20 Terms to Know When Applying for a Mortgage

Adjustable Rate Mortgage (ARM): A type of mortgage in which the interest rate applied on the outstanding balance varies throughout the life of the loan. Normally, the initial interest rate is fixed for a period of between three and seven years, after which it adjusts annually by adding a “Margin” to a predetermined interest rate “Index.” The Margin and Index may vary from lender to lender and are included in disclosures provided to you when you apply for this type of loan. It is important to review this information and to fully understand the implications of any potential rate increases on your future monthly payments.

Annual Percentage Rate (APR): The APR was designed to give borrowers a way to compare the overall costs of a mortgage loan from lender to lender. The APR is calculated by adding certain loan costs (Finance Charges) to the amount of interest paid over the life of a loan, assuming all monthly payments are made on time and you make no extra principal payments during the term of the loan. While the APR can be a useful comparison tool, it does not capture all loan closing costs and, in the case of an ARM, includes some assumptions that might understate the overall amount of interest you could pay over the life of your loan. It is also important to understand that the APR is not the same as the actual Interest Rate you will pay on your loan.

Amortization: Amortization is the term used to describe how your principal and interest payments reduce the balance of your loan over time. An amortization schedule shows how each payment is applied on a monthly basis, assuming the payment is made on its scheduled due date.

Application: The document the Bank relies on as a summary statement of all the information required to process and underwrite a borrower’s loan request. This document includes basic personal information about the borrower(s), the property to be purchased or refinanced, employment and income information, and information about the borrower’s bank, investment and retirement accounts (assets) and amounts owed to others (liabilities.) The fastest and easiest way to complete the application is by applying on line at www.institutionforsavingsloans.com. You will be asked to provide supporting documentation for most of the items included on the application, like copies of pay stubs and bank statements. Our online application process allows you to provide supporting documentation to us electronically if so desired.

Appraisal: A valuation report prepared by an independent third-party professional hired by the Bank to determine the fair market value of real estate to be purchased or refinanced. The cost of the Appraisal is included in the Closing Costs discussed below.

Closing Costs: The expenses, over and above the price of the property, that buyers and sellers normally incur to complete a real estate transaction. The lender is required to disclose the estimated loan related costs in a "Loan Estimate" (LE) which will be provided within three business days after the receipt of a complete home loan application. Prior to closing, you will receive a "Closing Disclosure" (CD) of the actual loan related costs you be required to pay to complete the transaction. The CD will compare the costs to those originally disclosed on the LE. The costs between the two should be similar, and any discrepancies will be explained to you and should be limited to issues that arise between the time you apply for your loan and the actual closing date.

Commitment Letter: This is the document issued by the Bank once it has enough information to make a positive credit decision. Most commitment letters include conditions that need to be satisfied on or before the date of closing. These include standard conditions like evidence of sufficient homeowners and, if applicable, flood insurance, employment and income verifications, and the receipt of an acceptable appraisal. Providing requested documentation during the application process will result in fewer conditions that need to be satisfied before closing. All commitment letters have an expiation date, so it is important to read the letter carefully and respond to any missing or conditional items in a timely manner.

Credit Score: Sometimes referred to as a "FICO" score, this is a numeric indicator of a borrowers historical loan repayment performance, and a predictor of future loan repayment probability based on several factors including, but not limited to, how long accounts have been open, how much open ended or credit card line availability a borrower has, how those lines have been utilized, and how much credit the borrower has applied for recently. Lenders generally obtain a Credit Score from three different credit reporting agencies or "credit bureaus" and use the middle score of the three to determine the Credit Score used for underwriting purposes and loan pricing considerations. If two or more individuals are applying for a loan, the lowest middle score (referred to as the "indicator score") is used for these purposes. The higher your credit score, the less likely you are to be charged additional fees or "points"

Escrow: In some states, loans close "In Escrow". This is not the case in Massachusetts and New Hampshire, the states in which Institution for Savings lends. In most cases we do require the establishment of an "Escrow Account" at closing for the payment of future real estate taxes. The amount to fund this account varies based on the due date of the next scheduled real estate tax bill, and the "cushion" required to make certain funds are available to satisfy that payment and future tax increases. IFS requires that you maintain a one month "cushion" in your escrow account for these future increases. Most lenders require a two-month cushion, and this is one way you can save on your overall closing costs with an IFS mortgage loan. You will be provided with an "Initial Escrow Disclosure Statement" at closing that outlines your monthly escrow payment requirements and the timing of tax payments to your city or town. Each May thereafter you will receive an accounting of your monthly escrow payments and the Bank's tax payment disbursements. It is important to review this information carefully as any increase in real estate taxes may increase your overall monthly payment. IFS also requires that you maintain an escrow account if you are required to pay "Private Mortgage Insurance", Flood Insurance and/or we require a Homeowners Insurance escrow account. In those instances, the accounting for these items will be included in your initial and annual Escrow Disclosure Statement.

Fixed Rate Mortgage: A mortgage loan that has a fixed interest rate and a fixed monthly payment of principal and interest for the entire term of the loan.

Flood Insurance: Fortunately, most real estate is not located in a special flood hazard zone as defined by the Federal Emergency Management Agency (FEMA) but if it is, or is "mapped" into one of those zones in the future, Federal law requires that as long as you have a mortgage on the property with a federally insured institution like a bank or a credit union, you are required to obtain and pay for flood insurance. Flood Insurance can be expensive so you should check to see if the property you are considering is in a flood zone. Flood maps change so you should not necessarily rely on information provided by the seller or your real estate broker. One of the best ways to check for yourself when considering a property is to consult the FEMA Flood Map Service Center website and follow the links.

Interest Rate: Not to be confused with the Annual Percentage Rate or APR, this is the actual rate your monthly loan payments will be based on.

Loan-to-Value (LTV) Ratio: An assessment of lending risk that financial institutions and other lenders examine before approving a mortgage. The LTV ratio is calculated by dividing the mortgage amount by the appraised property value. Loans with higher ratios may also be subject to additional fees and points, especially for those borrowers with lower credit scores. Additionally, a loan with a LTV ratio higher than 80% generally requires the borrower to purchase mortgage insurance to offset the risk to the lender.

Mortgage: A document signed by the borrowers giving the bank a lien (security interest) in the real estate being purchased or refinanced to secure the Note signed by the borrowers at closing promising to repay the loan. The Mortgage is subsequently recorded at the local registry of deeds to perfect the bank's security interest and to put other potential lenders on notice that a lien already exists on the property. The Mortgage, along with the Note, gives the Bank certain legal rights to foreclose on the property in the event the borrowers do not make payments or otherwise violate the mortgage covenants.

Mortgage Insurance: Commonly referred to as "PMI" or Private Mortgage Insurance, this is a policy that helps protect the bank from loss in the event of foreclosure and is required when a borrower's down payment is less than 20% of the lower of the purchase price or appraised value of the real estate securing the loan. The cost of this insurance is included with the borrower's monthly payment. The amount of this payment is based on both the LTV ratio at closing and the borrower's credit score. Provided certain repayment conditions are satisfied, the insurance and it monthly premium are automatically cancelled when the LTV, based on the original loan amount and appraisal, reaches 78%.

Origination Fee: An upfront fee charged by a lender for processing a new loan application. Origination fees are compensation for putting the loan in place and are quoted as a percentage of the total loan (generally between 0.5% and 1% on mortgage loans in the United States).

Pre-Qualification: An assessment, based on information a borrower discloses about their income, assets, liabilities (debt) and credit history of how much the Bank is willing to lend, contingent upon verifying all information disclosed, a satisfactory credit report and, once a property is under agreement, a satisfactory appraisal. Upon the completion of the Pre-Qualification process, IFS will issue a Pre-Qualification letter, good for up to 60 days that you can show to real estate brokers and potential sellers. While a Pre-qualification is not a commitment to lend, it is a good indication of the likelihood that upon the receipt of a completed application a loan commitment will be forthcoming.

Principal: The original sum of money that you borrow, and the remaining balance of your loan after each payment is made, less any accrued interest and escrow payments due.

Rate Lock: An agreement between a borrower and a lender that allows the borrower to lock in the interest rate on a mortgage for a specified time period at the prevailing market interest rate. A rate lock provides the borrower with protection against a rise in interest rates during the lock period. Generally, IFS locks interest rates for 60 days from the date we issue a Loan Estimate (LE).

Underwriting: The review and evaluation of your loan application and all supporting documents. The underwriter examines your ability to repay the loan, focusing on your income, length and stability of employment, and other sources of repayment if applicable (interest and dividends, child support, retirement etc.) compared to your overall housing and other loan payments to determine an acceptable debt to income ratio, your willingness to pay (your credit history) and the sufficiency of the collateral securing the loan (review of the real estate appraisal) in the event of a foreclosure.

Questions? Call the Residential Lending Center at 978-462-2344 or email us at info@institutionforsavings.com.