MORTGAGE TERMS

Appraisal - An appraisal is an opinion of how much your home is worth. The appraisal assures the lender that they aren't loaning you more money than what your home is worth. The appraisal is completed by an independent third party.

Principal - Your principal balance is the amount that you take out in a loan. For example, if you buy a home with a $150,000 loan from your lender, your principal balance is $150,000. Your principal balance reduces as you make payments on your loan over time.

Annual Percentage Rate (APR) - Annual percentage rate (APR) is the interest rate you'll pay for your loan on an annual basis plus any additional lender fees. You'll usually see APR expressed as a percentage. You may see two interest rates listed next to one another when you shop for a loan. The larger number is always your APR because it includes fees. however this is not the rate that is used when calculating the monthly payment.

Loan Term - Your mortgage term is the number of years you'll pay on your loan before you fully own your home. For example, you may take out a mortgage loan with a 15-year term and that means that you'll make monthly payments on your loan for 15 years before the loan matures. The most common mortgage terms are 15 years and 30 years,

Amortization - Amortization is the process of how payments spread out over time. When you make a payment on your mortgage, a percentage of your payment goes toward interest and a percentage goes toward your loan principal. In the beginning of your loan, your principal is high and most of your payment goes toward interest. However, you chip away at your principal over time and pay less in interest. An amortization schedule can reflect consistent monthly payments and keep you on track to pay off your loan within the term.

Discount Points - Discount points are an optional closing cost you can pay to "buy" a lower interest rate. One discount point is equal to 1% of your loan amount. The more discount points you pay, the lower your interest rate will be. You're essentially paying more up front to enjoy more savings over the life of the loan.

Closing Disclosure - A Closing Disclosure is a document that tells you the final terms of your loan. Your Closing Disclosure includes your interest rate, loan principal and the closing costs you must pay. Your lender is legally required to give you at least 3 days to review your Closing Disclosure before you sign on your final documents.

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Fixed-Rate Mortgage - A fixed-rate mortgage has the same interest rate throughout the term of the loan. For example, if you buy a home at 4% on a 15-year fixed-rate loan, it means that you'll pay 4% interest on your loan every month for your entire 15-year term. Homeowners who choose a fixed-rate term often believe that rates will rise over the course of their loan and want the stability and predictability this type of loan provides.

Adjustable Rate Mortgage (ARM) - An adjustable rate mortgage (ARM) is a type of loan with an interest rate that varies depending on how market rates move. When you sign onto an ARM, you first get a short period of fixed interest. This is the introductory period of the loan and can last for up to 10 years. During your introductory period, your interest rate is usually lower than what you'd get with a fixed-rate loan. After the introductory period expires, your interest rate will follow market interest rates. ARMs have caps in place that limit the total amount that your interest can rise or fall over the course of your loan.

Homeowners Insurance - Homeowners insurance is a type of protection that compensates you if your home gets damaged during a covered event. Common events that are covered include fires, burglaries and windstorms. In exchange for coverage, you pay your insurance provider a monthly premium. You're not legally required to get homeowners insurance to own a home. However, your mortgage lender may require you to maintain at least a certain level of coverage for the life of your loan and many homeowners include this premium in their monthly mortgage payment.

Property Taxes - You'll be required to pay property taxes to your local government. The amount you pay in property taxes depends on your home's value and where you live. Property taxes fund things like police departments, roads, libraries and community development. Don't forget to factor in property taxes when you shop for a home. Many home owners include this premium in their monthly payment

Private Mortgage Insurance (PMI) - Private mortgage insurance (PMI) is a type of insurance that protects your lender in the event that you default on your loan. Your lender will usually require you to pay PMI if you have less than a 20% down payment. You have the option to remove PMI from your loan when you reach 20% equity in your property.

Homeowners Association Fee - Typically is a monthly due paid by homeowners living within the HOA community to help maintain all properties, amenities and common areas within the association

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Down Payment - Your down payment is the first payment you make on your mortgage loan. You'll usually see your down payment listed as a percentage of your loan value. For example, if you have a 20% down payment on a $100,000 loan, you'll bring $20,000 to closing. Most loan types require some kind of down payment. Though most people believe that you need a 20% down payment to buy a home, this actually isn't true. You can buy a home with as little as 3% down. Some types of government-backed loans may even allow you to buy a home with no down payment or in combination with a down payment assistance loan.

Debt-To-Income (DTI) Ratio - Your DTI is equal to your total fixed, recurring monthly debts divided by your total monthly gross household income. Mortgage lenders look at your DTI when they consider you for a loan to make sure that you have enough money coming in to make your payments. You may have trouble finding a loan if your DTI is too high.

Closing Costs - Closing costs are settlement costs and fees you pay to your lender in exchange for finalizing your loan. Some common closing costs include appraisal fees, loan origination fees, title and settlement fees and county recording fees. Other costs to factor in are prepaids and reserves which are funds associated with daily interest, property taxes and homeowners insurance premiums.

Title - A title is proof that you own a home. Your title includes a legal description of your property, the names of anyone who owns the property and any liens on the home. When someone says that they're "on the title" of a home, it means that they have some kind of legal ownership of the property.

Title Insurance - Title insurance is a common closing cost. You buy title insurance to protect the lender against outside claims to your property. Unlike other types of insurance, you don't need to pay for title insurance every month. Instead, you make a single payment at closing that protects you for as long as you own the home.

Earnest Money Deposit - An earnest money deposit is a check that you write to a an escrow company when your offer is accepted on a home. An earnest money deposit tells the seller that you're serious about buying their home. Your earnest money deposit goes toward your down payment and/or closing costs at closing.

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Home Inspection - A home inspection is different than a home appraisal. An appraisal gives you a rough estimate of how much a home is worth, but an inspection tells you about specific problems in the home. An inspector will walk around the home you want to buy and test things like the heating and cooling system, light switches and appliances. They will then give you a list of everything that needs repaired or replaced in the home. Most mortgage lenders don’t require an inspection as a condition of getting a loan, but it’s a good idea to get an inspection to make sure that your home doesn’t have any pressing issues before you buy it.

Seller Concessions - Seller concessions are clauses you include with your offer to buy a home that asks the seller to pay certain closing costs. For example, you might ask the seller to cover things like appraisal fees or your title search. The seller can reject your concessions or send you a counteroffer with concessions removed. Limitations on the percentage of your closing costs a seller can cover varies by occupancy, loan type and down payment amounts.