MORTGAGE TERMINOLOGY

Adjustable Rate Mortgage (ARM): A type of mortgage where the interest rates can (and will) change as specific market indexes change.
Amortization: The value of a loan over a period of time. Usually presented as an amortization schedule that shows exactly how the loan is expected to be repaid. (Example: the amortization schedule for a 30-year mortgage will show how much interest and principal is paid each month for 30 years.)
APR (Annual Percentage Rate): The rate of interest paid to the mortgage lender. (This can be fixed or adjustable rate.)
Appraisal: Estimated market value of a property. A professional appraiser examines a property and does research to determine estimated value.
Assessed value: The property value determined by local government to figure annual property taxes.
Assumable Mortgage: A type of mortgage that can be transferred, with the original loan terms, to a buyer.
Bridge Loan: A short-term loan used to purchase a new house before finalizing the sale of the old house.
Cap: The maximum interest (and, therefore, monthly payment) expected from a borrower on a loan.
Closing: When the final, formal documents in a real estate transaction are signed and transferred to the new owner.
Closing Costs: Fees and payments paid by the buyer and seller of a real estate transaction at closing.
Closing Statement: A statement listing the financial details of a real estate closing.
Construction Loan: A short-term loan used to finance building a new home during the construction phase.
Conventional Mortgage: A loan not backed by a specific government program (like FHA or VA loans).
Credit Report: Details of a person's credit history from the credit bureaus. Credit reports include financial information submitted to the credit bureaus by lenders, credit card companies and other financial institutions.
Credit Score: A 3-digit number that shows lenders how likely you are to repay your debt. Most lenders use a FICO score (300-850) to predict their risk.
Debt-to-Income Ratio: The percentage of a person's gross monthly income that goes toward re-paying all debt.
Down Payment: Amount of cash paid out of pocket for the price of a home. Lenders require a minimum percentage of the purchase price to qualify.
Earnest Money: The amount of money a buyer offers in good faith when making an offer to buy a property.
Equity: The difference between the value of a property and the amount owed on the property.
Escrow: An account used to hold money for future costs. With a mortgage, the lender sets up an escrow account in which the borrower makes deposits monthly (as part of their mortgage payment). It is used to pay for future property taxes and, sometimes, annual insurance fees.
FHA (Federal Housing Administration): FHA offers loans through certain lenders. FHA helps make home-ownership a possibility for borrowers that don't qualify for the guidelines of a conventional loan.
Fixed Rate Mortgage: A mortgage with the same, guaranteed interest rate throughout the life of the loan.
Foreclosure: Legal process where lender takes possession of a mortgaged property when borrower cannot meet obligations of mortgage agreement.
Good Faith Estimate: An estimate prepared by the lender listing the anticipated loan costs and fees the borrower will be expected to pay at closing.
Homeowners Insurance (or Hazard Insurance): An insurance policy that protects the value of a property in case of loss or damage.
Interest Rate: A percentage rate of a loan charged to a borrower by a lender as a fee for financing the loan.
Lien: The legal term for money owed on a property.
Loan-to-Value Ratio (LTV): Percentage of the property value that is borrowed. To calculate, divide the value of the home by the mortgage amount.
Mortgage: The legal documentation of the terms and conditions of a loan used for the purchase of a property.
Mortgage Insurance: Insurance added on to the mortgage toprotect the lender in case the borrower cannot make their monthly mortgage payments.
Origination Fee: A fee paid by the borrower to the lender for processing the mortgage (typically a percentage of the loan value).
PITI: PITI is an acronym meaning Principal Interest Taxes Insurance. It includes the four elements of a monthly mortgage payment.
Points (also known as discount points): Percentage points of the loan amount. Borrowers can pay "points" at closing to reduce their interest rate.
Pre-approval: A lender confirms a borrower's financial situation and determines eligibility for a specific loan amount.
Pre-paid costs: Any costs for a mortgage paid out of pocket before closing (could be appraisal fees, earnest money, attorney fees, etc.).
Pre-qualify: A lender estimates how much someone can borrow based on general information provided about his/her overall financial situation.
Principal: The amount of money borrowed for the mortgage loan. The principal amount goes down with each payment.
Private Mortgage Insurance (PMI): On conventional loans, borrowers must get PMI when they put down less than a 20% on the value of a property.
Property Taxes: Local government taxes charged to homeowners, based on the value of the property.
Rate Lock: An agreement between a lender and a borrower that the lender will guarantee a specific interest rate for a specified period.
Refinance: When a borrower finds a lower interest rate on a mortgage and takes out a new loan to replace their old loan (to lower their payment).
Settlement Costs: The closing costs associated with a mortgage loan.
Title: The legal document that specifies the official owner of a property.
Title Company: A company that researches legalities associated with the title of a property. They also issue the title insurance for the property.
Title Insurance: Insurance issued by a title company to ensure a property is free of any problems that could adversely affect the mortgage.
Truth in Lending Disclosure: Document required by law to provide borrowers with info on interest rate, loan amount, and cost of the loan at maturity.
Underwriting: A process lenders use to assess the credit and financial competence of borrowers. This process assesses potential risk.
USDA Loan: USDA home loans help people who don't qualify for conventional loans buy homes in rural areas.
VA Loan: Administered by the Department of Veterans Affairs, VA home loans assist active military, reservists, and veterans.
Variable Rate Mortgage (VRM): Also called adjustable-rate mortgage (ARM), a VRM is a loan with an interest rate that changes with market indexes.