Savage Insights

MORTGAGE GLOSSARY

Accelerated Debt Reduction: Paying down the balance of the mortgage faster than the terms of the mortgage program.

Annual Equity Review: A once-yearly comparison of a homeowner's home value, equity, debt, interest rate and mortgage program against the current rates and programs available to determine the right time to borrow equity, refinance, sell, or purchase additional property.

Constant Prepayment Rate (CPR): Established by the Public Securities Association, the CPR assumes increasing prepayment rates for the first 30 months of the lifetime and constant rates for the months thereafter. The standard model works as follows: starting with an annualized prepayment rate of 0% in month 0, the rate increases by 0.2% each month, until it peaks at 6% after 30 months. From the 30th month on, the model assumes an annual "constant prepayment rate" of 6%. (Source: Wikipedia)

Debt Optimization: The process of analyzing and comparing current debt structure to today's best options. The most common strategy is to reposition equity to pay off auto loans and other non-tax preferred debts. This service is recommended annually to reduce mis-consumption of debt.

Equity Management and Optimization: A process of analyze equity to increase liquidity, rate of return and diversification of assets. It is recommended that only the homeowner or the financial planner should recommend this strategy. Most mortgage professionals don't have the expertise to recommend or manage this approach without expert advise from the asset advisor and/or from the homeowners themselves.

Equity Repositioning Analysis (ERA): An ERA allows Mortgage Planners to show homeowners how much money they would save it they "reposition" their equity in another loan structure.

Freedom Account: A bank or investment account, separate from the mortgage, in which the homeowner saves enough money to either pay off the accumulated option ARM debt at the recasting point or to pay down the mortgage faster than the terms of that homeowner's mortgage.

Freedom Payment: The regular continuous payment, monthly or otherwise, the homeowner makes into their freedom account.

Freedom Point: The point in time when a homeowner's assets exceed their debts and when paying off their mortgage becomes a strategic financial planning decision. Traditionally, this was accomplished when homeowners paid off their home—that magic moment of owning their home without a mortgage loan.

Freedom Point Review: A proactive service that analyzes the homeowner's current number of years to achieve their freedom point based on their savings rate and/or their mortgage prepayment trend. It is recommended that homeowners review their freedom point annually.

Fully Indexed or Effective Rate: This interest rate is the sum of the current index rate on an ARM plus the margin.

Index: An indicator that is typically measured by an average of an economic variable over a certain period of time.

Interest-Only Mortgage: An interest-only loan enables a borrower to only pay the interest on the principal balance of a mortgage loan for a set term, leaving the principal balance unchanged. Interest-only loans are popular ways of borrowing money to buy an asset that is unlikely to depreciate much and which can be sold at the end of the loan to repay the capital. For example, second homes or rental properties.

LoanNOW Opportunity: This is a short-term opportunity that a Mortgage Planner can take advantage of quickly that will help them close a loan within the next 30 days.

Life-time Cap: The amount that the interest rate is allowed to increase during the term of the mortgage.

Loan Officer: A certified mortgage originator who transacts a loan with a customer.

Margin: The amount added to the index on an ARM to determine the interest rate at each adjustment. Generally, the index remains fixed over the life of the loan.

Maturity: The period of time over which the loan balance must be paid in full.

Maximum Loan Balance: The maximum amount that the lender will allow the loan amount to increase to. The maximum loan balance is typically a percentage of the original loan amount.

Mortgage Plan: A professional report designed to help homeowners make informed decisions that integrate with their personal financial plan and dollarize the total mortgage cost over time.

Mortgage Planner: A financial professional who is dedicated to helping homeowners make informed mortgage decisions that integrate with their personal financial plan. Mortgage Planners don't sell loans, they change lives.

Mortgage Planning: The process of analyzing a homeowner's debts, assets and equity with the goal of optimizing debts and equity to achieve the homeowner's short-term and long-term financial goals. In summary, to help homeowners reduce the time it takes to reach their freedom point by making intelligent and informed decisions.

Mortgage Program: A specific type of loan program, such as interest-only, 5-year ARM, negative amortization ARM, or traditional 30-year fixed.

Mortgage Review: A monthly service that helps homeowners track their current interest rates and mortgage program compared to the current market conditions.

Mortgage Strategy: A specific strategy of integrating a mortgage program into a personalized financial plan. Examples: a) traditional 30-year fixed rate and accelerated debt reduction; b) interest-only and invest the difference.

Mortgages Under Management: The process of managing your client relationships and their mortgages.

Negative Amortization: The opposite of "Amortization", which means that monthly payments are large enough to pay the interest and reduce the principal on the mortgage. Negative amortization occurs when the monthly payments do not cover all of the interest cost. When negative amortization occurs, the interest cost that is not covered is added to the unpaid principal balance. This means that even after making many payments, the borrower could end up owing more than he or she did at the beginning of the loan. Negative amortization can occur when an ARM has a payment cap that results in monthly payments that are not high enough to cover the interest that is due.

Option ARM: Option ARMs give borrowers the flexibility to make their deferred interest payments monthly, yearly, or over many years for better cash-flow management. The primary benefits are to give borrowers the choice of either deferring their interest to achieve financial goals faster, such as the possibility of reducing the years to reach their Freedom Point—the moment when a homeowner's assets exceed their debts and when paying off their mortgage becomes a strategic financial planning decision—or to help real-estate investors increase their cash flow.

Pay Rate: The interest rate used to calculate the mortgage payment. The pay rate and the interest rate may not be the same.

Payment Cap: The limitation on increases or decreases in the payment amount of an adjustable-rate mortgage. The payment cap is usually 7.5% annually.

RateWatch Report: A monthly or quarterly review of current interest rates and how a client's existing loan rate and program compares. The purpose of a RateWatch analysis is, by looking at the interest rates alongside a homeowner's goals and needs, to determine whether the time is right for a homeowner to refinance.

Pull-Through Rate: Also called the "past client" pull-through rate, it is the percentage of business that comes from past clients. The higher your pull-through rate, the more residual income (or repeat business from past customers) you make.

Recast Point: The date when a homeowner with an option ARM has their minimum monthly payment significantly increased because their principal balance increases to more than 110% of the original amount borrowed. It is highly recommended that option ARM homeowners save money monthly in a freedom account so that the recast point doesn't increase the time it will take them to achieve their freedom point. Many times, a recast can cause the client's payment to increase by as much as 80% to 120%. If homeowners aren't able to increase their savings rate and increase their investment assets, this type of payment shock can be devastating to a homeowner.

Recast Point Review: Part of the annual equity review, the RPR works in conjunction with the freedom point review, taking into account a homeowner's projected recast date and the lump sum payment that will be due at that time, to determine the appropriate point to refinance, and/or to ensure that the homeowner has enough money in their freedom account to pay the recast if they should decide to do so.

Residual Commission: Commissions earned from new loans made to past clients.

Savings Rate: The rate at which the homeowner is setting aside money by investing in a freedom account. The rate should be enough for the homeowner to reduce their freedom point or pay off their lump sum recasting point and continue saving toward their freedom point.

Start Rate (a.k.a. teaser rate): The initial interest rate charged on the loan. This rate typically lasts from one to three months.

Stop Period: Typically, the period in which the lender will no longer allow a payment other than the fully amortized payment.

Suitability: Means the borrower should be able to afford the monthly payment after the recasting point and should be saving the difference in monthly payments between the lowest monthly payment of the option ARM and the traditionally amortized mortgage program. Mortgage Planners help borrowers balance optimization strategies with suitable features and programs.

Term: The period that is used to calculate the monthly mortgage payment. The term is usually the same as the maturity.

Total Cost Analysis: A total cost analysis makes a true loan comparison by showing, side by side, the total cost of each loan option, and not just the monthly payments or interest rate.

Traditional Mortgage: A fixed or variable mortgage set for a certain period of time, such as 30 years, or 15 years.

Unique Experience: This is what a Mortgage Planner gives a customer each and every time they conduct a transaction.