

---

# ***MORTGAGE TERMINOLOGY DEFINED***

---

**1-year Adjustable Rate Mortgage**

Mortgage where the annual rate changes yearly. The rate is usually based on movements of a published index plus a specified margin, chosen by the lender.

**15-year Mortgage**

Mortgage that amortizes over a period of 15 years. Although interest rates may be lower, monthly payments are generally higher than for a 30-year mortgage. The 15-year mortgage has the advantage of a significant interest savings when compared with a 30-year mortgage.

**3/1, 5/1, 7/1 and 10/1 ARMs**

Adjustable rate mortgages in which rate is fixed for three year, five year, seven year and 10-year periods, respectively, but may adjust annually after that. Also known as Hybrid ARMs.

**30-year Mortgage**

Mortgage that amortizes over a period of 30 years. The longer loan period may keep monthly payments low. Making extra principal payments can help save on interest costs.

**7/23 and 5/25 Mortgages**

Mortgages with a one time rate adjustment after seven years and five years respectively.

**Adjustable Rate Mortgage (ARM)**

A loan whose interest rate, and accordingly monthly payments, fluctuate over the period of the loan. With this type of mortgage, periodic adjustments based on changes in a defined index are made to the interest rate. The index used is established at the time of application. Also sometimes known as a renegotiable rate mortgage, variable rate mortgage or Canadian rollover mortgage.

**Agreement of Sale**

A type of owner financing. See *Contract Sale or Deed*.

**Amortization Loan**

Loan payment by equal periodic payments calculated to pay off the debt at the end of a fixed period, including accrued interest on the outstanding balance. Comes from the French word, "mort", literally to kill the loan owing.

**Balloon Mortgage**

A loan which is amortized for a longer period than the term of the loan. Usually this refers to a thirty year amortization and a five or seven year term. At the end of the term of the loan, the remaining outstanding principal on the loan is due. This final payment is known as a balloon payment.

**B/C Loans**

Loans that do not meet the borrower credit requirements of Fannie Mae and Freddie Mac are called "B", "C" and "D" paper loans vs. "A" paper conforming loans. B/C loans are offered to borrowers that may have recently filed for bankruptcy, foreclosure, or have late payments on their credit reports. Their purpose is to offer temporary financing to these applicants until they can qualify for conforming "A" financing. The interest rates and programs vary, based upon many factors of the borrower's financial situation and credit history. A.k.a. Sub-Prime Loans.

**Biweekly Payment Mortgage**

A plan to reduce the debt every two weeks (instead of the standard monthly payment schedule). The 26 (or possibly 27) biweekly payments are each equal to one half of the monthly payment required if the loan were a standard 30-year fixed rate mortgage. The result for the borrower is a substantial savings in interest. For example, a 30-year loan could be paid off within 18 to 19 years.

**Blanket Mortgage**

A mortgage covering at least two pieces of real estate as security for the same mortgage.

**Bridge Loan**

A second trust that is collateralized by the borrower's present home allowing the proceeds to be used to close on a new house before the present home is sold. Also known as "swing loan."

**Buydown Mortgage**

A temporary buydown is the type of loan with an initially discounted interest rate which gradually increases to an agreed-upon fixed rate usually within one to three years. To reduce the monthly payments during the first few years of a mortgage, the borrower makes an initial lump sum payment to the lender.

**COFI**

An adjustable-rate mortgage with a rate that adjusts based on a cost-of-funds index, often the 11th District Cost of Funds.

**Construction Loan**

A short term interim loan to pay for the construction of buildings or homes. These are usually designed to provide periodic disbursements to the builder as he or she progresses. See *Interim Financing*.

**Contract Sale or Deed:**

A contract between purchaser and a seller of real estate to convey title after certain conditions have been met. It is a form of installment sale. A.k.a. Agreement of Sale.

**Conventional Loan**

Any mortgage other than FHA, VA or RHS.

**Convertible ARM**

Some ARMS come with an option to convert them to a fixed-rate mortgage at designated times (usually during the first five years on the adjustment date). The new rate is established at the current market rate for fixed-rate mortgages. A type of hybrid ARM.

**Deferred Interest Loan**

See *Negative Amortization Loan*.

**Energy Efficient Mortgage (EEM)**

An FHA program that provides mortgage insurance for the purchase or refinance of a principal residence that incorporates the cost of energy efficient improvements into the loan.

**Fannie Mae**

See *Federal National Mortgage Association*.

**Farmers Home Administration (FmHA)**

Provides financing to farmers and other qualified borrowers who are unable to obtain loans elsewhere.

**Federal Home Loan Mortgage Corporation (FHLMC)** also called "Freddie Mac"

A government sponsored entity that purchases conventional mortgage from insured depository institutions and HUD-approved mortgage bankers.

**Federal Housing Administration (FHA)**

A division of the Department of Housing and Urban Development. Its main activity is the insuring of residential mortgage loans made by private lenders. FHA also sets standards for underwriting mortgages.

**Federal National Mortgage Association (FNMA)** also know as "Fannie Mae"

A government sponsored entity that purchases and sells conventional residential mortgages as well as those insured by FHA or guaranteed by VA.

**FHA Loan**

A loan insured by the Federal Housing Administration open to all qualified home purchasers. While there are limits to the size of FHA loans, they are generous enough to handle moderately priced homes almost anywhere in the country.

**FHA 203(b) Loan**

This is the most popular FHA purchase/refinance program available. The program requires a 3% down payment for home purchases and allows "rate reductions" for refinances up to 97% "loan to value."

**FHA 203(k) Loan**

A single-family home rehabilitation program that enables borrowers to finance both the purchase or refinance of a house and/or the cost of its rehabilitation through a single mortgage.

**FHLMC**

The Federal Home Loan Mortgage Corporation provides a secondary market for savings and loans by purchasing their conventional loans. Also known as "Freddie Mac."

**First Mortgage**

The primary lien against a property.

**Fixed Rate Mortgage**

The mortgage interest rate will remain the same on these mortgages throughout the term of the mortgage for the original borrower. Fixed-rate mortgages are available for 30, 25, 20, 15, and 10 years. Generally, the shorter the term of the loan, the lower the interest rate available.

**Fully Amortized ARM**

An adjustable rate mortgage (ARM) with a monthly payment that is sufficient to amortize the remaining balance, at the interest accrual rate, over the amortization term.

**FNMA**

The Federal National Mortgage Association is a secondary mortgage institution. FNMA buys VA, FHA, and conventional mortgages from primary lenders. Also known as "Fannie Mae."

**Freddie Mac**

*See Federal Home Loan Mortgage Corporation*

**Ginnie Mae**

*See Government National Mortgage Association.*

**Government National Mortgage Association (GNMA)**

Also known as "Ginnie Mae." Provides sources of funds for residential mortgages, insured or guaranteed by FHA, VA or RHA.

**Graduated Payment Mortgage (GPM)**

GPMs have payments that start low and gradually increase at predetermined times. Lower initial payments allow the borrower to qualify for a larger loan amount. The monthly payments will eventually be higher in order to catch up from the lower payments. The loan will be negatively amortizing during the early years of the loan, then pay off the principal at an accelerated pace through the later years.

**Growing Equity Mortgage (GEM)**

A fixed rate mortgage that provides scheduled payment increases over an established period of time. The increased amount of the monthly payment is applied directly toward reducing the remaining balance of the mortgage.

**Guarantee Mortgage**

A mortgage that is guaranteed by a third party.

**HUD Reverse Mortgage**

A program for homeowners 62 and older who have paid off their mortgages or have only small mortgage balances remaining (seasoned mortgages). The program allows homeowners to borrow against the equity in their homes in a lump sum, on a monthly basis for a fixed term or for as long as they live in the home, or on an occasional basis as a line of credit.

**Hula Mae Program**

Hula Mae is an innovative mortgage loan program created by the Hawaii State Legislature in 1979 for families of low and moderate income. Through the sale of tax-exempt revenue bonds, the Hula Mae Program provides eligible home buyers with mortgage loans at interest rates below those available on conventional loans.

**Hybrid Adjustable Rate Mortgage**

See 3/1, 5/1, 7/1 and 10/1 ARMs.

**Insured Mortgage**

A mortgage that is protected by the Federal Housing Administration (FHA) or by private mortgage insurance (MI).

**Interim Financing**

A construction loan made during completion of a building or a project. A permanent loan usually replaces this loan after completion.

**Jumbo Loan**

A loan which is larger than the limits set by the *Federal National Mortgage Association* and the *Federal Home Loan Mortgage Corporation*. Because jumbo loans cannot be funded by these two agencies, they usually carry a higher interest rate.

**Junior Mortgage**

A mortgage, the lien of which is subordinate to that of another mortgage. Second and third mortgages are both junior mortgages.

**Lease-Purchase Mortgage Loan**

An alternative financing option that allows low and moderate income home buyers to lease a home with an option to buy. Each month's rent payment consists of principal, interest, taxes and insurance (PITI) payments on the first mortgage plus an extra amount that accumulates in a savings account for a down payment.

**Loan**

A sum of borrowed money (principal) that is generally repaid with interest.

**Mortgage**

A legal document that pledges a property to the lender as security for payment of a debt. The owner retains possession and use of the property and, upon the payment of the debt, the mortgage becomes void.

**Negative Amortization Loan**

Occurs when the monthly payments are not large enough to pay all of the interest due on the loan. This unpaid interest is added to the unpaid principal balance of the loan. The danger of negative amortization is that the home buyer ends up owing more than the original amount of the loan. Also known as a Deferred Interest Loan.

**Negotiable Rate Mortgage**

See *Adjustable Rate Mortgage*.

**Open-end Mortgage**

A mortgage or deed of trust written so as to secure and permit advancing of funds in addition to the amount originally loaned.

**Option Adjustable Rate Mortgage**

After the first payment, the borrower has four payment options to choose from each month. The lender sends a monthly statement offering a minimum payment (1), interest-only payment (2), 30-year amortized payment (3) or 15-year amortized payment (4).

**Owner Financing**

A property purchase transaction in which the party selling the property provides all or part of the financing. See *Purchase Money Mortgage* or *Contract for Deed*.

**Participation Loan**

See *Shared Appreciation Mortgage*.

**Permanent Loan**

A long-term mortgage, usually ten years or more.

**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.

**Purchase Money Mortgage (PMM)**

A mortgage given by the purchaser to the seller simultaneously with the purchase of real estate to secure the unpaid balance of the purchase price. A type of owner financing.

**Refinance Loan**

Obtaining a new mortgage loan on a property already owned. Often to replace existing loans on the property.

**Renegotiable Rate Mortgage**

A loan secured by a long-term mortgage of up to 30 years, which provides for renegotiation at equal stated intervals of the interest rate for a maximum variation of 5 percent over the life of the mortgage. See *adjustable rate mortgage*.

**Reverse Annuity Mortgage (RAM)**

A form of mortgage in which the lender makes periodic payments to the borrower using the borrower's equity in the home as collateral for and repayment of the loan. See *HUD Reverse Mortgage*.

**Rural Housing Service (RHS)**

The Rural Housing Service of the U.S. Department of Agriculture guarantees loans for rural residents with minimal closing costs and no down payment.

**Seasoned Mortgage**

A mortgage that payments have been made on. The longer the seasoning and payment history of the mortgage, the greater the likelihood it will be paid in the future.

**Second Mortgage**

A mortgage made subsequent to another mortgage and subordinate to the first one. See *Junior Mortgage*.

**Shared Appreciation Mortgage (SAM)**

A mortgage in which a borrower receives a below market interest rate in return for which the lender (or another investor such as a family member or other partner) receives a portion of the future appreciation in the value of the property. May also apply to mortgage where the borrower shares the monthly principal and interest payments with another party in exchange for part of the appreciation. A.k.a. *Shared Equity Mortgage*, *participation loan*.

**Shared Equity Mortgage**

See *Shared Appreciation Mortgage*.

**Step Rate Mortgage**

A mortgage that allows for the interest rate to increase according to a specified schedule (i.e., seven years), resulting in increased payments as well. At the end of the specified period, the rate and payments will remain constant for the remainder of the loan.

**Sub-Prime Loan**

See *B/C Loans*.

**Takeout Loan**

A permanent mortgage loan which a lender agrees to make to a borrower upon completion of improvements on the borrower's land. The proceeds of the loan are used principally to pay off the construction loan.

**Two Step Mortgage**

Two-Step mortgages have a fixed rate for a certain time, most often 5 or 7 years, and then interest rate changes to a current market rate. After that adjustment the mortgage maintains the new fixed rate for the remaining 23 or 25 years. A type of hybrid ARM. Also called "Super Seven" or "Premier" mortgage.

**VA Loan**

A long term, low-or-no down payment loan guaranteed by the Department of Veterans Affairs. Restricted to individuals qualified by military service or other entitlements.

**Variable Rate Mortgage (VRM)**

See *Adjustable Rate Mortgage*.

**Wraparound Mortgage**

A mortgage which secures a debt which includes the balance due on an existing senior mortgage and an additional amount advanced by the wraparound mortgage. The wraparound mortgagee thereafter makes the amortizing payments on the senior mortgage.

**Zero Down Payment Mortgage**

See *B/C Loans*.

*This handout is a basic explanation of certain loan types and programs which may or may not be available through lenders in Hawaii. The information provided should only be used to familiarize individuals with some mortgage terms and concepts. These documents should not replace the advice and counsel of a banker or mortgage professional.*