

COMMON MORTGAGE TERMS



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1003 Form

A document submitted to a lender when you apply for a mortgage. The application is extensive and contains information about the property, the borrower's financial situation, employment history and more.

Appraisal

A report determining the fair market value of a subject property. It highlights the condition and quality of a property and how it compares to other homes in the area. This independent assessment is performed by a licensed expert, known as an appraiser. Lenders may require an appraisal to determine how much they will lend a borrower for a specific property. The borrower typically pays for this report.

Assets

Things of value owned by a person (e.g., automobiles, property, savings or retirement fund) that are used to calculate a borrower's net worth (assets minus liabilities) and determine their ability to afford the down payment and closing costs on a home.

Closing Costs

The upfront funds paid, typically by a borrower, when closing on a home. These costs could include origination charges, appraisal fees, title insurance fees, the down payment and more. A lender must provide an estimate and summary of all costs in the Loan Estimate and Closing Disclosure forms.

Closing Disclosure

A document that outlines the final details of a mortgage loan, including loan terms, projected monthly payments and closing costs. Lenders must provide this form at least 3 business days before the closing, allowing borrowers to compare it with the initial loan estimate and ask questions. It serves as a comprehensive summary of the mortgage's financial terms.

Contingency

A condition that must be met before a contract is legally binding.



Credit History

A record of a borrower's payment behavior that shows his or her ability to repay a loan. Information may include the number and types of credit accounts, how long each account has been open, amounts owed and more.

Credit Report

A report provided by the three credit reporting agencies, Equifax, Experian and TransUnion, detailing information on a person's credit history. Consumers can request one free copy of their credit report from each of these agencies per year.

Credit Score

Three-digit number calculated by independent credit reporting agencies Equifax, Experian and TransUnion. Based on information provided by creditors and lenders on the borrower's history of on-time bill payments, current outstanding debt and their debt-to-credit ratio. Lenders look at the credit score to predict the reliability of a borrower and how likely they are to repay their mortgage.

Debt-To-Income (DTI) Ratio

A borrower's monthly debt payments divided by their gross monthly income. This ratio tells lenders how much debt a borrower currently has and helps determine the home loan amount they may qualify for. Also known as expense ratio.

Down Payment

The amount of money a borrower pays upfront toward the purchase of a property. This amount varies and usually ranges from 0%–20% of the home's purchase price. Typically, the larger the down payment, the lower the total loan amount and monthly mortgage payments will be.

Earnest Money

A deposit made to a seller that represents the prospective buyer's intention to purchase the home — this money can generally be applied toward the down payment at closing. Also known as a deposit.



Escrow

Funds a lender collects and holds in an account to pay real estate taxes, homeowners insurance, other periodic debts against the property and mortgage insurance (if applicable), on behalf of a borrower. Also known as impounds or reserves.

Escrow Analysis

Analysis of an escrow account performed at least once a year to ensure the correct amount of money is being collected for taxes and insurance. These amounts will change over the life of the loan.

Forbearance

An agreement between the borrower and the lender to temporarily pause or reduce the borrower's mortgage payment.

Foreclosure

The legal process by which a borrower in default under a mortgage is deprived of his or her interest in the mortgaged property. This usually involves a forced sale of the property at public auction with the proceeds of the sale being applied to the mortgage debt.

Homeowners Insurance (HOI)

Insurance to protect a home against damage from fire, hurricanes and other catastrophes. Usually, homeowners insurance also covers against theft and vandalism, as well as personal liability in case someone is hurt or injured on the property.

Inspection

An objective and unbiased visual examination of the physical condition, structure and various systems of a property from the foundation to the roof.

Intent To Proceed

A form the borrower signs when they have decided on a lender and agree to move forward with the loan.



Interest

The amount a borrower owes a lender for the use of borrowed money.

Interest Rate

The cost of borrowing money from a lender, expressed as a percentage of the loan amount (principal). A higher interest rate results in higher overall payments over the life of the loan. At the beginning of the loan term, a bigger portion of the payment typically goes toward the interest rather than the principal.

Liability

A person's debts, monies owed or other financial obligations.

Loan Estimate (LE)

A document that contains important details, such as estimated rate, monthly payment and closing costs for a loan. The LE must be delivered by a lender within 3 business days from the date of the mortgage application.

Loan Modification

An agreement to revise the terms of a mortgage to help a borrower bring their mortgage current or reduce their mortgage payment.

Mortgage

A type of loan specifically used to purchase real estate. Mortgages are typically repaid over 15 to 30 years. The monthly mortgage payment usually includes both principal loan payments and interest but may also include property taxes and homeowners insurance.

Mortgage Broker

A local independent home loan expert who helps borrowers find the right mortgage for their specific financial situation. Mortgage brokers are licensed professionals with access to a variety of unique loan options for borrowers looking to buy or refinance a home.



Principal Balance

The amount owed on a loan, not including interest, fees or taxes.

Property Taxes

Taxes assessed on real property and usually based on the property's value.

Purchase Agreement

A legally binding agreement between a buyer and seller that governs the purchase and sale of a property. It defines the terms of the transaction and the conditions under which a sale will occur.

Refinance (Refi)

The process of obtaining a new mortgage to replace an existing one, often sought when interest rates drop to achieve lower monthly payments. Homeowners may also refinance to access their home equity for debt consolidation, home repairs or other expenses. Home value appreciation may also prompt refinancing. Refinancing may have specific requirements, such as a seasoning period for the current mortgage.

Service Transfer

When a lender transfers servicing, they hand over the management of a loan to a new mortgage or servicing company. This means a new institution will be collecting the payments, handling escrow accounts, dealing with any insurance or tax matters and answering borrowers' questions.

Title Company

Verifies that the seller has the legal right to sell the property to a buyer. A title company can issue a policy, called title insurance, that protects homeowners and lenders from conflicts (like title claims) that may arise from the property's previous owners.

Title Fees

A group of fees associated with closing costs that are paid to help financially protect you and/or your lender in case the title you receive is unverified or incorrect.



Underwriting

The process of reviewing a loan application to determine how much risk a borrower poses to a lender. All applicable rules, regulations and guidelines must be followed during the review process.

Real Estate Agent

A person who connects buyers and sellers for real estate transactions and represents them in legal negotiations. They work with buyers to find a home by helping them tour different properties.





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