COMMON MORTGAGE TERMS

Adjustable Rate Mortgage (ARM)

An adjustable rate mortgage (ARM) is a type of loan for which the interest rate can change, usually in relation to an index interest rate. Your monthly payment will go up or down depending on the loan's introductory period, rate caps, and the index interest rate. With an ARM, the interest rate and monthly payment may start out lower than for a fixed-rate mortgage, but both the interest rate and monthly payment can increase substantially.

Example: 5/1 Adjustable Rate Mortgage

A 5/1 adjustable rate mortgage (ARM) or 5-year ARM is a mortgage loan where "5" is the number of years your initial interest rate will stay fixed. The "1" represents how often your interest rate will adjust after the initial five-year period ends. The most common fixed periods are 3, 5, 7, and 10 years and "1," is the most common adjustment period. It's important to carefully read the contract and ask questions if you're considering an ARM.

Amortization

Amortization means paying off a loan with regular payments over time, so that the amount you owe decreases with each payment. Most home loans amortize, but some mortgage loans do not fully amortize, meaning that you would still owe money after making all of your payments. Some home loans allow payments that cover only the amount of interest due, or an amount less than the interest due. If payments are less than the amount of interest due each month, the mortgage balance will grow rather than decrease. This is called negative amortization. Other loan programs that do not amortize fully during the loan may require a large, lump sum "balloon" payment at the end of the loan term. Be sure you know what type of loan you are getting.

Annual Percentage Rate (APR)

An annual percentage rate (APR) is a broader measure of the cost of borrowing money than the interest rate. The APR reflects the interest rate, any points, mortgage broker fees, and other charges that you pay to get the loan. For that reason, your APR is usually higher than your interest rate.

Appraisal fee

An appraisal fee is the cost of a home appraisal of a house you plan to buy or already own. Home appraisals provide an independent assessment of the value of the property. In most cases, the selection of the appraiser and any associated costs is up to your lender.

Closing Disclosure

A Closing Disclosure is a required five-page form that provides final details about the mortgage loan you have selected. It includes the loan terms, your projected monthly payments, and how much you will pay in fees and other costs to get your mortgage.

Construction loan

A construction loan is usually a short-term loan that provides funds to cover the cost of building or rehabilitating a home.

Conventional loan

A conventional loan is any mortgage loan that is not insured or guaranteed by the government (such as under Federal Housing Administration, Department of Veterans Affairs, or Department of Agriculture loan programs).

Debt ratio

Your debt-to-income ratio is all your monthly debt payments divided by your gross monthly income. This number is one way lenders measure your ability to manage the monthly payments to repay the money you plan to borrow.

Down payment

A down payment is the amount you pay toward the home upfront. You put a percentage of the home's value down and borrow the rest through your mortgage loan. Generally, the larger the down payment you make, the lower the interest rate you will receive and the more likely you are to be approved for a loan.

Down payment programs or grants

A down payment grant or program typically refers to assistance provided by an organization such as a government or non-profit agency, to a homebuyer to assist them with the down payment for a home purchase. The funds may be provided as an outright grant or may require repayment, such as when the home is sold.

Earnest money

Earnest money is a deposit a buyer pays to show good faith on a signed contract agreement to buy a home. The deposit is held by a seller or third party like a real estate agent or title company. If the home sale is finalized or "closed" the earnest money may be applied to closing costs or the down payment. If the contract is terminated for a permissible reason, the earnest money is returned to the buyer. If the buyer does not perform in good faith, the earnest money may be forfeited and paid out to the seller.

Escrow

An escrow account is set up by your mortgage lender to pay certain property-related expenses, like property taxes and homeowner's insurance. A portion of your monthly payment goes into the account. If your mortgage doesn't have an escrow account, you pay the property-related expenses directly

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FHA funding fee

The Federal Housing Administration (FHA) requires an FHA funding fee and a monthly insurance premium (MIP) for most of its single-family programs. This upfront mortgage insurance premium is sometimes called an upfront mortgage insurance premium (UFMIP).

FHA loan

FHA loans are loans from private lenders that are regulated and insured by the Federal Housing Administration (FHA). FHA loans differ from conventional loans because they allow for lower credit scores and down payments as low as 3.5 percent of the total loan amount. Maximum loan amounts vary by county.

FHA mortgage limits

FHA mortgage limits are the dollar amount limits for qualifying mortgages that the FHA will insure as part of its single-family home mortgage program. These limits are based upon location and they may be revised each year.

Government recording charges

Government recording charges are fees assessed by state and local government agencies for legally recording your deed, mortgage and documents related to your home loan.

HOA dues

If you're interested in buying a condo, co-op, or a home in a planned subdivision or other organized community with shared services, you usually have to pay condo fees or Homeowners' Association (HOA) dues. These fees vary widely. Condo or HOA fees are usually paid separately from your monthly mortgage payment. If you do not pay these fees, you can face debt collection efforts by the homeowner's association and even foreclosure.

Home inspection

A home inspection is often part of the home buying process. You typically have the right to hire a home inspector to examine a property and point out its strengths and weaknesses. This is often especially helpful to test a home's structural and mechanical systems including heating, ventilation, air conditioning, and electrical.

Lenders title insurance

Lender's title insurance protects your lender against problems with the title to your property- such as someone with a legal claim against the home. Lender's title insurance only protects the lender against problems with the title. To protect yourself, you may want to purchase owner's title insurance.

Loan-to-value ratio

The loan-to-value (LTV) ratio is a measure comparing the amount of your mortgage with the appraised value of the property. The higher your down payment, the lower your LTV ratio. Mortgage lenders may use the LTV in deciding whether to lend to you and to determine if they will require private mortgage insurance.

Mortgage closing costs

Mortgage closing costs are all of the costs you will pay at closing. This includes origination charges, appraisal fees, credit report costs, title insurance fees, and any other fees required by your lender or paid as part of a real estate mortgage transaction.

Mortgage insurance

Mortgage insurance protects the lender if you fall behind on your payments. Mortgage insurance is typically required if your down payment is less than 20 percent of the property value. Mortgage insurance also is typically required on FHA and USDA loans. However, if you have a conventional loan and your down payment is less than 20 percent, you will most likely have private mortgage insurance (PMI).

Mortgage refinance

Mortgage refinance is when you take out a new loan to pay off and replace your old loan. Common reasons to refinance are to lower the monthly interest rate, lower the mortgage payment, or to borrow additional money. When you refinance, you usually have to pay closing costs and fees. If you refinance and get a lower monthly payment, make sure you understand how much of the reduction is from a lower interest rate and how much is because your loan term is longer.

Mortgage term

The term of your mortgage loan is how long you have to repay the loan. For most types of homes, mortgage terms are typically 15, 20 or 30 years.

Origination Fee

An origination fee is what the lender charges the borrower for making the mortgage loan. The origination fee may include processing the application, underwriting and funding the loan, and other administrative services. Origination fees generally can only increase under certain circumstances.

Owner's title insurance

Owner’s title insurance provides protection to the homeowner if someone sues and says they have a claim against the home from before the homeowner purchased it.

PITI

Principal, Interest, Taxes, and Insurance, known as PITI, are the four basic elements of a monthly mortgage payment.

PMI

Private Mortgage Insurance (PMI) is a type of mortgage insurance that benefits your lender. You might be required to pay for PMI if your down payment is less than 20 percent of the property value and you have a conventional loan. You may be able to cancel PMI once you’ve accumulated a certain amount of equity in your home.

Prepaid interest charges

Prepaid interest charges are charges due at closing for any daily interest that accrues on your loan between the date you close on your mortgage loan and the period covered by your first monthly mortgage payment.

Prepayment penalty

A prepayment penalty is a fee that some lenders charge if you pay off all or part of your mortgage early. If you have a prepayment penalty, you would have agreed to this when you closed on your home. Not all mortgages have a prepayment penalty.

Reverse mortgage

A reverse mortgage allows homeowners age 62 or older to borrow against their home equity. It is called a “reverse” mortgage because, instead of making payments to the lender, you receive money from the lender. The money you receive, and the interest charged on the loan, increases the balance of your loan each month. Most reverse mortgages today are called HECMs, short for Home Equity Conversion Mortgage.

Survey

A survey is a drawing of your property showing the location of the lot, the house and any other structures, as well as any improvements on the property.

Title service fees

Title service fees are part of the closing costs you pay when getting a mortgage. When you purchase a home, you receive a document most often called a deed, which shows the seller transferred their legal ownership, or “title,” to the home to you. Title service fees are costs associated with issuing a title insurance policy for the lender.

USDA Loan

The Rural Housing Service, part of the U.S. Department of Agriculture (USDA) offers mortgage programs with no down payment and generally favorable interest rates to rural homebuyers who meet the USDA’s income eligibility requirements.

VA loan

A VA loan is a loan program offered by the Department of Veterans Affairs (VA) to help servicemembers, veterans, and eligible surviving spouses buy homes. The VA does not make the loans but sets the rules for who may qualify and the mortgage terms. The VA guarantees a portion of the loan to reduce the risk of loss to the lender. The loans generally are only available for a primary residence.

If you have any questions please contact us!

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