

# MEYER MORTGAGE CORPORATION

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## COMMON LOAN TERMINOLOGY

Abstract of Title-A summary of recorded transactions concerning a particular property.

Acceleration Clause-Condition in a mortgage that gives the lender the right to require immediate repayment of the loan balance if regular mortgage payments are not made or for breach of other conditions of the mortgage.

Accrued Interest-Interest earned but not yet paid.

Adjustable Rate-An interest rate that changes periodically according to an index.

Adjustable-Rate Mortgage (ARM)-A mortgage in which the interest rate is adjusted periodically based on a pre-selected index. Thus, interest rate and payments rise and fall with the market.

Adjustment Interval-The time between changes in the interest rate and monthly payments on an ARM.

Agent - One that acts for or represents another.

Agreement of Sale-A written document in which a purchaser agrees to buy property under certain given conditions, and the seller agrees to sell under certain given conditions. Also known as a 'Sales Contract'

Alternative Documentation-A method of documenting a loan file that relies on information the borrower is likely to be able to provide instead of waiting on verification sent to third parties for confirmation of statements made in the application.

Amortization-A monthly repayment schedule in which a loan is repaid in fixed payments of principal and interest.

Annual Percentage Rate (APR)- The annual cost of a loan, expressed as a yearly rate. APR takes into account interest, points, origination fees, and mortgage insurance, so it will be slightly higher than the interest rate on the loan.

Application-An initial statement of personal and financial information required to approve your loan. Often referred to as a 1003.

Application Fee-Fees charged by a lender to cover initial costs of processing a loan application, often including charges for property appraisal and a credit report.

Appraisal-A written estimate of a property's current market value, based on recent sales information for similar properties, the current condition of the property, and how the neighborhood might affect future property value.

Appraisal Fee-A fee charged by a licensed, certified appraiser to render an opinion of market value as of a specific date.

APR-See Annual Percentage Rate.

ARM-See Adjustable-Rate Mortgage.

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**ARM Assumability**-Most ARM products feature "assumability" to a qualified applicant. The assumability of an ARM loan may make it more attractive to an applicant who envisions selling their home at a later date. By incorporating an assumable mortgage product, they may be able to make their home more attractive to potential buyers.

**ARM Disclosure**-An additional disclosure specific to Adjustable Rate Mortgages that must be prepared and presented to the consumer within three days of application whenever an Adjustable Rate Mortgage transaction is contemplated (Note: Home Equity Lines have their own unique disclosure).

**ARM Handbook**-The Consumer Handbook to Adjustable Rate Mortgages ("CHARM" booklet) must be presented to the consumer within three days of application whenever an ARM loan is contemplated (in addition to the ARM disclosure referenced above).

**Amortization Re-cast Period**-Pre-determined period of time (expressed either in a number of months and/or % of increase from original principal balance) after which any/all accumulated "negative amortization" (aka "deferred interest") is accounted for in a re-amortization of the loan balance over the remaining term of the mortgage at the then prevailing rate of interest. Typically, any payment cap that would otherwise factor in is disregarded in the event of re-casting.

**Amortization Re-cast Limitation**-Amortization is most often "capped" at 110% or 125% of the original principal balance. Re-amortization typically occurs every 60 months and/or at such time as the balance reaches the pre-determined "cap."

**Assessment**-A local tax levied against properties that have benefited from civil improvements such as road or sidewalk construction, a sewer, or street lights.

**Asset**-Anything of monetary value that is owned by a person. Assets include real property, personal property, and enforceable claims against others (including bank accounts, stocks, mutual funds, and so on).

**Assignment**-The transfer of property rights from one person to another.

**Assumability**-A feature of a loan which allows it to be transferred to the new purchaser of a home. Assumable mortgages can help attract buyers because assumption of a loan requires lower fees and/or qualifying standards than a new loan.

**Assumption**-Agreement between buyer and seller for the buyer to take over the payments on an existing mortgage.

**Balance Sheet**-A document showing the financial situation-assets, liabilities, and net worth-of a company at a specific point in time.

**Balloon Mortgage**-A short-term fixed-rate loan with low payments for a set number of years and one large final balloon payment of the remainder of the principal.

**Bank Check**-See cashier's check.

**Bankruptcy**-Proclamation by a court of an individual's (or organization's) state of insolvency, or inability, to pay

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debts. Petition may be brought by an individual or his creditors, with a goal of orderly and equitable settlement of obligations.

Basis Point- A unit of measure: 1/100th of one percent. For example, the difference between a 9.0% loan and a 9.5% loan is 50 basis points.

Bearer-The legal owner of a piece of property.

Bequest-A gift of personal property by will.

Bill of Sale-A document by which one transfers ownership of goods to another.

Biweekly Mortgage-A payment plan under which one pays one-half of a monthly payment every two weeks, saving substantially over the life of the loan.

Blanket Mortgage-A mortgage covering at least two pieces of real estate, both of which serve as collateral for the loan.

Bona Fide-In good faith.

Bond-A document representing a right to certain payments on underlying collateral.

Borrower (Mortgagor)-An individual who applies for and receives a loan in the form of a mortgage with the intention of repaying the loan in full.

Bridge loan (Swing loan)-A form of second trust that is collateralized by the borrower's present home (which is usually for sale) in a manner that allows the proceeds to be used for closing on a new house before the present home is sold.

Broker-An individual who assists in arranging funding or negotiating contracts for a client but does not loan money himself.

Buy-down-A situation in which the seller contributes money that allows the lender to give the buyer a lower rate and payment, usually in exchange for an increase in sales price.

Buyer's Broker-An agent hired by a buyer to locate a property for purchase and to represent the buyer in negotiations with the seller's broker for the best possible deal for the buyer.

Buyer's Market-Market conditions that favor buyers. With more sellers than buyers in the market, buyers have ample choice of properties and can negotiate lower prices.

Call Option-A provision in the mortgage that gives the mortgagee the right to call the mortgage due and payable at the end of a specified period for whatever reason.

Caps-Limits on changes in ARM interest rates or monthly payments, either in an adjustment period or over the life of the loan.

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Caps (payment)-Consumer safeguards may limit the amount monthly payments on an adjustable-rate mortgage may change. Because they do not limit the amount of interest the lender is earning, they may cause negative amortization.

Cash Out-A refinance for more than the balance of the original mortgage, so that money is taken out of the equity built up in the house.

Cashier's Check (or Bank Check)-A check whose payment is guaranteed because it was paid for in advance and is drawn on the bank's account instead of the customer's.

CC & Rs-See Covenants, Conditions, and Restrictions.

Ceiling-The maximum allowable interest rate of an adjustable-rate mortgage.

Certificate of Eligibility-Document issued by the Veterans Administration to qualified veterans that entitles them to VA guaranteed loans. Obtainable through local VA office by submitting form DD-214 (Separation Paper) and VA form 1880 (request for Certificate of Eligibility).

Certificate of Occupancy-Document issued by local government agency stating that a property meets the requirements of health and building codes.

Certificate of Reasonable Value (CRV)-A property appraisal performed by a VA-approved appraiser that establishes the limit on the principal of the VA loan.

Certificate of Title-Written opinion of the status of title to a property, given by an attorney or title company. This certificate does not offer the protection given by title insurance.

Certificate of Veteran Status-Document given to veterans or reservists who have served 90 days of continuous active duty (including training time) which enables them to obtain lower down payments on certain FHA-insured loans. Obtainable through local VA office by submitting form DD 214 (Separation Paper) with form 26-8261a (request for Certificate of Veteran Status).

Certified Check-A check drawn on the issuer's account for funds that have been segregated by the bank, guaranteeing payment.

Chain of Title-The chronological order of conveyance of a property from the original owner to the present owner.

Clear Title-A marketable title, free of clouds and disputes.

Closing (or Settlement)-Meeting between the buyer, seller, and lender or their agents at which property and funds legally change hands.

Closing Costs-Fees incurred in a real estate or mortgage transaction and paid by borrower and/or seller during the closing of the mortgage loan. These typically include a loan origination fee, discount points, attorney's fees, title

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insurance, appraisal, survey, and any items that must be prepaid, such as taxes and insurance escrow payments. The cost of closing is usually about 3 percent to 6 percent of the mortgage amount.

Closing Statement-Financial disclosure statement that lists the funds received and expected at the closing.

Cloud on Title-An outstanding claim or encumbrance that, if valid, would affect or impair the owner's title.

CLTV-See Combined Loan-to-Value.

COFI-See Cost of Funds Index.

Collateral-Assets that back a mortgage loan.

Combined Loan-to-Value (CLTV)-the ratio of the total mortgage liens against the subject property to the lesser of either the appraised value or the sales price.

Commission-Money paid to a real estate agent or broker by the seller (usually 6 to 7% of the sale price of the house).

Commitment-A formal offer by a lender to make a loan under certain terms or conditions to a borrower.

Condominium-A form of property ownership in which the homeowner holds title to an individual dwelling unit and an interest in common areas and facilities of a multi-unit project.

Conforming Loan- A mortgage loan under the maximum amount of loans FNMA and FHLMC are legally allowed to buy (up to \$333,700 for a one-unit property).

Construction Loan-A short-term interim loan to fund the construction of buildings or homes, which usually advances the money to the builder as work progresses. After completion a permanent loan is used to pay off the construction loan.

Contingency-A condition that must be satisfied before a contract is legally binding-before a sale can close.

Contract of Sale-The agreement between the buyer and seller on the purchase price, terms, and conditions of a sale.

Conventional Loan-A mortgage not insured by the FHA or guaranteed by the VA.

Conversion Clause-A provision in some ARMs that allows you to change an ARM to a fixed-rate loan, usually after the first adjustment period. The new fixed rate will be set at current rates, and there may be a charge for the conversion feature.

Conversion Option-Many "short-term" ARM products feature a conversion option. This option allows a consumer, subject to certain restrictions, to convert the loan from an adjustable to a fixed rate mortgage. This option typically is not in effect until the end of the fifth year

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Convertible ARMs-ARMs with the option of conversion to a fixed loan during a given time period.

Conveyance-The transfer of a deed or possibly a lease or mortgage.

Cost of Funds Index (COFI)-An index of the weighted-average interest rate paid by savings institutions for sources of funds, usually by members of the 11th Federal Home Loan Bank District.

Covenants, Conditions, and Restrictions (CC&Rs)- A document that defines the use, requirements, and restrictions of a property.

Credit Report-A report detailing the credit history of a prospective borrower, used to help determine creditworthiness.

Credit Risk-The possibility that the borrower may default on financial obligations to the investor.

CRV-Certificate of Reasonable Value.

Debt-to-Income Ratio-The ratio, expressed as a percentage, that results when a borrower's monthly payment obligation on long-term debts is divided by his or her gross monthly income.

Deed-Legal document by which title to a property is transferred from one owner to another. The deed contains a description of the property, and is signed, witnessed, and delivered to the buyer at closing.

Deed of Trust-Agreement to pledge property as security for a loan, used in many states in place of a mortgage. In such an arrangement, the borrower transfers legal title to a trustee who holds the property in trust as security for the repayment of the debt. The deed of trust becomes void if the debt is repaid, but if the borrower defaults on the loan, the trustee may sell the property to pay the debt.

Default-Failure to meet legal obligations in a contract, including failure to make payments on a loan. A mortgage is generally considered to be in default when a payment is 30 days past due.

Deferred Interest-Interest added to the balance of a loan when monthly payments are not sufficient to cover it. (See Negative Amortization.)

Delinquency-Failure to make payments on time.

Deposit-Cash paid to the seller when a formal sales contract is signed.

Depreciation-When the value of property declines.

Discount Points (or Points)-Money paid to a lender at closing in exchange for lower interest rates. Each point is equal to 1% of the loan amount.

Documentary Stamps-A state tax, in the forms of stamps, required on deeds and mortgages when real estate title passes from one owner to another.

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Document Review-Fee charged by a lender for review of documents necessary to fund a loan.

Down Payment-Money paid for a house from one's own funds at closing. The down payment will be in the amount of the difference between the purchase price and mortgage amount.

Due-on-Sale Clause-Provision in a mortgage or deed of trust allowing the lender to demand immediate payment of the loan balance upon sale of the property.

Earnest Money-Deposit made by a buyer towards the down payment in evidence of good faith when the purchase agreement is signed.

ECOA-See Equal Credit Opportunity Act.

Effective Interest Rate-The cost of a mortgage expressed as a yearly rate, usually higher than the interest rate on the mortgage because this figure includes up-front costs of acquiring the loan.

Encumbrance-A legal right or interest in a property that affects title and lessens the property value. Encumbrances can take the form of claims, liens, unpaid taxes, and so on. These will usually have to be taken care of before a buyer will want to purchase the property.

Equal Credit Opportunity Act (ECOA)-Federal law requiring creditors to make credit equally available without discrimination based on race, color, religion, national origin, age, sex, marital status, or receipt of income from public assistance programs.

Equity-The percentage of property value held by the owner; the difference between the current market value of a property and the outstanding mortgage balance.

Equity Loan-A loan based on the borrower's equity in his or her home.

Escrow - The neutral third party that holds money and/or documents until the escrow instructions are fulfilled and escrow can be a title company or an attorney depending on the state regulations.

Escrow Account-Account held by a lender containing funds collected as part of mortgage payments for annual expenses such as taxes and insurance, so that the homeowner does not have to collect a large sum when these fall due.

Escrow Waiver-When a buyer borrows less than 80% of the cost of the house, he may pay a one-time fee and elect not to open an escrow account, but to pay the hazard insurance and property taxes himself.

Fannie Mae-See Federal National Mortgage Association.

Farmer's Home Administration (FmHA)-An agency, within the U.S. Department of Agriculture, that provides financing for purchasers of homes and farms in small towns and rural areas.

FDIC-See Federal Deposit Insurance Corporation.

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Federal Deposit Insurance Corporation (FDIC)-Independent deposit insurance agency created by Congress to maintain stability and public confidence in the nation's banking system.

Federal Home Loan Bank Board (FHLBB)-Former name for the regulatory and supervisory agency for federally chartered savings institutions, now called the Office of Thrift Supervision.

Federal Home Loan Mortgage Corporation (FHLMC, or Freddie Mac)-Quasi-governmental agency that purchases conventional mortgages from insured depository institutions and HUD-approved mortgage bankers.

Federal Housing Administration (FHA)-Government agency, division of the Department of Housing and Urban Development, that insures residential mortgage loans made by private lenders and sets standards for underwriting mortgage loans.

Federal National Mortgage Association (FNMA, or Fannie Mae)-Corporation created by Congress that buys and sells residential mortgages, providing funds for one in seven mortgages.

Federal Reserve-Central bank of the United States and major regulatory agency for many commercial banks.

Fee Simple-Absolute ownership of real property.

FHA-See Federal Housing Administration.

FHA Loan-Loan insured by the FHA open to all qualified home purchasers.

FHLBB-See Federal Home Loan Bank Board.

FHLMC-See Federal Home Loan Mortgage Corporation.

FIAR - Fully Indexed Accrual Rate. Index + Margin.

First Mortgage-A mortgage that is in first lien position, taking priority over all other liens. In the case of a foreclosure, the first mortgage will be repaid before any other mortgages.

Fixed Rate-An interest rate that is fixed for the term of the loan.

Fixed-Rate Mortgage-A mortgage whose interest rate does not change for the life of the loan. Payments are also fixed.

Flood Insurance-A form of hazard insurance required by lenders to cover properties in flood zones.

Floor-The minimum rate of interest payable on an adjustable-rate mortgage.

Floor (Interest - ARM)-Pre-determined amount that establishes the minimum interest rate life of loan. This can be expressed as a percentage below the start rate, as a rate of interest independent of the start rate, or, quite typically,

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the "Floor" may be established as being equal to the Margin.

FmHA-See Farmer's using Administration.

FNMA-See Federal National Mortgage Association.

Forbearance-Grace period given when a lender postpones foreclosure to give the borrower time to catch up on overdue payments.

Foreclosure (or Repossession)-Legal process by which the lender forces the sale of a property because the borrower has not met the mortgage terms.

Freddie Mac-See Federal Home Loan Mortgage Corporation.

Ginnie Mae-See Government National Mortgage Association.

GNMA-See Government National Mortgage Association.

Good Faith Estimate-Written estimate of costs the borrower will have to pay at closing, provided by a lender within three days of a loan application.

Government National Mortgage Association (GNMA, or Ginnie Mae)-Government agency that provides funds for VA and FHA loans.

GPM-See Graduated Payment Mortgage.

Graduated Payment Mortgage (GPM)-Mortgage in which initial low payments (with potential negative amortization) increase regularly for several years and then level off.

Grace Period-Period of time during which a loan payment may be made after its due date without incurring a late penalty.

Gross-Before taxes.

Gross Income-Total income before taxes or expenses are deducted.

Gross Monthly Income-The total amount earned by the borrower each month.

Growing Equity Mortgage-A fixed-rate loan in which payments increase by some predetermined amount each year, which reduces the outstanding balance of the loan. This accelerated payment plan allows repayment of a 30-year loan in 15 to 20 years.

Guarantee-To assume liability for another's debts in the event of his default.

Guaranty-A promise by one party to pay a debt or perform an obligation contracted by another in case of that person's default.

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Hazard Insurance-Protects the insured against loss due to fire or other natural disaster in exchange for a premium paid to the insurer.

Home Equity Loan-A loan secured by the equity in your home. These are sought for a variety of purposes, including home improvements, major purchases or expenses, and debt consolidation. Interest paid is usually tax-deductible.

Homeowners Warranty-A type of insurance that covers repairs to specified parts of a house for a specific period of time.

Housing and Urban Development (HUD)-A U.S. government agency established to implement federal housing and community development programs; oversees the Federal Housing Administration.

Housing Code-Local government ordinance that sets minimum standards of safety and sanitation for existing residential buildings.

Housing Expense-to-Income Ratio-The ratio, expressed as a percentage, that results when a borrower's housing expenses are divided by his/her gross monthly income.

HUD-See Housing and Urban Development.

HUD-I Settlement Statement-A form that itemizes the closing costs associated with purchasing a home.

Impound (or Reserves)-Portion of a borrower's monthly payments held by the lender to pay for taxes, insurance, and other items as they become due.

Impound Account-Savings account for accumulating that portion of a borrowers monthly payments designated for future payments of taxes and insurance. (Required by certain lenders or with certain types of financing.)

Index-A published rate used by lenders to calculate interest adjustments on ARMs (Index + Margin = Interest Rate). Some indexes are more volatile than others.

Index(ARM)- Established at loan origination, the Index is a financial indicator, widely published, which, when combined with the Margin, works to establish the effective rate of an adjustable rate mortgage ("Index + Margin = Rate").

Initial Rate-The rate charged during the first interval of an ARM.

Insolvency-Condition of a person who is unable to pay his debts as they fall due.

Interest-Charge paid for borrowing money, calculated as a percentage of the amount borrowed.

Interest Rate-The periodic charge, expressed as a percentage, for use of credit.

Interest Rate Cap-A safeguard built into ARMs to prevent drastic changes in interest rates.

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**Interest Rate Change Date**-Those dates upon which the rate of interest is subject to change. Initial change date and subsequent change dates may feature different terms.

**Joint Liability**-Liability shared among two or more people, each of whom is liable for the full debt.

**Joint Tenancy**-The ownership of property by two or more persons with the survivor taking the share of the deceased.

**Jumbo Loan**-A mortgage larger than the limits set by the Federal National Mortgage Association and the Federal Home Loan Mortgage Corporation, currently more than \$333,700. Because jumbo loans cannot be funded by these two agencies, they usually carry a higher interest rate.

**Junior Mortgage**-A mortgage subordinate or secondary to another mortgage. In the case of a foreclosure a senior mortgage will be paid first.

**Late Charge**-Penalty paid by a borrower when a payment is made after the due date.

**Lease-Purchase Mortgage Loan**-An alternative financing option that allows low- and moderate-income homebuyers to lease a home from a nonprofit organization with an option to buy. Monthly rental payments cover mortgage payments, and also include an additional amount that is saved toward a down payment.

**Lender**-The bank, mortgage company, or mortgage broker offering the loan.

**LIBOR (London Interbank Offered Rate)**-The interest rate charged among banks for short-term Eurodollar loans, and a common index for ARMs.

**Lien**-A claim by one person on the property of another for payment of a debt.

**Life cap (Interest)** Pre-determined amount that establishes the maximum interest rate life of loan. This can be expressed as a percentage above the start rate or expressed as a rate of interest independent of the start rate.

**Loan Administration (or Loan Servicing)**-The collection of mortgage payments from borrowers and related responsibilities (such as handling escrows for property tax and insurance, foreclosing on defaulted loans and remitting payments to investors).

**Loan Application**-Document required by lenders prior to loan approval containing detailed information about the borrower and property.

**Loan Application Fee**-Fee paid by prospective buyer to lender when applying for a mortgage.

**Loan Origination Fee**-Fee charged by a lender for processing a mortgage, usually expressed as a percentage of the loan (or points), which pays for the work in evaluating and processing the loan.

**Loan Servicing (or Loan Administration)**-The collection of mortgage payments from borrowers and related respon-

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sibilities (such as handling escrows for property tax and insurance, foreclosing on defaulted loans and remitting payments to investors).

Loan to Value Ratio (LTV)-The percentage of the property value borrowed. (Loan amount/property value=LTV)

Lock or Lock In-A lender's guarantee of an interest rate for a set period of time, usually between loan application and loan closing; protects borrower against rate increases during that time.

LTV-See Loan to Value Ratio.

Margin-The number of percentage points added to an index to calculate the interest rate on an ARM at each adjustment.

Margin(ARM) - A pre-determined "spread" or amount, when added to the Index, establishes a new rate of interest (Note: Rate increases or decreases may be impacted by "caps").

Marketable Title-A title that is free and clear of liens, clouds or other defects that would prevent the sale of the property.

Market Rate-The average rate charged by lenders for conventional, fixed-rate loans.

Market Value-The highest price that a buyer would pay for a property and the lowest price a seller would accept.

Monthly Housing Expense-Total monthly expense of principal, interest, taxes and insurance.

Mortgage-Document creating a lien on a property as security for the payment of a debt.

Mortgage Banker-Originates and services mortgage loans, funding them with their own money.

Mortgage Broker-Arranges financing for borrowers, but places loans with lenders rather than funding them with their own money.

Mortgagee-The lender in a mortgage loan transaction.

Mortgage Insurance-Insurance purchased by a buyer to cover the lender's risk when a down payment is less than 20 percent of the purchase price.

MIP (Mortgage Insurance Premium)-Insurance purchased by borrower to insure against default on government (FHA or VA) loans.

Mortgage Loan-A loan for which real estate serves as collateral to provide for repayment in case of default.

Mortgage Note-Legal document obligating a borrower to repay a loan at a stated interest rate during a specified period of time. The agreement is secured by a mortgage.

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Mortgagor-The borrower in a mortgage loan transaction.

Negative Amortization-Increase in principal balance that occurs when monthly payments are not large enough to pay all interest due on a loan, usually caused when payment caps prevent sufficient payment increases. Unpaid deferred interest is added to the loan balance, which means that the borrower ends up owing more than the original amount of the loan.

Negative Amortization(ARM)-AKA "Potential Deferred Interest", negative amortization occurs when the minimum required monthly payment as restricted by a Payment Cap is insufficient to meet the full amount of interest due and payable.

Net-After taxes.

Net Effective Income-Gross income minus federal income tax.

Non-Assumption Clause-A statement in a mortgage contract forbidding the assumption of the mortgage by another borrower without the prior approval of the lender.

Non-Conforming Loan-Loan that does not comply with Fannie Mae or Freddie Mac guidelines, but is larger than \$240,000.

Non-dischargeable Debt-Debt, such as taxes, that cannot be forgiven in a bankruptcy liquidation.

Note-Legal document stating the terms of a debt and a promise to repay it.

Notice of Default-Written notice to a borrower that a default has occurred and that legal action may be taken.

Office of Comptroller Currency-The oldest federal financial regulatory body, which oversees the nation's federally chartered banks.

Office of Thrift Supervision-Regulatory and supervisory agency for federally chartered savings institutions.

Origination Fee-Fee charged by a lender for processing a mortgage, usually expressed as a percentage of the loan (or points), which pays for the work in evaluating and processing the loan.

Owner Financing-A purchase in which the seller provides all or part of the financing.

PAM-See Pledged Account Mortgage.

Payment Cap-Limit on the amount by which a borrower's ARM payments may increase, regardless of rise in interest rates; may result in negative amortization.

Payment Cap(ARM)-Pre-determined amount that establishes the maximum by which the payment can increase, irrespective of increases to the interest rate.

Payment Change Date-Those dates upon which the payment amount is subject to change. Products featuring "neg-

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ative amortization" typically will include a payment change date which differs from the interest rate change date in frequency.

Per Diem Interest-Interest calculated per day. (Depending on the day of the month on which closing takes place, you will have to pay interest from the date of closing to the end of the month. Your first mortgage payment will probably be due the first of the following month.)

Periodic Interest Cap- Interest "Caps" that work to restrict the degree to which adjustable rate mortgages may increase and/or decrease at pre-determined change dates.

Permanent Loan-A long-term mortgage of 10 years or more.

PITI-Abbreviation for Principal, Interest, Taxes and Insurance, the components of a monthly mortgage payment; also called monthly housing expenses.

Pledged Account Mortgage (PAM)-Money is placed in a pledged savings account and this fund plus earned interest is gradually used to reduce mortgage payments.

PMI-See Private Mortgage Insurance.

Points (or Discount Points)-Interest prepaid to the lender at closing. Each point is equal to 1% of the loan amount. Paying more points at closing generally reduces the interest rate (and therefore monthly payments) on a loan.

Power of Attorney-Legal document authorizing one person to act on behalf of another.

Prepaid Expenses-Taxes, insurance, and assessments paid in advance of their due dates, including at closing.

Prepaid Interest-Charged to a borrower at closing to cover interest on the loan between closing and the first payment.

Prepayment-Full or partial payment of the principal before the due date. This might occur if the borrower makes extra payments, sells the property, or refinances the existing loan.

Prepayment Penalty-Fee charged by a lender for early payment of debt.

Pre-payment Penalty-Many ARM loans contain a provision against pre-payment without penalty. Terms of pre-payment penalty clauses vary from product to product, investor to investor, and state to state. Many states and even local municipalities have, or are contemplating, enacting legislation against pre-payment penalties associated with "high cost" loans.

Prequalification-The process of determining how much money a prospective homebuyer will be eligible to borrow prior to application for a loan.

Primary Mortgage Market-Includes banks, savings and loans, credit unions, and mortgage bankers who make mortgage loans directly to borrowers. These lenders sometimes sell their mortgages to lenders such as FNMA in the sec-

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ondary mortgage market.

Prime Rate-Lowest commercial interest rate charged by a bank on short-term loans to its most credit-worthy customers.

Principal-The amount of debt, not counting interest, left on a loan.

Private Mortgage Insurance (PMI)-Insurance purchased by a buyer when a down payment is less than 20% of the purchase price to protect the lender against default.

Profit and Loss Statement-Financial statement showing sales, expenses, and profits over a period of time.

Property Tax-A government tax based on the market value of a property.

Purchase Agreement-Contract signed by buyer and seller stating the terms and conditions under which a property will be sold.

Qualifying Rate-Adjustable Rate Mortgages quite often employ a "Qualifying Rate" that differs from the "Start Rate." The Qualifying Rate might be a pre-determined % of interest (i.e. "8 percent"), might be expressed as the "highest possible rate of interest at the beginning of the 2nd year", could be based on the Start Rate (i.e. "Start Rate + 2%"), and might also be expressed as the "Fully Indexed Accrual Rate" ("FIAR") or some other amount related or unrelated to any of the above.

Qualifying Ratio-Comparison of a borrower's expenses (housing or total debt) to his income.

RAM-Reverse Annuity Mortgage.

Real Estate Broker-An agent who represents a buyer or seller in a real estate transaction.

Real Estate Settlement Procedures Act-Law requiring lenders to give borrowers advance notice of closing costs.

Real Property-Land and everything that is permanently affixed to it.

Realtor-Real estate professional who is a member of the National Association of Realtors.

Rescission-The cancellation of a contract, permitted by law within three days of signing a mortgage not used to purchase a home.

Reclamation-The right of the person with title to a property to recover it from the debtor in case of a bankruptcy.

Reconveyance-The transfer of property back to the owner when a mortgage is fully repaid.

Recording-The act of entering documents concerning title to a property into the public records.

Recording Fee-Money paid to an agent for entering the sale of a property into the public records.

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Refinancing-The process of paying off one loan with the proceeds from a new loan secured by the same property.

Rent with Option to Buy-See Lease-Purchase Mortgage Loan.

Repossession (or Foreclosure)-Legal process by which the lender forces the sale of a property because the borrower has not met the mortgage terms.

Reserves-See Impound.

RESPA-See Real Estate Settlement Procedures Act.

Reverse Annuity Mortgage (RAM)-Mortgage used by the elderly in which the lender makes periodic payments to the borrower using the borrower's equity in the home.

Sale Agreement-Contract signed by buyer and seller stating the terms and conditions under which a property will be sold.

SAM-See Shared Appreciation Mortgage.

Satisfaction-The payment of a debt that satisfies an obligation.

Secondary Mortgage Market-The market into which primary mortgage lenders sell the mortgages they make to obtain funds to originate more new loans; includes investors such as Fannie Mae and Freddie Mac.

Second Mortgage-A subordinate mortgage made in addition to a first mortgage.

Seller's Broker-An agent hired by a seller to represent the seller in negotiations with the Buyer's Broker for the best possible deal for the seller.

Seller's Market-Market conditions that favor sellers. With more buyers than sellers in the market, sellers have the negotiating power as demand exceeds supply.

Servicing (or Loan Administration)-The collection of mortgage payments from borrowers and related responsibilities (such as handling escrows for property tax and insurance, foreclosing on defaulted loans, and remitting payments to investors).

Settlement (or Closing)-Meeting between the buyer, seller, and lender or their agents at which property and funds legally change hands.

Settlement Cost (HUD guide)-Booklet that provides an overview of the lending process, given to consumers after completing loan application.

Settlement Costs-See Closing Costs.

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Settlement Sheet-The computation of costs payable at closing which determines the seller's net proceeds and the buyer's net payment.

Shared Appreciation Mortgage (SAM)-Loan in which the borrower is given a below-market interest rate and the lender receives a portion of the future appreciation of the property value.

Simple Interest-Interest that is computed only on the principal balance.

Start Rate-Pre-determined rate of interest that will be applied to the loan until the date of the first interest rate change.

Subsidized Second Mortgage-Alternative financing option for low- and moderate-income households that also includes a down payment and a first mortgage, with funds for the second mortgage provided by city, county, or state housing agencies, foundations, or nonprofit corporations. Payment on the second mortgage is often deferred and carries low interest rates (if any). Part of the debt may be forgiven for each year the family remains in the home.

Survey-A measurement of land, prepared by a licensed surveyor, showing a property's boundaries, elevations, improvements, and relationship to surrounding tracts.

Sweat Equity-Value added to a property by improvements made by the owner.

Swing Loan-See Bridge loan.

Tax Impound-Money paid to and held by a lender for annual tax payments. See Impound Account.

Tax Lien-Claim against a property for unpaid taxes.

Tax Sale-Public sale of property by a government authority as a result of nonpayment of taxes.

Term-The number of years it will take to pay off a loan.

Title-Document that gives evidence of ownership of a property. Also the rights of ownership and possession of that property.

Title Company-A company that insures title to property.

Title Insurance-Insurance which protects the lender (lender's policy) or the buyer (owner's policy) against loss due to disputes over ownership of a property.

Title Search-Examination of municipal records to ensure that the seller is the legal owner of a property and that there are no liens other claims against the property.

Transfer Tax-Tax paid when title passes from one owner to another.

Trust Account-Account maintained by a broker or escrow company to handle all money collected for clients.

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Trustee-Someone given legal responsibility to hold property in the best interest of another.

Truth-in-Lending Act-Federal law requiring written disclosure of the terms of a mortgage (including the APR and other charges) by a lender to a borrower after application.

Two-Step Mortgage-Mortgage with a low fixed interest rate for 5, 7, or 10 years, which is then adjusted to a new rate for the rest of the loan.

Underwriting -The process of verifying data and evaluating a loan for approval. The underwriter gives the final loan approval.

Usury-Interest charged in excess of the legal rate established by law.

VA Loan-Home loan available to veterans with little or no down payment and guaranteed by the U.S. Veteran's Administration.

Variable Rate Mortgage-See Adjustable-Rate Mortgage.

Variable Rate-Interest rate that changes periodically in relation to an index.

Verification of Deposit (VOD)-Document signed by the borrower's bank or other financial institution verifying the borrower's account balance and history.

Verification of Employment (VOE)-Document signed by the borrower's employer verifying the borrower's position and salary.

VOD-See Verification of Deposit.

VOE-See Verification of Employment.

Waiver-Voluntary relinquishment or surrender of some right or privilege.

Walk-Through-A final inspection of a home to check for problems that may need to be corrected before closing.

Warehouse Fee-Mortgage firms often borrow funds on a short-term basis in order to originate loans that will later be sold to investors in the secondary mortgage market. When the prime rate of interest is higher on short-term loans than on mortgage loans, the mortgage firm has an economic loss that is offset by charging a warehouse fee.

Wraparound Mortgage-Loan arrangement in which an existing loan is combined with a new loan, resulting in an interest rate somewhere between the old rate and the current market rate.

Zoning Ordinances-Local law establishing building codes and usage regulations for properties in a specified area. This creation of districts specifies different types of property uses such as commercial or residential, and so on..