



Twenty Terms You Must Know and Understand Before You Sign Off On Your Mortgage!

Buying a home is a major achievement in most everyone's life. Pride of ownership, tax breaks and equity are just a few of the many benefits you'll enjoy with your new home. Your home purchase may also be one of the largest you will ever make.

During the emotional excitement of buying a home, you may encounter terms with which you are unfamiliar. For some, it can be bit embarrassing to ask what they consider too many questions. Others may make a note of their questions but simply forget to revisit those points.

To ensure that you have complete confidence during your home loan process, invest a moment to read this report and become familiar with the concepts and terms you'll encounter. Knowledge is power and the more you know the more successful your decisions will be and the more soundly you will sleep at night having made them.

Adjustable Rate Mortgage (ARM)

Also referred to as a Variable Rate Mortgage. A mortgage in which the interest rate is adjusted periodically based on a pre-selected index.

Annual Percentage Rate (APR)

An interest rate that reflects the cost of a mortgage as a yearly rate. This rate takes into account any points and fees and is based on the loan going to it's full-term.

Assumption

An agreement between buyer and seller in which the buyer assumes responsibility for the seller's existing mortgage. This agreement usually saves the buyer money because closing costs and the current interest rate, possibly higher, do not apply.

Buy-down

A method of lowering the buyer's monthly payment for a short period of time. The lender or home-builder subsidizes the mortgage by lowering the interest rate for the first few years of a loan.

Caps

A limit in the amount the interest rate or monthly payments for an adjustable rate mortgage that may change.

Closing

Also referred to as settlement. The meeting at the conclusion of a real estate sale in which the property and funds are exchanged between the two parties involved.

Debt-to-Income Ratio

The ratio, expressed as a percentage, which results from dividing a borrower's monthly payment obligation on long-term debts by the borrower's gross monthly income.

Discount Points



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Prepaid interest assessed at closing by the lender. A point is equal to 1 percent of the loan amount.

Down Payment

Cash paid by the buyer at closing that makes up the difference between purchase price and the mortgage amount.

Earnest Money

Money given by a buyer to a seller as a deposit to commit the buyer to the future transaction. Earnest money is subtracted from closing costs.

Equity

The value an owner has in real estate over and above the obligation against the property. Equity is fair market value minus the current indebtedness.

Escrow

Funds given to a third party which will be held to cover payments such as tax or insurance payments and earnest money deposits.

Fixed Rate Mortgage

A mortgage in which the interest rate remains constant throughout the life of the loan.

Loan-to-Value Ratio

The ratio between the amount of the mortgage loan and the appraised value of the property.

Market Value

The price that a property could possibly bring in the marketplace.

Mortgage Insurance

Insurance that protects lenders against loss if a borrower defaults. This is required when the loan-to-value ratio is greater than 80 percent.

Origination Fee

A fee charged by a lender for processing a loan application; usually computed as a percentage of the loan.

PITI

Refers to Principal, Interest, Taxes, and Insurance.

Underwriting

The decision-making process of granting a loan to a potential homebuyer.

Variable Rate Mortgage

Also referred to as Adjustable Rate Mortgage. A mortgage in which the interest rate is adjusted periodically based on a pre-selected index.