Mortgage Terminology

Adjustable-rate mortgage (ARM): A mortgage where the interest rates are tied to an interest-rate index. If the index rises or falls, the mortgage interest rate and the monthly payment amount go up or down accordingly.

Debt-to-income ratio (DTI): This ratio represents monthly fixed expenses divided by gross monthly income, which is the income before taxes and deductions. The lender uses this ratio to help determine how much to lend a potential borrower. If the percentage is greater than 36, the ratio could negatively impact the ability to obtain a mortgage loan because the lender considers that the borrower has too much debt.

Interest-only mortgage: The borrower is required only to make interest payments for a specified number of years. When this initial period expires, the mortgage may begin to fully amortize, and monthly payments of principal and interest make the payment amount increase significantly.

Loan-to-value ratio (LTV): This ratio compares the value of the loan with the fair market value of the home.

Negative amortization: If the monthly payment amount does not cover the interest owed each month, sometimes as the result of a teaser rate, the unpaid interest becomes part of the principal. Thus, the principal balance increases and may eventually exceed what was borrowed in the first place.

Option-ARM: This loan typically offers the borrower three different monthly payment options: 1) payments of principal and interest, 2) interest-only payments, or 3) minimum monthly payments that don't cover the monthly interest such that the unpaid interest is added to the principal loan amount. To ensure that the loan is repaid within the agreed-upon time, these loans "recast" after a set number of years — usually three or five years — and monthly payments increase significantly so that the loan fully amortizes.

Payment shock: A large and sudden increase — sometimes as much as double or triple — in monthly payments, often seen with interest-only loans and option-ARMs.

Private mortgage insurance (PMI): PMI is required by lenders when a borrower has less than 20 percent down. PMI protects the lender from default losses in the event a loan becomes delinquent.

Teaser rates: These are low rates that lenders offer to make mortgage products more attractive. When the teaser rate period expires, the lender raises the interest rate for the remainder of the loan period.

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Shopping for a Mortgage?

Protect your money from predatory lenders.

Tips To Be A Smart Mortgage Consumer

Predatory Lending Warning Signs

Falsifying information: Providing inaccurate information on a mortgage application about income, debt, employment history, intent to occupy the premises, or the value of the home. These practices are fraud and are subject to criminal penalties.

Second set of documents: Never sign an addendum or second set of documents that won't be shared with all parties. This could be a warning sign that fraud is being committed.

Bait and switch: Make sure the terms on the mortgage are the terms you agreed to before closing. Do not sign loan documents without reading them, and do not be pressured into signing "new deals" at closing.

Documents containing blanks: If information is added after you have signed a document, you may still be responsible. Avoid this by making sure to fill in all blank areas in a document; either cross through any blanks or insert "N/A."

Multiple refinancing: Be careful of refinancing repeatedly after short periods of time. Each refinancing often comes with new fees and possibly prepayment penalties. While these loans may offer lower interest rates and payments, you may be losing your equity or have more debt because refinancing and origination fees are added to the loan.

Borrowing too much: Don't let anyone convince you to borrow more money than you need or more money than you can afford to repay.

Excessive fees: While it is not uncommon for lenders to charge fees for appraisals and credit reports, you should beware of loans with large, nonrefundable application fees. Loan costs can be compared by looking at the Good Faith Estimate (GFE) form that all lenders are required to provide to a borrower at the time of application. Beware of lenders that don't offer you a GFE to compare costs before you apply for a loan.

✔ Know and understand your credit
Your credit score may affect the loans available to you. You may request a free copy of your credit report online at www.annualcreditreport.com. Make sure the information is correct.

✔ Seek advice
Learn more about credit, budgeting and the mortgage process. Before signing or paying any fees, consult with an attorney or someone you trust about the terms of the loan. Visit www.homeloanlearningcenter.com for more information.

✔ Ask questions
Ask your lender many questions. Make sure all your questions are answered to your satisfaction before you sign any documents.

✔ Compare lenders
Remember, rate is not the only factor that should be considered. Visit several lenders to compare interest rates, loan servicing practices, fees and other terms of the loan. Be wary of deals that seem too good to be true — they probably are!

✔ Walk away from confusing sales tactics
Don't settle for high-pressure or confusing sales tactics. Take the necessary time to review and understand the loan that is being offered to you. If you qualify for a loan now, you should still be qualified for the loan after you have had time to review it and consult with someone you trust.

✔ Understand all the terms of the loan
There is more to a loan than just the monthly payment and interest rate. You should also know the annual percentage rate (APR), total loan amount, lender fees, points and term length. Also ask about mortgage insurance, rights of rescission and prepayment penalties.

✔ Cash at closing
Make sure your lender will deliver the funds at closing. You have a legal obligation to close on the date specified in the offer to purchase contract. You are not relieved of this obligation just because your lender does not provide the funds on time. If possible, avoid closing at the end of the month, and at the beginning or end of the day.