

THE REAL ESTATE SOCIAL CLUB

MORTGAGE DICTIONARY

1. CORE LOAN & RATE TERMS

INTEREST RATE

THE COST OF BORROWING MONEY, SHOWN AS A PERCENTAGE OF THE LOAN.

APR (ANNUAL PERCENTAGE RATE)

THE TOTAL YEARLY COST OF A LOAN, INCLUDING CERTAIN FEES, NOT JUST THE INTEREST RATE.

PRINCIPAL

THE AMOUNT YOU BORROW BEFORE INTEREST OR FEES ARE ADDED.

AMORTIZATION

THE SCHEDULE OF HOW YOUR LOAN BALANCE IS GRADUALLY PAID DOWN OVER TIME THROUGH MONTHLY PAYMENTS.

LOAN TERM

THE LENGTH OF TIME YOU HAVE TO REPAY YOUR LOAN (FOR EXAMPLE, 30-YEAR OR 15-YEAR).

FIXED-RATE LOAN

A LOAN WHERE THE INTEREST RATE STAYS THE SAME FOR THE ENTIRE TERM.

ADJUSTABLE-RATE MORTGAGE (ARM)

A LOAN WHERE THE INTEREST RATE MAY CHANGE AFTER A SET PERIOD, EITHER HIGHER OR LOWER, DEPENDING ON THE MARKET.

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2. DOWN PAYMENT, COSTS, AND INSURANCE

DOWN PAYMENT

THE UPFRONT AMOUNT YOU PAY TOWARD THE PURCHASE OF A HOME, SEPARATE FROM THE LOAN.

CLOSING COSTS

THE FEES REQUIRED TO COMPLETE THE PURCHASE AND LOAN PROCESS. THESE MAY INCLUDE LENDER FEES, APPRAISAL, TITLE, ESCROW, AND RECORDING COSTS.

ESCROW (IMPOUND) ACCOUNT

A MONTHLY ACCOUNT THAT HOLDS FUNDS TO PAY YOUR PROPERTY TAXES AND HOMEOWNER'S INSURANCE.

PRIVATE MORTGAGE INSURANCE (PMI)

INSURANCE REQUIRED ON MOST CONVENTIONAL LOANS WHEN THE DOWN PAYMENT IS LESS THAN 20%. IT PROTECTS THE LENDER, NOT THE BUYER, IF THE LOAN IS NOT REPAYED.

MIP (MORTGAGE INSURANCE PREMIUM)

THE MORTGAGE INSURANCE REQUIRED ON FHA LOANS, WHICH INCLUDES AN UPFRONT FEE AND A MONTHLY COST.

3. LOAN QUALIFICATION TERMS

PRE-QUALIFICATION

AN ESTIMATE OF WHAT YOU MAY BE ABLE TO BORROW BASED ON BASIC INFORMATION YOU PROVIDE, NOT VERIFIED WITH DOCUMENTS.

PRE-APPROVAL

A STRONGER, VERIFIED REVIEW OF YOUR INCOME, ASSETS, CREDIT, AND DEBTS. THIS IS NEEDED TO MAKE A COMPETITIVE OFFER ON A HOME.

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DTI (DEBT-TO-INCOME RATIO)

A CALCULATION THAT COMPARES YOUR MONTHLY DEBT PAYMENTS TO YOUR MONTHLY INCOME. LENDERS USE THIS TO DETERMINE BORROWING ABILITY.

LTV (LOAN-TO-VALUE)

THE PERCENTAGE OF THE HOME'S VALUE BEING FINANCED. FOR EXAMPLE, AN 80% LTV MEANS YOU ARE BORROWING 80% OF THE HOME'S VALUE.

RESERVES

EXTRA SAVINGS REQUIRED BY SOME LOAN PROGRAMS, MEASURED AS MONTHS OF MORTGAGE PAYMENTS — FOR EXAMPLE, TWO OR THREE MONTHS OF RESERVES.

4. UNDERWRITING & APPRAISAL

APPRAISAL

A PROFESSIONAL ESTIMATE OF THE PROPERTY'S FAIR MARKET VALUE.

UNDERWRITING

THE FINAL REVIEW PROCESS WHERE THE LENDER CONFIRMS YOU MEET LOAN GUIDELINES AND THE PROPERTY MEETS REQUIREMENTS.

CONDITIONS

ADDITIONAL ITEMS THE UNDERWRITER REQUESTS (DOCUMENTS, EXPLANATIONS, OR EVIDENCE) BEFORE FULL APPROVAL IS GRANTED.

CLEAR TO CLOSE (CTC)

THE POINT WHEN THE LENDER HAS APPROVED EVERYTHING AND YOU ARE READY TO SIGN CLOSING DOCUMENTS.

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5. FINAL STEPS AND OWNERSHIP

CLOSING DISCLOSURE (CD)

A DETAILED DOCUMENT THAT LISTS YOUR FINAL LOAN TERMS AND TOTAL CLOSING COSTS. YOU MUST REVIEW AND ACKNOWLEDGE IT BEFORE CLOSING.

FUNDING

THE MOMENT THE LENDER SENDS THE LOAN FUNDS TO THE ESCROW OR TITLE COMPANY.

RECORDING

THE OFFICIAL STEP WHEN THE COUNTY RECORDS YOU AS THE LEGAL OWNER OF THE PROPERTY. THIS IS WHEN OWNERSHIP IS CONSIDERED COMPLETE.

ADDITIONAL NOTE

UNDERSTANDING THESE TERMS WILL HELP YOU FEEL MORE COMFORTABLE, ASK BETTER QUESTIONS, AND MAKE INFORMED DECISIONS. THERE IS NO SUCH THING AS A “SILLY” MORTGAGE QUESTION — CLARITY LEADS TO CONFIDENCE.