

Terms a borrower may need to know

Here are terms referred to in mortgage lending and the debate over predatory loans:

Points: An upfront fee separate from interest. A point is equal to 1% of loan principal. Three points on a \$100,000 mortgage equal \$3,000.

Equity: Ownership interest in a home. An owner with a house worth \$100,000 and an \$80,000 mortgage has \$20,000 in equity.

Home equity loan: Fixed- or adjustable-rate loan secured by the equity in a home. Can be used for home improvement, to pay off high-cost debt or free up money for investment.

Refinancing: A new loan replacing existing financing. Refinancing activity has been heavy in the past several years as interest rates have fallen. Homeowners who were holding mortgages at 8% interest may have been able to refinance into a 5% loan.

Prime rate: The interest rate banks charge their best customers.

Loan-to-value ratio: Calculated by dividing the total amount of a loan by the appraised value of a property.

Adjustable vs. fixed rate: In a fixed-rate mortgage, the interest rate stays the same over the life of the loan. In an adjustable-rate product, the loan rate — after a set period — can move up or down. Adjustable-rate mortgages are usually pegged to some type of rate index.

Mortgage broker: An individual or firm that matches borrowers with lenders but does not originate or service mortgages. Brokers, who work with a variety of financiers, are charged with finding the best deal for the borrower.

Loan flipping: Repeatedly refinancing a mortgage without benefit to the borrower. Firms that do so profit from high origination fees and closing costs, points and other charges that strip away home equity. Excessive fees and interest rates on single loans, rather than repeated refinancing, can also be considered predatory.

Asset-based lending: Federal law bars "a pattern or practice" of mortgage loans that are based on the value of the property and do not take into account a borrowers' ability to meet loan payments.

Single-premium insurance: Insurance products that are supposed to pay off remaining mortgage debt in the event a borrower dies or becomes incapacitated. In "single premium" policies, premiums are collected upfront and added to the loan balance, increasing the interest and cost.

Prepayment penalties: Fees imposed on borrowers who pay off loans before the set 10-, 15-, 30-year or other loan period. Prepayment penalties are not inherently predatory, but they can be set so high that borrowers cannot refinance into lower-rate products.

Balloon payment: Loans can be structured with lower monthly payments but with a large lump sum due down the line. Some borrowers may not be informed that balloon payments lurk ahead. In other cases, the payments are so large that borrowers cannot meet them.

Mandatory arbitration: Written into some loan documents, it requires borrowers to resolve disputes through arbitration, not legal action. Consumer groups say such clauses put borrowers at a disadvantage, particularly in cases where lenders pick the arbitrator.

Financing points and fees: Rolling points and fees into a loan balance can disguise the true cost of the loan. Consumer advocates want such costs reflected in the quoted interest rate for the financing.