

Easy to Understand Mortgage Terms

Conforming:

A conventional single-family mortgage purchased by the two major Federal agencies Fannie Mae and Freddie Mac. These loans are available up to an annually set limit. Currently the limit is \$417,000.

Adjustable Rate Mortgage:

An "ARM" mortgage is one that typically offers a lower rate for an initial period of time, usually 5, 7, or 10 years. After that time period, the loan adjusts. The adjustment is determined by an index (e.g. U.S. Treasury or Libor) and a pre-set margin and is subject to an adjustment cap. The terms, loan index and margin are determined with the borrower during the loan process.

Non-Conforming mortgage:

A mortgage that does not meet the requirements of the two Federal agencies, Fannie Mae and Freddie Mac, because it's either too large or the borrower has poor credit or inadequate documentation.

PMI:

Private Mortgage Insurance is provided by privately-owned companies (as opposed to FHA) that offer standard & special affordable mortgage insurance programs for qualified borrowers with down payments of less than 20% of a purchase price.

Sub-Prime loans:

These loans are for borrowers with blemished or limited credit histories or inadequate documentation. The loans carry a higher rate of interest than prime loans to compensate for increased credit risk.

Truth-in-Lending:

A federal law obligating a lender to give full written disclosure of all fees, terms, & conditions associated with the loan initial period.

APR – Disclosed on the Truth-in-Lending:

The APR is calculated by using a standard formula. The final calculation discloses the total financing cost over the life of the loan, expressed as a yearly interest rate. The final figures takes into account interest, points, PMI, and other fees associated with the loan.

Underwriting:

The process of analyzing a loan application to determine the amount of risk involved in making the loan; it includes a review of the potential borrower's credit history and a judgment of the property value.

Sources:

10/15/07 <http://www.hud.gov/offices/hsg/sfh/buying/glossary.cfm>

10/15/07 <http://www.mortgagesanity.com/2007/01/29/do-you-know-these-basic-mortgage-terms/>

10/15/07 <http://www.fanniemae.com/>