

Negative Amortization: Occurs when monthly payments fail to cover the cost of the interest on a loan. The interest that is not covered is added to the unpaid principal balance, meaning that even after making several payments the borrower could owe more than at the beginning of the loan. Negative amortization may occur when an ARM has a payment cap that results in monthly payments that are not high enough to cover the interest.

Origination Fee: A fee or charge for work involved in evaluating, preparing and submitting a proposed mortgage loan. The fee is limited to 1% for FHA and VA loans.

PITI: The term for a mortgage payment that includes principal (P), interest (I), taxes (T) and insurance (I).

Planned Unit Development (PUD): A zoning designation for property developed at the same or slightly greater overall density than conventional development, often with improvements clustered between open or common areas. Use may be residential, commercial or industrial.

Point: An amount equal to 1% of the principal amount of the investment or note.

Pre-Approval: When a borrower has completed a loan application and provided debt, income and savings documentation which an underwriter has reviewed and approved. A pre-approval is usually done at a certain loan amount and makes assumptions about what the interest rate will actually be at the time the loan is made, as well as estimates for the amount that will be paid for property taxes, insurance, etc.

Prepayment Penalty or Clause: A fee charged to a borrower who pays a loan in full before the stated due date.

Private Mortgage Insurance (PMI): Insurance written by private companies to protect the lender against loss if the borrower defaults on the mortgage. PMI is often required on mortgage loans in which less than 20% has been put forth for the down payment. Depending on the conditions of the mortgage, the borrower may request cancellation of PMI when equity in the property reaches 20%.

Purchase Agreement: A written document in which the purchaser agrees to buy certain real estate and the seller agrees to sell under stated terms and conditions. Also called a sales contract, earnest money contract or agreement for sale.

Rate Gap: The difference between the current rate and the rate to which it could adjust on an ARM.

REALTOR®: A real estate broker or sales associate active in a local real estate board affiliated with the National Association of REALTORS®.

Recording Fee: Charged by the County Clerk to record documents in the public records.

Refinance: A new loan with new terms, interest rates and monthly payments that completely replaces your current mortgage.

Regulation Z: The set of rules governing consumer lending issued by the Federal Reserve Board of Governors in accordance with the Consumer Protection Act.

Short Sale: The sale of a home for less than the balance remaining on the homeowner's mortgage.

Tenancy in Common: A type of joint ownership of property by two or more persons with no right of survivorship.

Title: The rights of ownership recognized and protected by law. It is a combination of all elements that constitute the highest legal right to own, possess, use, control, enjoy, transfer and dispose of real estate.