



Glossary of Terms

Annual Percentage Rate (A.P.R.)

Is an interest rate reflecting the cost of a mortgage as a yearly rate. This rate is likely to be higher than the stated note rate or advertised rate on the mortgage because it takes into account points and other credit costs. The APR allows home buyers to compare different types of mortgages based on the annual cost for each loan.

Appraisal

An estimate of the value of property made by a qualified professional called an "appraiser."

Back-end Debt Ratio

This refers to the borrower's debt ratio and is calculated using a borrower's total monthly payments due on credit obligations divided by the borrower's gross monthly income. It's expressed as a percentage.

Combined Loan to Value

The total of all liens on the subject property divided by the appraised value of the property.

Comparable

Properties used to determine the value of a specific property for comparative purposes in the preparation of an appraisal.

Credit Score

A numerical assessment assigned to the customer by credit bureaus that represents a measurement of the customer's overall credit rating. The scores are weighted and range from approximately 365 to 840. Low scores reflect a "high risk", while higher scores reflect a "lower risk". Each credit bureau has its own credit score system.

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 gross monthly income.

Front-end Debt Ratio

This refers to the debt ratio calculation using only principal, interest, tax and insurance divided by gross monthly income. It's expressed as a percentage.

Hazard Insurance

A form of insurance in which the insurance company protects the insured from specified losses, such as fire, windstorm and the like.

HUD-1 (or HUD-1a)

Final statement of the actual settlement costs of the loan and all other disbursements of a loan's proceeds. A Federal requirement under RESPA.

Impound

That portion of a borrower's monthly payments held by the lender or servicer to pay for taxes, hazard insurance, mortgage insurance, lease payments, and other items as they become due. Also known as reserves or escrow amounts.

Liabilities

The debts of a person or business.

Liquid Assets

Cash or assets, such as checking/savings accounts, stocks/bonds, that are immediately convertible to cash.

Loan Application (1003)

The form potential customers must complete to apply for a home loan. This application is commonly referred to as "the 1003" and is produced by the Federal government.

Loan-to-Value Ratio

The relationship between the amount of the mortgage loan and the appraised value of the property expressed as a percentage.

Mortgage Insurance

Money paid to insure the mortgage when the down payment is less than 20 percent.

PITI

Principal, Interest, Taxes and Insurance. Also called monthly housing expense.

Pre-paid Expenses

Necessary to create an escrow account or to adjust the seller's existing escrow account. Can include taxes, hazard insurance, private mortgage insurance and special assessments.

Purchase Agreement or P&S

The agreement made between the buyer and seller of a property, containing the purchase price and contingencies of the sale.

Truth-In Lending

A federal law requiring disclosure of the Annual Percentage Rate to home buyers shortly after they apply for the loan. Also known as Regulation Z.

Underwriting

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.