

Glossary & Terms

ACRONYMS

- AHP:** Affordable Housing Program
- AMA:** Acquired Member Asset (FHLBs)
- AMI:** Area median income
- ARM:** Adjustable-rate mortgage
- CIP:** Community Investment Program
- CRA:** Community Reinvestment Act
- DTI:** Debt-to-income ratio
- DU:** Desktop Underwriter® (Fannie Mae)
- FDIC:** Federal Deposit Insurance Corporation
- FHA:** Federal Housing Administration
- FHFA:** Federal Housing Finance Agency
- FHLBs:** Federal Home Loan Banks
- GSEs:** Government-sponsored enterprises (refers to Fannie Mae and Freddie Mac)
- HUD:** U.S. Department of Housing and Urban Development
- IDA:** Individual development account
- LMI:** Low- and moderate-income
- LLPA:** Loan-level price adjustment
- LTV:** Loan to value
- MBS:** Mortgage-backed security
- MPF:** Mortgage Partnership Finance® Program
- MPP:** Mortgage Purchase Program
- PFI:** Participating Financial Institutions (FHLBs)
- PMI:** Private mortgage insurance
- USDA:** U.S. Department of Agriculture
- VA:** U.S. Department of Veterans Affairs

TERMS

Adjustable-rate mortgage (ARM): A mortgage loan with an interest rate on the note that is periodically adjusted based on an index that reflects the cost to the lender of borrowing on the credit markets. Most ARMs allowed in programs covered in this Guide are hybrid ARMs that have an initial fixed-rate period. ARMs may have restrictions, or cap rates, on the amount of the first, periodic, and lifetime total changes in the interest rate.

Aggregator: An entity that purchases mortgages from financial institutions and typically securitizes them into mortgage-backed securities that are then sold to the secondary mortgage market.

AMA investment grade: This is a determination by the FHLB with respect to an asset or pool, based on documented analysis, including consideration of applicable insurance, credit enhancements, and other sources for repayment on the asset or pool, that the FHLB has a high degree of confidence that it will be paid principal and interest in all material respects, even under reasonable likely adverse changes to expected economic conditions.

AMA program: An FHLB-established program to buy mortgage loans, which may comprise multiple AMA products.

Approved lender: Lenders that apply for and meet requirements established by the entity (i.e., the Federal Housing Administration, U.S. Department of Housing and Urban Development, the U.S. Department of Veterans Affairs, the U.S. Department of Agriculture, and the government-sponsored enterprises) are granted permission to participate in the entity's programs. Approved activities may include origination, underwriting, purchasing, holding, servicing, or selling mortgages. Common eligibility requirements include a

net worth threshold, a checklist of financial statements, and a quality control program.

Approved seller/servicer: An institution approved to sell mortgages to, and to service mortgages purchased by the entity (i.e., Fannie Mae or Freddie Mac). Common eligibility requirements include a net worth threshold, a checklist of financial statements, and a quality control program.

Area loan limits: Entities establish the maximum loan that can be insured, purchased, or guaranteed by the entity or program. Limits are based on median home values at the county level and entities typically update limits annually. For example, the Federal Housing Finance Agency (FHFA) sets “conforming loan limits” for the government-sponsored enterprises, the Federal Housing Administration sets “statutory loan limits” for approved lenders, the U.S. Department of Agriculture has “area loan limits,” and the U.S. Department of Veterans Affairs follows FHFA guidelines.

Basis points: A basis point is one hundredth of 1 percent. That is, one basis point equals 0.01 percent or there are 100 basis points in 1 percent. It is a common unit of measure for interest rates.

Closing costs: Fees incurred by the borrower and/ or seller for costs associated with the closing transaction. Common fees include appraisal fees, tax service provider fees, title insurance, government taxes, and prepaid expenses such as property taxes and homeowner’s insurance. Fees are generally paid up front at closing or the lender may roll them into the mortgage, resulting in higher monthly payments.

Conventional loan: A mortgage that is not insured or guaranteed by a Federal government agency, i.e., the Federal Housing Administration, U.S. Department of Housing and Urban Development, the U.S. Department of Veterans Affairs, the U.S. Department of Agriculture, and the Bureau of Indian Affairs. Conventional loans include both loans that conform to government-sponsored enterprise (GSE) guidelines and those that do not conform. Conventional mortgages delivered to the GSEs are also known as conforming mortgages.

Correspondent lender: A lending institution that originates and funds loans in its own name and then sells them to another lender or investor. The underwriting function in a correspondence relationship

can be carried out by the correspondent or the investor. As a correspondent lender, the originating lender is acting as an extension of the investor. For example, correspondent lenders work with approved seller/servicers to originate government-sponsored enterprise loan products.

Credit enhancement obligation: Mortgage Partnership Finance® Program credit-enhanced products divide mortgage losses on a given master contract between the FHLB and the member. The credit enhancement obligation defines the amount of risk assumed by the member for the realized losses of a specific master commitment. Member credit enhancement obligation funds are applied to losses only after the FHLBs’ first loss account has been depleted.

Down payment: A payment made in cash at the onset of the purchase of an expensive asset. Homebuyers typically pay down payments that equal 5-25 percent of the total value of a home although some federal and GSE programs allow lower down payments.

FICO score: A type of credit score that lenders use to assess a borrower’s credit risk. FICO stands for Fair Isaac Corporation, the company that created the FICO score. Scores are calculated using borrower credit reports and range from 300 to 850. A lower score indicates the borrower has poorer credit, and a higher score indicates the borrower has stronger credit.

First loss account: Mortgage Partnership Finance Program credit-enhanced products divide losses between the FHLB and the member. The first loss account is the amount of risk absorbed by the FHLB from the realized losses of a specific master commitment. FHLB first loss account losses are taken prior to any credit enhancement obligation due from the member.

First mortgage: A mortgage in the first-lien position that has priority over all other liens or claims in the event of default.

Fixed-rate mortgage: The interest rate is defined when the borrower takes out the mortgage and does not change over the loan term.

Ginnie Mae: Short for the Government National Mortgage Association. Ginnie Mae guarantees timely payments on mortgage-backed securities (MBS) backed by federally-insured loans including those

insured by the U.S. Department of Veterans Affairs, Federal Housing Administration, U.S. Department of Agriculture Rural Development, and the U.S. Department of Housing and Urban Development Office of Public and Indian Housing. Ginnie Mae securities are the only MBS guaranteed by the Federal government.

Haircut: The percentage by which the market value of an asset(s) is reduced for the purpose of calculating collateral requirements.

Loan limit: The maximum allowable mortgage amount under a particular program established by the federal agency or government-sponsored enterprise (GSE), generally according to statutory parameters. For example, the Federal Housing Finance Agency (FHFA) sets “conforming loan limits” for the GSEs, the Federal Housing Administration sets “statutory loan limits” for approved lenders, the U.S. Department of Agriculture has “area loan limits,” and the U.S. Department of Veterans Affairs (VA) follows FHFA guidelines.

Loan-to-value (LTV) ratio: A ratio that compares the amount of the first mortgage with the appraised value of the property. It is calculated by dividing the loan amount by the value of the property. The higher the down payment, the lower the LTV.

Low- and moderate-income (LMI) communities: Low-income geographies have a median family income less than 50 percent of the area median income. Moderate-income geographies are those whose median family income is at least 50 percent but less than 80 percent of the area median income. Banks regulated under the Community Reinvestment Act are evaluated on how well they meet the credit needs of low- and moderate-income communities.

Master Commitment: A contractual agreement between the purchaser and seller of mortgages that provides the terms of the sale, including mortgage eligibility requirements and the time period for which the agreement holds.

Mortgage insurance: An insurance policy paid for by the borrower with the lender as beneficiary, in which a third party—the insurer—takes some of the loan-default risk. In the event of foreclosure, the insurer pays a set amount to the lender to cover some or all of the outstanding loan balance. Mortgage insurance

should be distinguished from hazard insurance, which a homeowner purchases to cover losses from, for example, fire or theft.

Participating financial institution (PFI): A member or housing associate of an FHLB that is authorized to sell, credit enhance, or service mortgage loans to or for its own FHLB through an AMA program, or a member or housing associate of another FHLB that has been authorized to sell, credit enhance, or service mortgage loans to or for another FHLB pursuant to an agreement between the FHLB acquiring the AMA product and the FHLB of which the selling institution is a member or housing associate.

Pool: Defined by the FHLBs as a group of loans acquired under one or more loan funding commitments, contractual agreements, or similar arrangements.

Private mortgage insurance (PMI): An insurance policy that protects lenders against loss if a borrower defaults on a conventional loan. PMI is required for government-sponsored enterprise loans with loan-to-value ratios over 80 percent. Purchasing PMI allows the borrower to make a smaller down payment.

Representations and warranties : Assertions that the seller makes in a purchase and sales agreement about the nature of the loan and which in turn form the basis for due diligence. If lenders are found to violate representations and warranties, secondary market entities may force the lender to repurchase the loan or may refuse insurance or guarantee claims. This is a tool for ensuring loan originators comply with the credit terms required by the secondary market entities.

Secondary mortgage market: Market in which previously issued mortgages and mortgage-backed securities are traded among lenders and investors.

Underserved areas: Federal agencies designate defined geographic regions (often specific census tracts) as “underserved” based on median income and minority population levels for purposes of directing federal funds to improve the community or for other purposes, including the assessment of how well Community Reinvestment Act (CRA) regulated lenders are meeting their CRA obligations.