

HERE ARE COMMON MORTGAGE TERMS THAT ARE USED THROUGHOUT THE HOME-FINANCING PROCESS

ADJUSTABLE-RATE MORTGAGE (ARM)

ARMs tend to have an initial lower interest rate than a fixed-rate home loan. However, this rate may change over the loan term based on a set index. Payments for ARM loans can increase.

ANNUAL PERCENTAGE RATE (APR)

This is your annual cost of the loan represented as a percentage. APR allows homebuyers to compare different mortgage programs based on their annual cost.

CLOSING COSTS

These are the costs and fees that are due on the date of closing, when a borrower obtains their mortgage and receives the title to their property. Closing costs include insurance, taxes, and other applicable fees.

CLOSING DISCLOSURE (CD)

This form is a statement of final loan terms and closing costs. You must receive this form from your lender at least 3 days before your closing. You can compare this document with your Loan Estimate.

DEBT-TO-INCOME RATIO (DTI)

Lenders use this ratio to determine if a borrower can afford their monthly mortgage payment. DTI is calculated by dividing the borrower's monthly debts by their pre-tax monthly income.

DOWN PAYMENT

This is the portion of the purchase price that the buyer pays.

DOWN PAYMENT ASSISTANCE (DPA)

Programs that offer qualified borrowers financial assistance with down payment or closing costs.

FIXED-RATE MORTGAGE

With this type of mortgage, a borrower's interest rate stays "fixed" and will not change during the life of the loan.

LOAN ESTIMATE (LE)

A detailed estimate of the total costs, given to the borrower 3 days after the lender receives their application. The lender's origination fee, points, escrow, title insurance, appraisal fee, taxes, and other expenses should be included.

LOAN-TO-VALUE RATIO (LTV)

To calculate this ratio, the lender divides the mortgage amount by the purchase price or the appraised home value. LTV helps assess the lender's risk of the loan.

MORTGAGE INSURANCE PREMIUM (MIP)

To protect the lender from potential loan default, the borrower pays a premium on Federal Housing Administration (FHA) loans. There is an upfront MIP and a monthly MI (mortgage insurance) amount that the borrower must pay for the life of the loan with a down payment of 3.5% to 9.99%. For down payments of 10% or more, MIP is only paid for 11 years.

ORIGINATION FEE

This is the fee that a lender charges to prepare the documents related to a borrower's mortgage.

PRINCIPAL, INTEREST, TAXES AND INSURANCE (PITI)

The monthly mortgage payment expected from the borrower.

PRIVATE MORTGAGE INSURANCE (PMI)

The borrower is required to pay for PMI when LTV is over 80 percent.

RATE LOCK

This is a written commitment between you and the lender to hold a certain interest rate for a specified period of time.

TITLE

This is a document that states a real estate transaction took place and establishes the buyer as the legal and exclusive owner of the property.

TITLE INSURANCE

This type of insurance provides a real estate owner or lender with protection against any loss or damage they may experience if any claims against the title are made.

Learn the Lingo