UT PL 34 Loan Programs Study Guide

Term	
amortization	Breaks down each payment into what is going towards interest and what goes towards principal.
ARM	Adjustable Rate Mortgage. Within a set term, the interest and monthly payment are fixed. After that time, they can fluctuate.
assumption	A loan (such as an FHA loan) that can be taken over by a home buyer at the same interest rate, if they qualify for it. This lower interest rate can be marketable when selling a home.
blanket loan	Typically only used by builders, to use a large chunk of land (i.e. when purchasing a subdivision).
bridge, gap, or swing loan	A shorter term loan, between 6 and 12 months. A buyer with substantial equity in an existing home can finance that home as a bridge loan and use that money to purchase a new home as a cash buyer. Typically done through a bank or credit union.
compound interest	A form of interest that is the addition of interest to the principal sum of the loan as a result of reinvesting the interest rather than paying it out.
construction loan	A loan taken out when the buyer already owns the land and wants to build on it. The loan-to-value requirements are a bit more strict: a larger down payment of 25-30% is typically required. There needs to be a strong relationship between the bank and the builder.
conventional loan	The most common type of loan. Not insured by FHA or VA. Also known as a conforming loan, which means it conforms to Freddie Mac or Fannie Mae standards. Certain criteria must be met: credit score, debt to income ratio, loan to value ratio (down payment), work history, etc. Each county has its own loan limit (for example, $424,100 in Utah County).
discount points	Fees paid directly to the lender at closing in exchange for a reduced interest rate. One point costs 1 percent of your mortgage amount.
FHA loan	A Federal Housing Administration loan. The property guidelines are more strict: actual property purchased and quality of it. The borrower's qualifications are more lenient: credit scores, low down payments, debt-to-income ratio. These loans require at least 3.5% down, and they are assumable.
first lien position	Also known as a senior lien, this the highest priority debt in the case of default. If a property or other type of collateral is used to back a debt, first lien debt holders are paid before all other debt holders.
forward mortgage	A traditional mortgage, amortized over a certain period of time and paid off in monthly payments in a specific term. Typically just known as a mortgage.
funding fee	A term unique to VA loans. This is similar to an up-front mortgage premium and a cost in addition to the loan. It can be financed. The purpose is to ensure the program's continuation.
guarantee fee	A payment that is part of a USDA loan, similar to UFMIP or a funding fee.
HELOC	Home Equity Line of Credit. Equity can be pulled from a home as a loan. It is typically in a second lien position.
mortgage insurance	A type of insurance required of a buyer when a down payment of less than 20% is made.
mortgagee	The lender in a mortgage, typically a bank.
mortgagor	The borrower in a mortgage, typically a homeowner.
NOV	Notice of Value, an appraisal used for VA loans. The property must qualify to be eligible for a VA loan.

package loan	A loan that includes the real property purchased and anything else on the property (such as appliances, furniture, and personal appliances).
PITI	Stands for Principal, Interest, Taxes, Insurance. This gives the borrower a full picture of what their entire payment is going to be. The purpose is to ensure that buyers know what costs to expect. This does not include mortgage insurance, which is separate from home insurance, or HOA fees.
prepayment penalty	An extra fee charged to a borrower when a loan is paid off before the term of the loan. Less common than it once was.
purchase money mortgage	Also known as seller financing. When the buyer cannot qualify for their own loan, the seller would finance the loan. The buyer would then pay the seller on a monthly basis.
reverse annuity	This is another term for a reverse mortgage.
reverse mortgage	Instead of paying towards a home monthly, the homeowner pulls money monthly from equity in a home. You must be 62 or older to do this.
second lien position	Also known as a junior lien, this is a loan you take out using your house as collateral while you still have another loan secured by your house. Home equity loans and home equity lines of credit (HELOCs) are common examples of second mortgages.
shared appreciation	A mortgage is arranged as a form of equity release. The lender lends the borrower a capital sum in exchange for a share of the future increase in the growth of the property.
simple interest	A form of interest that is calculated on a daily basis.
UFMIP	Up-Front Mortgage Insurance Premium. This is used on an FHA loan. This is a premium added on top of the loan amount but can be financed. The purpose is to insure FHA against defaults.
USDA loan	A loan for a home that must be in a rural location, as determined by USDA. Each county has an income limit, such that a borrower must make less than the income limit to qualify, based on household size. This loan has no money down and a low interest rate, but a guarantee fee is charged.
VA loan	A loan with no monthly mortgage insurance and no money down. The interest rate is low. Only qualified veterans can qualify for this type of loan. The debt-to-income ratio requirements are more lenient than a conventional loan. A VA loan is insured by the US Department of Veteran's Affairs. Some additional information must be collected when applying, such as the veteran's Certificate of Eligibility. Any condos such a loan would be used for must be approved by the VA. Multi-family homes can qualify as long as the borrower lives in one of them.
wraparound	A form of secondary financing for the purchase of real property. The seller extends to the buyer a junior, or second, mortgage which wraps around and exists in addition to any superior mortgages already existent on the property.

Concept

Loans Intended for Residency	FHA and VA loans are intended for home ownership and primary residences rather than as vehicles for investment properties. The borrower must intend to live in the property for at least 12 months.
Real Estate Professionals and Interest Rates	Do not make blanket statements to a buyer about what is "always" the best type of loan to get. Each client has a different financial picture. Do not quote interest rates!