Glossary of Mortgage Terms

TERM	DEFINITION
Alt-A Lender	Alt-A loans are in between Prime (A-paper) loans and Sub-prime loans. Alt-A lenders' lending guidelines are different from A-paper lenders, and often more flexible. The Liquidity Crisis ended most Alt-A lending.
A-Paper	A-paper lenders offer loans to the best-qualified borrowers. "Well-qualified" is defined as borrowers with good credit scores, verifiable income and solid assets. Good credit is defined differently for each lender, usually a credit score of 680 or 740 is considered good credit.
ARM	Adjustable Rate Mortgage - The rate is not fixed. It moves higher or lower along with the index to which it is tied.

Back-End Ratio	This is the lender's ratio for evaluating the borrower's ability to repay a loan. To calculate the back-end ratio they add all monthly debt including your monthly housing expense (PITI), and then divide by the gross monthly income. All other monthly debts are those showing on your credit report and include car payments, minimum credit card payments, and student loans.
CLTV	CLTV stands for Combined Loan-To-Value ratio. This is the percentage of total loans on the property, divided by the value. Typically, you add the first loan amount and the second loan amount, then divide by the value of the property.
DTI	Please see "Back-end Ratio" above
Down Payment	The down payment is the amount of money the borrower contributes toward the purchase price. The remainder of the money needed to purchase the home is provided by one or more home loans.
FICO	FICO stands for "Fair Isaac Company." The FICO score is the measure lenders use to determine your credit worthiness. The scoring process takes into account all of your credit (to varying degrees), including balances owed, credit available, delinquent payments, collections, judgments, bankruptcy and longevity of credit. There are three credit bureaus. It is rare for all 3 scores to be the same, so lenders usually use the middle of the 3 scores for loan qualifying purposes.
Fixed Rate Mortgage	The interest rate is fixed for the entire term of the loan (i.e. 40, 30, or 15 years, in most cases).
Front-End Ratio	Like the Back-End Ratio, it is used to qualify borrowers for a loan. It is calculated by dividing PITI by the borrower's gross monthly income. It does not include all other monthly debt.

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Full Doc	Full doc loans require complete income documentation to evaluate the borrower's income and ability to repay the loan. Federal tax returns or W-2s are the most common form of income documentation. Some lenders allow you to verify income using many months' bank statements. However, that form of income documentation became rare after the Liquidity Crisis of 2007.
Gross Income	Gross income is your income before taxes are taken out.
HUD-1	HUD stands for the Department of Housing and Urban Development. The HUD-1 is the form that lists loan fees, the pay off amounts, taxes and insurance due, and the money expected either to be received from the borrower, or to be given to the borrower, at the close of escrow.
Hybrid ARM	A Hybrid ARM is an adjustable rate mortgage whose rate is fixed for a certain time period, and then adjusts. The fixed rate time periods typically are 1, 3, 5, 7 or 10 years. This type of loan is actually a hybrid of a fixed rate mortgage and an adjustable rate mortgage.

Index	An Index is used along with your Margin (see below) to compute your adjustable interest rate. It is a published measure of economic conditions usually relative to financial instruments. The Index value changes monthly. It is published and calculated using varying criteria. Examples of commonly used indexes are the Prime Rate, LIBOR, Treasury, MTA, and COFI. These definitions are designed to be brief. **If you wish to learn more about any of them, I recommend www.mortgage-x.com and Wikipedia.** **Prime Rate:** The Prime Rate is the rate banks generally offer their best customers. It is usually 3% higher than the Fed Funds Rate. **LIBOR:** This stands for "London Interbank Offered Rate." **There are several different LIBOR rates widely used as ARM indexes: 1-, 3-, 6-Month, and 1-Year LIBOR. The 6-Month LIBOR is the most common. This is the most commonly used index for Hybrid ARM's.** **Treasury: Treasury bills are issued by the U.S. government with various maturity terms.** **MTA:** This stands for **"Monthly Treasury Average." This is an average of the CMT, whichi is the Constant Maturity Treasuries. This is a very stable index because it is a 12 month average. I like it because I can predict where it will be in the near future. There is no way to do that with the LIBOR or Prime Rate.** **COFI:** This stands for **"Cost of Funds." It is an essentially an average of the interest paid on savings and checking accounts by banks in the 11th District, which includes California, Arizona and Nevada.**
Interest Due	Interest is the lender's profit earned for lending you money. It is calculated by multiplying the principal and the interest rate, then dividing by the loan term.
LTV	LTV is the loan-to-value ratio. Lenders consider LTV when evaluating loan requests. It is calculated by dividing your loan amount on your first loan by the value of your property. If your LTV is greater than 80%, lenders usually require mortgage insurance.

Margin	The lender's profit margin. It is added to the index to calculate your interest rate on adjustable rate mortgages.
Mortgage Insurance	Mortgage Insurance (MI) is required by lenders if your loan-to-value ratio exceeds 80%. Some lenders offer Lender-paid Mortgage Insurance (LPMI), others request Borrower-paid Insurance. If you choose LPMI, you will pay a higher interest rate and the lender will pay the insurance premium. To decide which type of Mortgage Insurance is best for you, ask your loan officer and tax preparer to help you compare them. Mortgage Insurance is sometimes tax-deductible, and sometimes it is not.
Option ARM	The Option ARM loan is so named because you have payment options and the interest rate is adjustable. It has 2 interest rates, the minimum payment rate and the actual accrual rate. The minimum payment rate is typically 1% to 3% for the first year. It goes up slightly each year. The actual accrual rate is calculated by adding the index and your margin, and adjusts regularly. You will have payment options during the first 5 to 10 years of the loan. You can pay the minimum payment, interest only payment based on the accrual rate (only if it is greater than the minimum payment.), or the fully amortized payment (also based on the accrual rate). For a comprehensive explanation, please refer to the chapter dedicated to Option ARMs.

PITI	PITI stands for Principal + Interest + Taxes + Insurance (and/or HOA fees, if applicable) It is the total of all housing expenses for the property.
Points	A point is 1% of the loan amount. Points are a fee paid to the lender or broker. Paying higher points should get you a lower interest rate. Points can also be called "Origination Fee," "Broker Fee," or "Discount Points."

Pre-Pay-ment Pen-alty	When your loan has a pre-payment penalty it means that if you pay off the loan within the specified period of time, you will have to pay the lender funds in excess of your principal balance. Pre-payment penalty amounts vary widely from lender to lender and can be as much as 2% of your loan amount. It is important that you determine how the penalty is calculated before you agree to accept one. A "hard pre-pay" means that you cannot sell the home or refinance the loan without penalty. A "soft pre-pay" allows you to sell without penalty, but not refinance.
Principal	Principal is the amount of money you owe the lender without respect to interest and fees due.
RESPA	RESPA stands for "Real Estate Settlement Procedures Act". The agency administering the law is the Department of Housing and Urban Development (HUD). The goals are to clarify and simplify the loan process, eliminate kickbacks, fee-splitting, and unearned fees. RESPA regulations apply only to 1 - 4 unit residential properties.
SFR	SFR stands for single family residence.
Stated In-come	When you get a "stated income" loan, it means that you tell the lender how much money you make, but the lender does not verify your "stated income" by reference to Federal Tax returns, W-2s, or other forms of income verification. Stated income loans are often used when the borrower has very complicated income tax returns, and all the other factors used to determine loan qualifications are favorable (i.e. credit, assets, equity and employment). Abuse of stated income loans is one of the factors that contributed to the mortgage crisis. However, when used responsibly, they are an asset to lenders and to borrowers.
Sub-Prime Lender	These are lenders who lend to people with poor credit ratings, or other issues that prevent them from getting loan approval from A-paper lenders. Most sub-prime loans have higher interest rates than those charged by other lenders. Sub-prime loans require the borrower to agree to a pre-payment penalty. They are no longer available as of the date of this writing. FHA loans have taken their place, providing home loans to people with low credit scores.