DEFINITIONS

Points

The term "points" customarily refers to the commission, or origination fee, charged by the mortgage broker or the loan fee charged by the lender when the loan is made. Each point is 1 percent of the loan amount. On a $100,000 loan, one point is $1,000 and 10 points is a charge of $10,000. The amount of points charged is not usually set by law. You may wish to shop for a mortgage broker or lender who charges fewer points. You may also be able to negotiate for lower points. Asking about points before you choose a mortgage broker or lender may save you money. You should be aware, however, that a loan portrayed as a "no point" or "zero point" loan may have a higher interest rate than a loan for which points must be paid; therefore, it is important to compare the points, costs, and interest rates in order to decide which loan is best for you. And remember, there is no such thing as a "no cost" loan. Points can also be paid by the borrower to obtain a lower interest rate. These are referred to as "discount points" and are different than the points charged by the broker or lender as origination fees.

Rate Sheet

A term used to describe how lenders communicate (electronically or by fax) the interest rates, terms, and costs of loan products available to mortgage brokers. Interest rates can change several times a day. Each lender provides its approved mortgage brokers with the current rate sheet for its loan products.

Par Loan

The interest rate at which the borrower pays no discount points and the lender pays no rebate to the broker for delivering the loan to the lender.

Yield Spread Premium (Also Known as a Lender Rebate)

The rate at which a mortgage broker is compensated for the difference between the interest rate on a par loan and the interest rate on an above-par loan that a broker can deliver to the lender. This is expressed in the number of points paid to a broker. A broker receives payment of the premium, the lender obtains a higher than par interest rate, and the borrower pays for the premium over the entire life of the loan through that higher interest rate and payments. For example, if the interest rate on a par loan is 7 percent and the mortgage broker can deliver a 7.5 percent loan to the lender, the lender may be offering to pay the mortgage broker a rebate of two points or 2 percent of the loan value. For a $100,000 loan, the broker would be paid a $2,000 yield spread premium by the lender and the borrower would have to pay a higher interest rate over the life of the loan. On the adjustable rate mortgage (ARM) loans, a higher "margin" can result in a rebate from the lender to the broker. The "margin" is a component of the interest rate calculation on ARM loans. A higher margin results in a higher interest rate to the lender and therefore can generate a rebate to the broker. Always ask your broker if rebate pricing is involved on your loan, as a broker must disclose any rebate he or she is to receive in connection with your loan to you. Note that for federally related mortgage loans, the yield spread premium must be credited back to the borrower and cannot be retained by the broker. Ask if any portion of the rebate will be used by the broker to offset your closing costs.

Service Release Premium

This is another form of compensation that a lender may pay to a broker for delivering a loan. Each loan comes with "servicing rights," which are the rights to collect the mortgage payments. Servicing rights can be sold independently of the actual mortgage. Some lenders pay mortgage brokers a "service release premium," expressed as points, when the mortgage broker delivers the lender a loan. Always ask your broker if a service release premium is involved on your loan; a broker must disclose any service release premium they are to receive in connection with your loan to you.

Loan Pre-Approval

Mortgage brokers will obtain pre-approval for a loan based on preliminary information supplied by the borrowers. THIS IS NOT A LOAN APPROVAL. Loan approval only takes place after all required information has been reviewed and approved by the lender's underwriter. Loan approvals may also contain conditions that the borrower must meet prior to the loan funding.

Loan Lock

The interest rate on your loan can either be locked or floating. If you choose to obtain a loan lock, the mortgage broker will "lock in" an interest rate at the time you request the lock. This lock is for a given period of time. Always ask your broker for the length of time the interest rate will be locked and if there is any lender charge for locking the interest rate. Always ask for a written lock-in agreement, signed by the mortgage broker, detailing the exact terms of the lock-in.

You may choose to float the interest rate on your loan. This means that the loan's interest rate will be set at the prevailing interest rate for your loan program on the day of closing.

Remember interest rates can change daily and sometimes more than once in a day. You need to talk with your broker to determine the best course of action for you.

Annual Percentage Rate (APR)

The annual percentage rate (APR) of interest includes both the simple interest rate and certain fees, commissions, costs, and expenses. By contrast, the simple interest rate, or note rate, does not include these costs and fees. If a broker or lender quotes an interest rate to you, be sure to ask if that rate is the simple rate or the APR. Use the APR to compare loans that have different simple interest rates, points, and other loan charges. The loan with the higher APR may cost you more over the term of the loan.