number close to the APR. The APR is generally higher than the actual note rate on your loan.

APPRAISAL
A written report indicating the value of a property, primarily based on an analysis using comparable homes in the vicinity of the subject property.

APPRAISED VALUE
An opinion of a property's fair market value, based on an appraiser's knowledge, experience, and analysis of the property.

APPRAISER
An individual qualified by education, training and experience to estimate the value of real property. Most appraisers are independent contractors.

BIWEEKLY MORTGAGE
A mortgage in which you make payments every two weeks instead of once a month. The basic result is that instead of making twelve payments during the year, you make thirteen. The extra payment reduces the principal, therefore substantially reducing the time it takes to pay off a thirty-year mortgage. There are independent companies that provide this service, but you can accomplish the same thing on your own without paying additional fees.

BROKER
In the mortgage industry, a broker is someone who does not lend the money for the loans themselves, but brokers loans to larger lenders or investors. The broker submits loans to lenders with which he/she has pre-established relationships.

CAP

Adjustable rate mortgages have fluctuating interest rates, but those fluctuations are usually limited to a certain amount. Those limitations may apply to how much the loan may adjust over a six-month period, an annual period, and over the life of the loan and are referred to as caps.

CASH-OUT REFINANCE

When a borrower refinances his/her mortgage at a higher loan amount than the current loan balance with the intention of pulling out money for personal use, this is referred to as a cash-out refinance.

CLOSING COSTS

Closing costs are separated into what are called non-recurring closing costs and pre-paid items. Non-recurring closing costs are any items that are paid just once as a result of buying or refinancing a property (e.g., escrow fee, title report, appraisal, etc.) Pre-paids are items that recur over time such as property taxes or homeowner's insurance.

COST OF DEPOSIT INDEX (CODI)

The Cost Of Deposit Index (CODI) is the 12 month average of the monthly average yields on the nationally published 3-Month Certificate of Deposit rates. Information on monthly yields on 3-month certificates of deposit (secondary market) is published by the Federal Reserve Board. Lenders calculate the average by adding the 12 most recently published monthly yields together and dividing the result by 12.

COST OF FUND INDEX (COFI)

One of the indices used to determine interest rate changes for adjustable rate mortgages. COFI represents the weighted cost average of savings, borrowing and advances of the financial institutions such as banks and savings & loans, in the 11th District of the Federal Home Loan Bank.

CREDIT REPORT

A report of an individual's credit history prepared by a credit bureau and used by a lender in determining a loan applicant's credit worthiness.

EQUAL CREDIT OPPORTUNITY ACT (ECOA)

A federal law that requires lenders and other creditors to make credit equally available without regard to 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 liens against the property.

ESCROW

An account held in trust or as security by a neutral third party until the occurrence of a certain condition. For example, the earnest money deposit is put into escrow until delivered to the seller when the transaction is closed.

ESCROW ACCOUNT

An account whereby the borrower pays an additional amount above the principal and interest in order for the lender to pay property taxes and/or homeowner's insurance.

ESCROW ANALYSIS

Once each year a lender will perform an "escrow analysis" to make certain they are collecting the correct amount of money for the anticipated expenditures (property taxes and/or homeowner's insurance).

ESCROW DISBURSEMENTS
The use of funds held in escrow account to pay property taxes, homeowner's insurance, etc., as they are due.

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 a consumer's record.

FANNIE MAE (FNMA)
The Federal National Mortgage Association – a congressionally chartered, shareholder-owned company that is the nation's largest supplier of home mortgage funds. For more information, go to: www.fanniemae.com.

FIRST MORTGAGE
The mortgage that is in first place among any loans recorded against a property. Usually refers to the date in which loans are recorded, but there are exceptions.

FIXED-RATE MORTGAGES
A mortgage in which the interest rate does not change during the entire term of the loan.

FREDDIE MAC (FHLMC)
Freddie Mac is a stockholder-owned corporation chartered by Congress in 1970 to keep money flowing to mortgage lenders in support of homeownership and rental housing. Freddie Mac purchases single-family and multifamily residential mortgages and mortgage-related securities, which it finances primarily by issuing mortgage pass through securities and debt instruments in the capital markets. For more information, got to: www.freddiemac.com.

HOME EQUITY LINE OF CREDIT (HELOC)
A mortgage loan, usually in second position, that allows the borrower to obtain cash drawn against the equity of the property, up to a pre-determined amount.

HOME INSPECTION
A thorough inspection completed by a trained professional that evaluates the structural and mechanical condition of a property. A satisfactory home inspection is often included as a contingency by the purchaser.

HOMEOWNER'S ASSOCIATION
A non-profit organization that manages the common areas of a planned unit development (PUD) or condominium project. Associations charge monthly fees to cover management and upkeep of these areas.

HOMEOWNER'S INSURANCE/HAZARD INSURANCE
An insurance policy that combines personal liability insurance and hazard coverage for a dwelling and its contents.

HUD-1 SETTLEMENT STATEMENT
Also known as the closing cost statement or settlement sheet. This is a document that lists the funds paid at closing and costs associated with the loan.

MORTGAGE BROKER

A mortgage company that originates loans then places those loans with a variety of lending institutions with which they have pre-established relationships.

MORTGAGE INSURANCE

Insurance that covers the lender against some of the losses incurred as a result of a default on a home loan. Often mistakenly referred to as PMI, which is actually the name of one of the larger mortgage insurers. Mortgage insurance is usually required in one form or another on all loans that have a loan-to-value higher than 80%. Loans above 80% LTV that have no mortgage insurance (MI) are usually made a higher interest rates. Instead of the borrower paying the mortgage insurance premiums directly, they pay a higher interest rate to the lender, and the lender then pays the mortgage insurance themselves.

NEGATIVE AMORTIZATION

An adjustable rate loan that allows the interest rate to fluctuate independently of a required minimum payment. If a borrower makes the minimum payment it may not cover all of the interest that would normally be due at the current interest rate. In essence, the borrower is deferring the interest payment, which is why this is called deferred interest. The deferred interest is added to the balance of the loan and the loan balance grows larger instead of smaller, hence negative amortization.

NO-COST LOAN

Refinances may be offered at no cost. Generally this means that the lender or broker will be paying the non-recurring closing costs associated with the loan. Normally the interest rates for no-cost loans are higher than if the borrower pays the fees.

ORIGINATION FEE

An origination fee is also often called a point. One point equals one percent of the loan amount. On a conventional loan, the loan origination fee refers to the total number of points a borrower pays.

PITI

Acronym for Principal, interest, taxes and insurance. Lenders use this to calculate your debt-to-income ratio. For some loans, a borrower must have PITI reserves equal to a pre-defined number of months principal, interest, taxes and insurance.

POINT - See origination fee

PRE-APPROVAL

A loosely-used term that is generally taken to mean that a borrower has completed a loan application and provided debt, income and savings documentation which an underwriter has reviewed and approved. A pre-approval is usually done at a certain loan amount and makes assumptions about what the interest rate will actually be at the time of the loan is made; as well as estimates for taxes and insurance. A pre-approval only applies to the borrower. Once a property has been selected, it must also meet the guidelines of the underwriter and lender.

PRE-PAYMENT

Any amount paid to reduce the principal balance of a loan before the due date.

PRE-PAYMENT PENALTY

A fee that may be charged to a borrower who pays off a loan before it is due if the loan terms include a pre-payment penalty.

PRE-QUALIFICATION

Generally refers to the loan officer's written opinion of the ability of the borrower to qualify for a home loan. Determination is reached after the loan officer has inquired about income, debt and savings. The information provided to the loan officer may have been presented verbally or in the form of written documentation, and the loan officer may or may not have reviewed a credit report.

PRIME RATE

The interest rate banks charge to their preferred customers. Changes in the prime rate are widely publicized in the news media and are used as the indices in some adjustable rate mortgages (particularly home equity lines of credit). Changes in the prime rate do not directly affect other types of mortgages, but the same factors that influence the prime rate also affect the interest rates of mortgage loans.

PRINCIPAL, INTEREST, TAXES AND INSURANCE (PITI) - Please see PITI.

PROPERTY TAXES

A government levy based on the purchase price of the property. The first half of regular secured property tax bills are due November 1st , and delinquent after December 10th; the second half are due February 1st, and delinquent after April 10th each year. If the delinquent date falls on a Saturday, Sunday or government holiday, then the due date is the following business day.

QUALIFYING RATIOS

Calculations that are used in determining whether a borrower can qualify for a mortgage. There are two ratios. The front-end ratio is a calculation of the borrower's monthly house costs (PITI plus homeowner's association fees if applicable) as a percentage of monthly income. The back-end ratio includes all monthly debt in addition to housing costs.

QUITCLAIM DEED

A deed that transfers without warranty whatever interest or title a grantor may have at the time the conveyance is made.

RATE LOCK - See lock-in

REAL ESTATE SETTLEMENT PROCEDURES ACT (RESPA)

A consumer protection law that requires lenders to give borrowers advance notice of closing costs.

RECORDER

The public official who keeps records of transactions that affect real property in the area. Sometimes known as a "Registrar of Deeds" or "County Clerk."

RECORDING

The noting in the registrar's office of the details of a properly executed legal document, such as a deed, a mortgage note, a satisfaction of mortgage, etc. thereby making it a part of the public record.

REVOLVING DEBT

A credit arrangement, such as a credit card, that allows a customer to borrow against a pre-approved line of credit when purchasing goods and services. The borrower is billed for the amount that is actually borrowed plus any interest due.

SECOND MORTGAGE
A mortgage that has a lien position subordinate to the first mortgage.

SETTLEMENT STATEMENT - See HUD1 settlement statement

TITLE
A legal document evidencing a person's right to or ownership in a property.

TITLE COMPANY
A company that specializes in examining and insuring titles to real estate.

TITLE INSURANCE
Insurance that protects the lender (lender's policy) or the buyer (owner's policy) against loss arising from disputes over ownership of a property.

TITLE SEARCH
A check of the title records to ensure that the seller is the legal owner of the property and that there are no liens or other claims outstanding.

TREASURY INDEX
An index that is used to determine interest rate changes for certain adjustable-rate mortgages (ARM) plans. It is based on the results of auctions that the U.S. Treasury holds for its Treasury Bills and securities, or is derived from the U.S. Treasury's daily yield curve, which is based on the closing market bid yields on actively traded Treasury securities in the over-the-counter market.

TRUTH-IN-LENDING
A federal law that requires lenders to fully disclose, in writing, the terms and conditions of a mortgage, including the annual percentage rate (APR) and other charges.

TWELVE MONTH TREASURY AVERAGE (MTA)
The Monthly Treasury Average, also known as 12-Month Moving Average Treasury index (MAT) is a relatively new ARM index. This index is the 12 month average of the monthly average yields of U.S. Treasury securities adjusted to a constant maturity of one year. It is calculated by averaging the previous 12 monthly values of the 1-Year CMT.

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