GLOSSARY OF TERMS

Ability to Repay (ATR)
The Ability-to-Repay rule protects consumers from taking on mortgages that exceed their financial means, by mandating the documentation / proof of income and assets. The rule requires that you make a reasonable, good-faith determination before or when you consummate a mortgage loan that the consumer has a reasonable ability to repay the loan
Read more: http://www.qualifiedmortgage.org/ability-to-repay/#ixzz2nHB2Ji5R

ATR Rule of 8
Must consider and verify 8 specific underwriting factors to make a reasonable and good faith determination of ability to repay using reasonably reliable third-party records

1) Borrower's current or reasonably expected income or assets, except for value of the dwelling that secures the loan
2) Borrower's current employment status (assuming creditor relies on employment income in determining repayment ability)
3) Borrower's monthly payment on the covered transaction, calculated in accordance with the ATR final rule
4) Borrower's monthly payment on any simultaneous loan the creditor knows or has reason to know will be made, calculated in accordance with the ATR final rule
5) Borrower's monthly payment for mortgage-related obligations
6) Borrower's current debt obligations, alimony and child support
7) Borrower's monthly debt-to-income ratio (DTI) or residual income, calculated in accordance with the ATR final rule
8) Borrower's credit history

Adverse Action
Either a straight denial by the lender of the terms applied for, or that the applicant does not accept a counteroffer by the lender.

Amortization
Repayment of a debt in regular installments of principal and interest, rather than interest-only payments

Annual Percentage Rate (APR)
In general, APR is expressed as the periodic interest rate including certain non-interest charges and fees times the number of compounding periods in a year. APR includes interest, loan origination points, discount points, prepaid fees, mortgage insurance, and other fees that are required to be paid for credit to be granted. APR does not include appraisal fee, credit report cost and some other third-party fees. The calculation and disclosure of APR is governed by the Truth in Lending Act (which is implemented by the CFPB in Regulation Z).

Application
As defined by RESPA, it requires a minimum of sit items: applicant name, income, social security number (or equivalent), loan amount, property address, property value and other information the loan originator deems necessary.

Assignment
A legal document that transfers mortgage rights from one entity to another.

Average Pricing
An option under RESPA which permits a lender to charge all borrowers in a class of transactions the same amount for one of more settlement services. The charge is based on the average cost of providing the service(s), developed over a one- to six- month period.

Basis point
Is one-hundredth of 1 percent interest; thus 50 basis points equals one-half of 1 percent (.005)

Buydown
Money advanced by an individual (builder, seller or borrower) to reduce the monthly payments for a home mortgage either during the entire term or for an initial period of years.

Conforming mortgage loan
Mortgage that meet all GSE eligibility and underwritten guidelines (Fannie Mae and Freddie Mac only)

Consumer Financial Protection Bureau (CFPB)
The CFPB was created by the Dodd-Frank Act and consolidated the consumer protection responsibilities of a number of existing bureaus, including the Department of Housing and Urban Development, the National Credit Union Administration and the Federal Trade Commission. The CFPB works with regulators to stop business practices that hurt consumers, such as risky lending. In addition to regulatory control, the CFPB provides consumers with access to truthful information about mortgages along with a 24 hour consumer hotline to report issues with financial services.

Convention Loan
A non-government mortgage loan neither insured by FHA nor guaranteed by VA or USDA (HUD)

Credit score
A numerical value that is assigned to a consumer. A credit score is calculated using statistical methods and evaluates a consumer's use and repayment to credit at a given point in time.

Debt/income ratios (DTI)
Underwriting ratios used to qualify mortgage applicants. There common ratio used are for housing expense, total debt and owner-occupant. These monthly payment amounts are divided by monthly income used for qualification.

Dodd-Frank Act
The Dodd-Frank Act is a federal law that places regulation of the financial industry in the hands of the government. The legislation, enacted in 2010, aims to prevent another financial crisis by creating new financial regulatory processes that enforce transparency and accountability while implementing rules for consumer protection. The act created the Consumer Financial Protection Bureau (CFPB), to protect consumers from large, unregulated banks.

Equal Credit Opportunity Act (ECOA)
This was enacted in 1974 and prohibits lenders from discriminating on the basis of race, color, religion, national origin, sex, marital status, age (as long as they are old enough to contract) and so forth. It was

amended by the Dodd-Frank Act to include provisions to provide guarantees that applicants receive important information about their home value estimate.

Federal Home Loan Mortgage Corporations (Freddie Mac)
A private corporation originally authorized by Congress as a government-sponsored enterprise to provide secondary mortgage market support for conventional mortgages. It can buy and can hold all types of loans in its portfolio and also sells participation certificates secured by pools of conventional mortgage loans. Known as Freddie Mac, it incurred massive losses and in 2008 was placed under government conservatorship.

Federal Housing Administration (FHA)
A division of HUD. Its main activity is the insuring of residential mortgage loans made by private lenders. Historically, it developed innovative standards for construction and underwriting. FHA rarely lends money directly or plans or constructs housing.

Federal National Mortgage Association (FNMA; Fannie Mae)
A private corporation originally authorized by Congress as a government-sponsored enterprise to support the secondary mortgage market. It purchases and sells residential mortgages insured by the FHA or guaranteed by the VA as well as conventional loans; also issues mortgage-backed securities. Known as Fannie Mae, it incurred massive losses and in 2008 was placed under government conservatorship.

Government National Mortgage Association (GNMA; Ginnie Mae)
Congress partition FNMA into two corporate entities. GNMA assumed responsibility for the special assistance loan program and the management and liquidation function of the older FNMA. GNMA also administers the mortgage back securities program, which channels new sources of funds into residential financing through the sale of privately issued securities carrying a GNMA guaranty that is protected by the "full faith and credit of the US government." Known as Ginne Mae

GSEs
Government-sponsored enterprises (e.g. Fannie Mae and Freddie Mac)

High-Priced Mortgage Loan (HPML)
Loan with an APR 1.5% in excess of APOR (1st Liens). HPMLs will require an appraisal by a state certified or licensed appraiser, with an interior inspection and disclosure to consumer.

Home Ownership and Equity Protection Act (HOEPA)/High-Cost Mortgage Loans (HCML)
This act protects home buying borrowers when taking high rate and high fee loans for and usually protects consumers from increases in loan interests and fees.
HOEPA is designed to combat abuses in the home lending market and places restrictions on, and requires added disclosures with respect to, certain high-cost mortgage loans.

Loan Originator (LO)
Anyone that in expectation of direct or indirect compensation or other monetary gain performs any of the following:

- Offers, arranges or assists a consumer in obtaining or applying to obtain a loan
- Negotiates or otherwise obtains or makes an extension of consumer credit for another person

- Through advertising or other means of communication represents to the public that the person can or will perform any of the LO activities
- Referring a consumer to a loan originator through directed actions that can affirmatively influence the consumer

Mortgage-backed securities (MBSs)
Bond-type investment securities representing an undivided interest in a pool of mortgages or trust deeds. Income from the underlying mortgage is used to pay off the securities.

Mortgage broker
A firm or individual who solicits and takes a mortgage application then markets it to various lender/investors for a commission. A mortgage broker may also process the application, but does not approve, fund or service loans.

Non-conforming mortgage loan
A loan that does not meet GSE guidelines and is ineligible for sale to Fannie Mae or Freddie Mac. It typically includes government, jumbo, subprime or portfolio loan programs.

Origination
The process of marketing, advertising, taking, processing, underwriting, and closing mortgage applications. Solicitations may be from individual consumers, builders, or real estate brokers. Origination is the process by which the mortgage lender brings into being a mortgage secured by property.

Origination fee
A fee or charge for the work involved in the evaluation, preparations and submission of a proposed mortgage loan. It is defined by Truth in Lending as a finance charge.

PITI
Acronym for Principal, Interest, taxes and insurance – items typically included in the monthly mortgage payment.

Point
An amount equal to 1 percent of the principal amount of an investment or note. Loan discount points are a one-time charge assessed at closing by the lender to lower the borrower's interest rate and/or to increase the yield on the mortgage loan to a competitive position with other types of investments.

Pre-approval
A formal commitment by a lender to an applicant for a period of time for a maximum loan amount. Usually provided to assist the applicant in searching for a property to purchase and many contain other conditions. Pre-approvals are subject to essentially the same compliance regulations as formal written applications.

Prequalification
An informal meeting during which a lender provides a consumer with information on mortgage loan product, procedures, and underwriting guideline. The lender may do limited financial counseling as well, but does not discourage a formal application from being complete or make a credit decision on specific loan request or give such an impression to the consumer.

Prepayment penalty clause
A covenant in the mortgage note that typically imposes the payment of a fee equal to a percentage of the principal balance if the borrower pays the note in full ahead of maturity, usually within the first two or three years.

Primary mortgage market
The market in which lenders originate mortgages by making direct loans to homebuyers.

Qualified Mortgage (QM)
Qualified Mortgages have three types of requirements: restrictions on loan features, points and fees, and underwriting. One of the underwriting requirements under the general definition for Qualified Mortgages is that the borrower's total debt-to-income ratio is not higher than 43 percent. A qualified mortgage is a home loan that meets certain standards set forth by the federal government. Lenders that generate such loans will be presumed to have also met the Ability-to-Repay rule mandated by the Dodd-Frank Act. The qualified mortgage rule, as defined by CFPB, is designed to create safer loans by prohibiting or limiting certain high-risk products and features. You will find a list of those prohibited features below. Lenders that make QM loans will receive some degree of legal protection against borrower lawsuits, either in the form of a safe harbor or rebuttable presumption.

- No interest-only loans.
- No negative-amortization loans.
- No terms beyond 30 years.
- No balloon loans, but smaller lenders in 'rural or underserved areas' may still make such loans.

Recourse
The right of a party to remedy a transaction if in default. In mortgage lending, an investor's right to seek compensation from or repurchase by the lender for a loan sold and later determined to be in violation of the selling agreement or the terms of the loan sale commitment.

Secure and Fair Enforcement for Mortgage Licensing Act (SAFE Act)
"Secure and Fair Enforcement for Mortgage Licensing Act" required all states to implement a Mortgage Loan licensing and registration system. States can operate their own systems, subject to stringent federal standards, or they can participate in the Nationwide Mortgage Licensing System. If the state's licensing and registration program does not meet minimum standards at any time, the U.S. Department of Housing and Urban Development (HUD) is empowered to step in and impose a compliant system upon the state. The SAFE Act was intended to provide uniform licensing standards nationwide and create a comprehensive licensing database so that all relevant information on MLOs will be centralized and publicly available.

Secondary mortgage market
A market in which existing or newly-originated mortgages are bought and sold between lenders and investors. It contrasts with the primary mortgage market, in which mortgages are originated between lender and borrower.

Small Creditor QM
A new QM category for certain non-balloon payment loans made by small creditors and either held for at least 3 years or transferred to another small creditor. Small creditor QMs must meet general QM requirements for loan features and points & fees and must evaluate DTI or residual income, but are not required to meet 43% DTI or comply with Appendix Q. SCQM shifts safe harbor & rebuttable presumption threshold to 3.5 percentage points above APOR for both small creditor balloon & portfolio QMs

Table Funding
A financing technique that occurs when a mortgage broker or mortgage banker (or MH retailer) closes a mortgage loan with funds belonging to an acquiring lender and immediately assigns the loan to that lender. This activity gives the mortgage broker the opportunity to say it is a direct lender since it can close loans with its own funds.

Temporary Qualified Mortgage
Temporarily (7 years), certain loans that are eligible for sale or guarantee by a government-sponsored enterprise (GSE) – the Federal National Mortgage Association (Fannie Mae) or the Federal Home Loan Mortgage Corporation (Freddie Mac) – or are eligible under specified federal agencies' guarantee or insurance programs will be considered Qualified Mortgages under a temporary definition. The loans must meet certain QM restrictions on loan features and points and fees, but they are not subject to a flat 43 percent DTI limit.

Underwriting
The process of evaluating a loan application to determine the risk involved for the lender. Establishing whether the risk is worth taking.

Uniform Standards of Professional Appraisal Practice
Sets the guidelines by which the appraiser completes this or any other appraiser

VA mortgage
A mortgage that is guaranteed by the Department of Veterans Affairs (VA)

Warehousing
The practice of holding of a mortgage on a short-term basis pending either a sale to an investor or other long-term financing. These mortgages may be used as collateral security with a bank to borrow additional funds. A builder warehouses mortgages when it takes back a mortgage from a homebuyer and holds the mortgage for a time period.