Glossary of Mortgage Terms

EcoSun
HOMES

EcoSun
HOMES

Your builder and EcoSun Homes know that when you start shopping for a new home and a new home mortgage, you may encounter some words and terms that are not familiar. This glossary will help you be a better-informed shopper.

Adjustable-rate mortgage (ARM): A mortgage in which your interest rate and monthly payments may change periodically during the life of the loan, based on the fluctuation of an index. Lenders may charge a lower interest rate for the initial period of the loan. Most ARMs have a rate cap that limits the amount the interest rate can change, both in an adjustment period and over the life of the loan. Also called a variable-rate mortgage.
Amortization: The gradual reduction in the principal amount owed on a debt. During the earlier years of the loan, most of each payment is applied toward the interest owed. During the final years of the loan, payment amounts are applied almost exclusively to the remaining principal.
Amortization term: The amount of time required to amortize (pay off) the loan, expressed in months. For example, for a 15-year fixed-rate mortgage, the amortization term is 180 months.
Annual adjustment cap: A limit on how much the variable interest rate on a loan can increase or decrease each year.
Appraisal contingency
A contingency in a sales contract that the property must appraise at a value that is equal to or greater than your offering price.
Assessed value: The value of a property, established by a public tax assessor. The assessed value is used to determine property taxes.
Assignment: The method of transferring a right or contract, such as the terms of a loan, from one person to another.
Balance Sheet: A dated financial statement (in table form) that shows your assets, liabilities and net worth.
Balloon loan: A loan that provides you with lower-than-usual monthly payments for a set period of time followed by a payment larger than usual at the end of your loan repayment period. While a balloon loan may lower your monthly payments it can also mean you make higher interest payments over the life of the loan.
Broker: A third party who arranges funding or negotiates a contract between parties, but does not lend the money.
Cap: A limit on how much a variable interest rate can increase. Many adjustable-rate mortgages have both annual (or semiannual) rate caps and lifetime caps. They limit the amount your payments can increase in an adjustment period and over the life of the loan.
See: Interest rate cap
Certificate of eligibility: A document issued by the federal government certifying a veteran's eligibility for a Department of Veterans Affairs (VA) loan.
Closing: The time and place, at which all documents for your loan are signed, dated, and notarized.
Closing costs: Closing costs, also known as settlement costs, are the costs incurred when obtaining your loan. For new purchases, these costs also include ownership transfer of any collateral property from the seller to you. Costs may include and are not limited to: attorney's fees, preparation and title search fees, discount points, appraisal fees, title insurance, and credit report charges. They are typically about 3% of your loan amount, and are often paid at closing or just before your loan closes.
Closing statement: An accounting of funds given to both buyer and seller before real estate is sold.
Credit limit: The maximum amount you can borrow under a line of credit.
Default: Failure to make mortgage payments on time or to meet other terms of a loan. Default can lead to foreclosure.
Delinquency: Failure to make payments on time.
Down payment: The amount of cash you pay toward the purchase of your home to make up the difference between the purchase price and your mortgage loan. Down payments often range between 5% and 20% of the sales price depending on many factors, including your loan, your lender and your credit history.
Due-on-sale provision: A provision in a mortgage home loan that allows the lender to demand repayment in full if the borrower sells the property that serves as security for the loan.
Earnest money: A deposit made toward a down payment as a sign of good faith. The deposit is typically made when a purchase agreement is signed.

Encumbrance: Any lien or liability attached to a property that affects or limits the title to that property, for example unpaid taxes, mortgages and leases.
Escrow: Funds deposited with a third party, to be held until a specific date is reached and/or a specific condition is met.
First mortgage: A mortgage that is the senior lien against a property.
Fixed-rate mortgage:A home loan with a predetermined fixed interest rate for the entire term of the loan.
Flood insurance: Insurance that protects against loss due to floods. When available, this type of insurance is required by law when a property is located within a special flood hazard zone.
Funding date: The date on which the proceeds from a loan are available to or disbursed for the benefit of the borrowers.
Homeowners insurance: Insurance to protect your home against damage from fire, hurricanes and other catastrophes. Usually, homeowners insurance also covers you against theft and vandalism, as well as personal liability in case someone is hurt or injured on your property. A lender will likely require you to name it as a payee under the insurance if you need to make a claim. Also called hazard insurance.
Index: When used in a mortgage note or credit agreement, a financial index is the measurement used to decide how much the annual percentage rate will change at the beginning of each adjustment period. Generally, the index plus or minus margin equals the new rate that will be charged, subject to any caps. Lenders use various financial index rates: Secured Overnight Financing Rate[(SOFR) and Treasury-Indexed ARMs (T-Bills)]
Insurance: A contract that provides compensation for specific losses in exchange for a periodic payment. An individual contract is known as an insurance policy, and the periodic payment is known as an insurance premium.
Interest rate : The annual cost of a loan to a borrower, usually expressed as a percentage. The interest rate does not include fees charged for the loan.
Judgment : A decree by a court of law that one person is indebted to another for a specified amount. In some states, the court may place a lien against the debtor's real property as collateral for payment of the judgment to the creditor.
Lien holder: An individual or entity that has placed a lien on real property.
Lifetime adjustment cap: A limit on how much the variable interest rate can increase during the term of a loan.
Loan modification: Changes to one or more of the terms of a loan.
Loan origination: The process by which a mortgage lender makes a home loan and records a mortgage against the borrower's real property as security for repayment of the loan.
Mortgage: A legal document giving a lender a lien on real estate to secure repayment of a loan. Mortgage loans generally run from 10 to 30 years, after which the loan is required to be paid off. Also called deed of trust and/or security deed.
Mortgage insurance: For conventional loans, insurance that protects the lender if you default on your loan. If your down payment is less than 20%, most lenders will require you to pay mortgage insurance. Also called private mortgage insurance (PMI).
Negative amortization: The result when monthly payments don't cover all the interest due on the loan. The unpaid interest is added to the unpaid balance, which means the homebuyer will owe increasingly more than the original amount of the loan.
New line amount: The sum of the existing credit line and the amount of additional credit requested.
No closing cost loan: A loan in which the borrower is not required to pay cash out-of-pocket at closing for the normal closing costs. The lender typically includes the closing costs in the principal balance or charges a higher interest rate than for a loan with closing costs to cover the advance of closing costs.
Payoff: Payment of the outstanding balance of a loan in full. Also, the amount required to pay the outstanding balance in full.
Per diem interest: The amount of interest that accrues daily on a loan. This is calculated by multiplying the outstanding loan balance by the annual rate of interest, then dividing the result by 365.
PITI: An acronym for principal, interest, taxes and insurance. Also referred to as the monthly housing expense.
Preapproval: A lender's conditional agreement to lend a specific amount of money to a homebuyer under a specified set of terms.
Prepaid expenses
The expenses that are usually paid in advance, such as escrows for taxes and insurance (which are paid at closing).
Prepaid interest: Interest collected at closing of a first mortgage, covering the period from the date of disbursement to the start of the next payment period.
Prepayment: An amount paid to reduce the principal balance of a loan before the principal is due.
Processing fee: A fee charged to cover the administrative costs of processing a loan request.
Promissory note: A written promise to repay a specified amount over a specified period of time.
Purchase agreement: A written contract signed by the buyer and seller stating the terms and conditions under which a property will be sold.

Rate: The amount of interest on a loan, expressed as a percentage
Reduced documentation: A method used to determine income when qualifying a borrower for a loan. Borrower(s) provide their income, however no verification documentation is typically required.
Real Estate Settlement Procedures Act (RESPA) A consumer protection law that, among other things, requires advance disclosure of settlement costs to home buyers and sellers, prohibits certain types of referral and other fees, sets rules for escrow accounts and requires notice to borrowers when servicing of a home loan is transferred.
Refinance: Paying off your existing loan with the proceeds from a new loan, generally using the same property as collateral, in order to take advantage of lower monthly payments, lower interest rates or save on financing costs.
Reserves: The amount of savings, separate from the down payment, that a homebuyer sets aside in case of unforeseen events or emergencies. During the loan approval process, many lenders require reserves (typically the equivalent of 2 monthly mortgage payments) to be verified.
Second home: A property occupied part-time by a person in addition to his or her primary residence.
Secured loans: Loans for which the borrower gives the lender a lien on property such as an automobile, boat, other personal property or real estate that will serve as collateral for the loan.
Security: The property that will be pledged as collateral for a loan. If the borrower defaults, the lender can sell the collateral to satisfy the debt.
Settlement: The completion of a property's sale or purchase, or the completion of all steps necessary to receive the proceeds of (and create an obligation to repay) a loan. See also: Closing
Settlement agent :A person or entity that conducts the settlement to transfer title of the property and to close on the mortgage loan. May be an attorney, a title insurer, a title agent or an escrow agent.
Single-family residence: A detached individual housing unit. The property shares no common ground with neighboring properties and shares no wall or roof, but can be part of a planned unit development (PUD).
SOFR: Secured Overnight Financing Rate; SOFR is a broad measure of the cost of borrowing cash overnight collateralized by U.S. Treasury securities.
Term: The number of years it will take to pay off a loan. The loan term is used to determine the payment amount, repayment schedule and total interest paid over the life of the loan.
Third-party fees: Fees charged for services rendered by parties other than the borrower or the lender. Such fees may include appraisal, credit report, title and flood certifications.
Title: Written evidence of ownership in property.
Title company: The agency that will investigate a property's title (or deed) for discrepancies or undiscovered liens and that will issue title insurance to the lender after the title is deemed clear.
Title insurance: Insurance that protects an interested party, either the owner or the lender, against issues that would affect legal ownership of the property.
Underwriter: The person who approves or denies a home loan, based on the lender's underwriting and approval criteria.
Underwriting: The lender's process of deciding whether to make a loan to a potential borrower based on credit, employment, assets and other factors, and the matching of this risk to an appropriate rate, term and loan amount.
Variable-rate monthly minimum payment: The minimum amount you will need to pay each month on your home equity line of credit, or HELOC (does not include any payments for the Fixed- Rate Loan Payment Option). The payment amount includes both principal and interest (minimum of $100). The monthly required payment may vary each month and is based on your outstanding loan balance and fluctuating interest rate. In general, this payment is intended to repay your loan balance in substantially equal principal and interest installments over the remaining loan term, based on the balance and rate information at the time of each monthly calculation.
Walk-through: A final inspection shortly before settlement to make sure the property is in the same condition that it was at the time the offer contract was written.
What-if analysis: An affordability analysis that is based on a what-if scenario. A what-if analysis is useful if you do not have complete data or if you want to explore the effect of various changes to your income, liabilities, or available funds or to the qualifying ratios or down payment expenses that are used in the analysis.
Year-end statement: The report shows how much was paid in interest during the year, as well as the remaining mortgage loan balance at the end of the year. If the bank has an impound account for you, it will also show how much was paid and reserved in property taxes. If the bank does not have a property tax impound account, then tax details are not displayed on the report.