

Mortgage Terms Glossary

Adjustable-rate Mortgage (ARM): A mortgage loan with an interest rate subject to change over the term of the loan. The interest rate is tied to the performance of a specified market rate, such as the cost of funds index calculated by the 11th District of the Federal Home Loan Bank Board, or the yields on one-year or six-month U.S. Treasury securities. Read [More...](#)

Amortization: The paying down of principal over time. In a typical mortgage loan, the principal is scheduled to be paid off, or fully amortized, over the term of the loan.

Average Hourly Earnings: A monthly reading by the Bureau of Labor Statistics of the earnings of hourly plant and nonsupervisory workers in the private sector. While the AHE excludes salaried workers (unlike the employment cost index), it is available each month with only a brief lag. Released by BLS as part of the Employment Situation release, the report is generally issued on the first Friday of the month for the prior month.

Basis Point: One one-hundredth of a percentage point. For example, if mortgage rates fall from 7.50% to 7.47%, then they've declined 3 basis points. A full percentage point is 100 basis points.

Cash-out Refi: A refinancing of a mortgage in which the new principal (the borrowed amount) exceeds the outstanding principal of the original loan by at least 5%. In other words, the homeowner is taking equity out of the home. Of the mortgages it owned that were refinanced during the first three quarters of 2000, Freddie Mac estimates that more than 4 out every 5 were cash-out refis.

Conforming Mortgage Loan: Any mortgage loan that's at or below the amount that Fannie Mae and Freddie Mac can purchase and/or securitize in the secondary mortgage market. The current loan limit is up to and including \$417,000 in the continental United States (Alaska and Hawaii limits are higher).

Construction Loan: A temporary loan that is used to pay for the building of a house.

Consumer Confidence Index: A measure of confidence that households have in the economy. Released by the Conference Board late in the month.

Consumer Price Index (CPI): A measurement of the average change in prices paid by consumers of a fixed market basket of a wide variety of goods and services. The broadest, and most quoted, CPI figure reflects the average change in the prices paid by urban consumers (about 80% of the U.S. population). The so-called "core CPI" excludes the volatile food and energy sectors in an attempt to determine the underlying rate of inflation. Strictly speaking, the CPI is not a "cost of living" index because its fixed market basket does not allow for the substitution of goods and services due to price changes. The CPI is released by the Bureau of Labor Statistics in mid-month for the previous month.

Conventional Mortgage Loan: Any mortgage loan not guaranteed or insured by the government (typically through FHA or VA programs).

Credit Report: A report of borrowing and repayment history for an individual or entity.

Credit Score: A number based on an individual's credit report that indicates overall credit risk.

Employment (Payroll): The number of nonfarm employees on the payrolls of more than 500 private and public industries. Generally issued on the first Friday of the month for the previous month by the Bureau of Labor Statistics, and one of the most watched economic indicators in the financial markets.

Employment Cost Index: A quarterly index used to gauge the change in the cost of civilian labor. Unlike the average hourly earning measure, the ECI includes salaried workers. Another advantage of the ECI is that changes in the index are independent of shifts in the composition of the workforce (that is, the index is not affected by, say, a surge in the number of lower-paying jobs relative to high-paying jobs because it uses fixed employment weights. Instead, the ECI reflects the change in the employment costs of the same set of jobs). The index has two major components: the wage and salary series and the benefits series. The survey is conducted during pay period including the 12th day of March, June, September and December. The Bureau of Labor Statistics releases the results about six to seven weeks after the survey period. The less comprehensive average hourly earnings figure is a more timely indicator, as it's released monthly, usually within a week after month's end.

Existing Home Sales: Based on the number of closings during a particular month. Because of the one-to-two month period between a signed purchase contract and a closing, existing home sales are more influenced by mortgage rates a

month or two earlier than the prevailing mortgage rate during the month of closing. New homes sold, on the other hand, are counted when the purchase contract is signed. The reported figure is generally a seasonally adjusted, annual rate. Data are released by the National Association of REALTORS® on the 25th of each month (or the following business day) for the previous month.

Fannie Mae and Freddie Mac: The nation's two federally chartered and stockholder-owned mortgage finance companies. Forbidden by their charters from originating loans (that is, from providing mortgage loans on a retail basis), these two Government-Sponsored Enterprises (GSEs) purchase and/or securitize mortgage loans made by others. Due to their directive to serve low-, moderate-, and middle-income families, the GSEs have loan limits on the purchase or securitization of mortgages (in 2001, the conforming loan limit is \$275,000). The difference between these two entities often comes down to size (Fannie's larger), business strategy and execution.

Federal Funds Rate: Also known as the fed funds rate, this is the rate that banks charge each other on overnight loans made between them. These loans are generally made so that bank can cover their daily cash flow and reserve requirements. As the rate rises, banks have an increased incentive to keep more of their own cash on hand - making less money available to lend out to households and businesses. The Fed doesn't actually set the fed funds rate, which is determined by supply and demand of the funds; instead, it sets a target rate and, through its own purchases or sales of securities, affects the supply of funds.

Federal Open Market Committee (FOMC): The arm of the Federal Reserve that sets monetary policy, the FOMC is scheduled to meet eight times a year. The 12 members of the FOMC include the seven governors of the Federal Reserve System, the president of the New York Federal Reserve Bank, and, on a rotating basis, four of the presidents of the other 11 regional Federal Reserve Banks.

Fixed-rate Mortgage (FRM): A mortgage loan with an interest rate that does not change over the term of the loan.

Freddie Mac: See entry for Fannie Mae.

Gross Domestic Product (GDP): The value of all the final goods and services produced in the U.S. over a particular period. Available from the Bureau of Economic Analysis toward the end of the first month following the end of a quarter, and revised in each of the following two months. Growth in inflation-adjusted GDP, or real GDP, is the figure most often quoted. The GDP figures before adjustment for inflation are known as nominal GDP.

Home Equity: The difference between the current value of the house and the amount of money owed on the mortgage. [Read more...](#)

Home Equity Line of Credit: A type of home loan that allows you to borrow money as you need it.

Home Equity Loan: A loan that is secured by a home and limited by the market value of the home among other factors. [Read more...](#)

Home Improvement Loan: Money lent to a property owner for home repairs and remodeling.

Home Loan: Money provided by a bank or lending institution to pay for a home.

Homeownership Rate: The number of households residing in their own home divided by the total number of households. Late in the month following the end of each quarter, the U.S. Census Bureau releases an estimate based on a quarterly survey. A record homeownership rate of 67.6% was reached in the fourth quarter of 2000.

House Price Index: A quarterly measure of the change in single-family house prices. The HPI is a repeat sales index, meaning that it measures average price changes in repeat sales or refinancings on the same properties, and is based on mortgages purchased or securitized by Fannie Mae and Freddie Mac. Homes with mortgages above the Fannie/Freddie conforming loan limit (in 2001, it's \$275,000) are not included in the sampling, nor are homes insured or guaranteed by the FHA, VA or other federal government entity. This index is distinct from the similarly constructed Conventional Mortgage Home Price Index published by Freddie Mac. Indexes are available for the nation, nine Census regions, each of the 50 states and the District of Columbia, and 329 Metropolitan Statistical Areas (MSAs). Released by the Office of Federal Housing Enterprise Oversight (OFHEO) on the first business days of March, June, September and December for the previous quarter.

Housing Starts: The Census Bureau's monthly count of the number of private residential structures on which construction has started. Data for a particular month is released about two weeks into the following month. Data on permits issued is also released. The reported figure is generally a seasonally adjusted, annual rate.

Interest Rate: A measure of the cost of borrowing.

Jumbo Mortgage Loan: A mortgage loan for an amount exceeding the Fannie Mae and Freddie Mac loan limit. Currently, a Jumbo loan is a loan for \$417,001 or more in the continental United States (Alaska and Hawaii limits are higher). Because the two agencies can't purchase the loan from the lender, jumbo loans carry higher interest rates, generally about a quarter of a percentage point.

Loan-to-value Ratio (LTV): In a mortgage loan, the amount borrowed relative to the value of the property. An LTV of 80% means that the mortgage loan is for 80% of the value of the property, with the borrower making a 20% downpayment.

Mean Home Price (of New or Existing Homes Sold): The mathematical average of the prices of all homes sold in the period. The mean price of homes sold generally runs higher than the median price due to the number of very high-priced homes. The National Association of REALTORS® usually releases home price figures for existing homes sold on the 25th of the month for the previous month; corresponding figures for new homes are released a few days later by the Bureau of Census.

Median Home Price (of New or Existing Homes Sold): Of all the homes sold during the particular period, precisely half sold for more than the median price, and half sold for less. When determining the median, only one home price matters - that of the home in the middle. Because homes sold for exceedingly low or high values only count as one unit when determining the median - i.e., their values don't matter - median home prices are generally a better indicator of home price trends than mean, or average, home prices (where all the values matter). The National Association of REALTORS® usually releases home price figures for existing homes sold on the 25th of the month for the previous month; corresponding figures for new homes are released a few days later by the U.S. Census Bureau.

Mortgage: A loan that is secured by real estate. Read more...

Mortgage Application Index: Purchase: An index published weekly by the Mortgage Bankers Association of America which gauges the number of applications submitted for the purchase of a home. The survey covers about 40% of all retail residential mortgage transactions and is released every Wednesday for the week ending the previous Friday.

Mortgage Application Index: Refinance: An index published weekly by the Mortgage Bankers Association of America which gauges the number of applications submitted for the refinancing of a home. The survey covers about 40% of all retail residential mortgage transactions and is released every Wednesday for the week ending the previous Friday.

Mortgage Broker: A person or company that brings borrowers and lenders together

Mortgage Calculator: An online form that shows how much a borrower will pay each month for a home loan.

Mortgage Loan: Money lent for the purpose of buying real estate.

Mortgage Quote: An interest rate offered on a home loan.

Mortgage Rate: The amount of interest charged on money lent for the purchase of a home.

Mortgage Refinancing: Getting a new home loan and using the proceeds to pay off an existing home loan on the same property.

New Home Sales: The Census Bureau surveys builders nationwide and bases their figure on the number of contracts signed for new homes. Because it reflects contracts rather than closings (as is the case with existing home sales), new homes sold should more quickly reflect changes in mortgage rates and the economic environment. The reported figure is generally a seasonally adjusted, annual rate.

Producer Price Index (PPI): A measurement of the average change in the selling prices of goods and services sold by domestic producers, and therefore an indicator of inflation. The most quoted PPI figure is the change in the prices of finished goods, that is, goods that are ready for sale to the final user (either households, businesses or governments). The so-called "core PPI" reflects the changes in price of finished goods excluding food and energy. The finished-good PPI and the Consumer Price Index differ due to the latter's inclusion of distribution costs, sales taxes, and government subsidies, as well as the types of products covered. The PPI is released by the Bureau of Labor Statistics in mid-month for the previous month.

Productivity: The measure of output per hour, and one of the most critical indicators of an economy's long-term health. Unfortunately, it's also very tricky to measure, especially in the services industries. Growth in productivity allows wages to rise while prices remain stable. The Bureau of Labor Statistics publishes quarterly productivity figures eight times a year (including revisions).

Refinance: Acquire a new loan to pay off an existing loan on the same house.

Second Mortgage: A mortgage on real estate which has already been pledged as collateral against another mortgage. Read more...

Securitization: The pooling of mortgage loans into a mortgage-backed security. The principal and interest payments from the individual mortgages are paid out to the holders of the MBS security.

Underwriting: The determination of the risk a lender would assume if a particular mortgage loan application is approved. Ability and willingness to abide by the mortgage loan terms, as well as the value of the property involved, are critical to the underwriting analysis.

Unemployment Rate: The percentage of the labor force out of work. To be considered a member of the labor force, an individual must either be employed or actively looking for employment (so those without jobs who are not looking for work are not, technically, unemployed). Released by the Bureau of Labor