

# **FIXED INTEREST RATE MORTGAGE LOANS**

**Capital Markets:** **Financial** and **Securities Markets**, including the **Mortgage Market**.

**Loan Availability:** **Economic Growth** prospects (global, national and local), expected **Inflation**, and other **Risks** all affect the supply and cost of **Mortgage** funds.

**Lenders as Intermediaries:** Most **Real Estate Lenders** sell the **Loans** they **Originate** into the **Secondary Mortgage Market** rather than holding the **Loans** to **Maturity**.

**Loan Pricing:** The **Interest Rate**, any **Fees**, **Points** and **Costs** charged by the **Lender**, and the **Loan Terms** (including any **Prepayment Penalties**).

**Real Interest Rate:** The nominal or contract **Interest Rate** minus expected **Inflation**.

**Risk Adjusted Return:** Expected investment **Return** relative to the perceived **Risk**.

**Amortization:** The process of **Repaying** the **Principal Balance** of a **Loan** over time.

**Balloon Payment:** The **Principal Balance** of the **Loan** due on the **Maturity Date**.

**Pay Rate vs. Accrual Rate:** Is the actual monthly mortgage **Payment** that is made by a **Borrower** at least equal to the **Accrued Interest** amount then due on the **Loan**?

**Constant Payment Mortgage:** When each monthly **Payment** is the same, the **Loan** will be **Fully Amortizing**, **Partially Amortizing**, **Interest Only** or **Negative Amortizing**.

**Constant Amortization Mortgage:** When each **Payment** includes a fixed amount of **Principal** repayment, with the monthly **Payment** and **Interest** amounts declining.

**Reverse Annuity Mortgage:** The **Lender** sends fixed monthly checks to the **Borrower** who must pay the accumulated **Principal** and accrued **Interest** on the **Maturity Date**.

**Loan Fees and Costs:** **Origination Fees** (for loan underwriting and processing), **Appraisal** and **Credit Report**. **Loan Fees** and **Points** increase the **Lender's Yield**.

**Annual Percentage Rate (APR):** Provides **Disclosure** regarding the effects of **Loan Fees**, **Points** and **Costs** on **Residential Loans** (assumes the **Loan** is held to **Maturity**).

**Truth-in-Lending Act:** **Federal Reserve Regulation Z** requires **Lenders** to include in **APR** calculations all **Loan Fees**, **Points** and **Costs**, but not any **Prepayment Penalties**.

**Prepayment Penalties:** Increase the **Effective Yield** to the **Lender**, are subject to **Negotiation** and are not reflected in the **APR** of a **Loan**. If a **Prepayment Penalty** is paid, the **Effective Yield** to the **Lender** will be higher if the **Loan** is repaid earlier.

**Effective Annual Interest Rate:** **Calculation** that considers all **Loan Fees**, **Points** and **Costs** and any **Prepayment Penalties** actually paid, and is therefore affected by the amount of **Time** the **Loan** is held until **Repayment**.