

Mortgage Basics

Glossary of Terms

There are lots of different terms associated with a mortgage loan. We will review some of the most common ones here. If you have questions about something we don't cover, please ask us.

Adjustable Rate Mortgage – a mortgage with an interest rate that can change based on a predetermined index. The initial interest rate may be lower than a fixed rate option but could increase over time.

Amortization Schedule – a timetable for payment of a mortgage loan showing the amount of each payment applied to interest and principal and the remaining balance of the loan.

Annual Percentage Rate (APR) – the total cost of your mortgage loan expressed as an annual interest rate. This rate includes the base interest rate, mortgage insurance, origination fees, and some other related fees.

Appraisal – an opinion by a licensed real estate appraiser regarding the fair market value of a property.

Closing – the meeting at which the sale of a property is finalized by the buyer signing the mortgage documents. Also known as "Settlement".

Closing Costs – fees associated with services performed during the sale or purchase of a property. Examples include the appraisal, title fees, closing fees, etc.

Conventional Mortgage – any mortgage that is not insured or guaranteed by the federal government.

Credit Report – a report of an individual's credit history prepared by a Credit Reporting Agency (CRA) and used by a lender to determine a loan applicant's credit worthiness.

Debt to Income Ratio – a formula used to qualify borrowers' ability to repay determined by taking their total monthly debts in relation to their monthly income.

Deed – a legal document used to convey ownership to a property.

Disclosures – documents provided by a lender to inform the borrower of basic terms of the mortgage loan including interest rates, closing costs, payments, etc.

Down Payment – the part of the purchase price paid by the buyer in cash and not financed as part of the mortgage loan.

Earnest Money – a deposit made by a potential buyer that shows their intention to purchase a property.

Escrow – an account established by a lender to hold money to be paid to a third-party, i.e. homeowner's insurance and property taxes.

FHA Mortgage – a government mortgage insured by the Federal Housing Administration.

Fixed Rate Mortgage – a mortgage in which the interest rate does not change during the term of the loan.

Flood Insurance – insurance that protects a property from damage caused by a flood. It is required for any property that is determined to be within a federally designated flood area.

Foreclosure – the legal process by which a mortgage holder takes ownership to a property that is in default by the borrower.

Home Inspection – an inspection of a property by a licensed professional to determine any possible issues or defects with the property. Typical areas for inspections include the heat and air system, plumbing, electrical systems, roof, windows and doors, and foundation.

Homeowner's Insurance – an insurance policy that compensates for damage caused by hazards such as wind, hail, fire, etc. as well as protection for personal contents and against personal liability.

Impound – the portion of a borrower's monthly payments held by a lender to pay taxes and insurance. These are held in an escrow account and paid to third-parties.

Interest Rate – the fee charged for borrowing money.

Loan to Value Ratio (LTV) – the relationship between the principal balance of a mortgage and the appraised value (or sales price if lower) of the property.

Lock-In Agreement – a written agreement guaranteeing the borrower a specified interest rate provided the loan is closed within a set period of time.

Mortgage – a legal document establishing the amount a borrower owes a lender and the legal description of the property used to secure the mortgage loan. This document is filed in the county where the property is located.

Multiple Listing Service – a service utilized by realtors to share information about homes they have listed for sale.

Origination Fee – a fee paid to a lender in connection with obtaining a mortgage loan.

Points – a fee paid to a lender to reduce the interest rate on a loan, charged as 1% of the amount of the loan.

Preapproval – the process to determine that a borrower is credit approved up to a predetermined amount. This preapproval is contingent on the property meeting underwriting requirements of the lender.

Prequalification – the process to determine how much a borrower will be eligible to borrow before a loan application is completed. This is basically just for information purposes for the borrower and is not considered a commitment to do a loan.

Private Mortgage Insurance (PMI) – insurance that protects lenders against loss if the borrower defaults on their mortgage loan. Typically required by lenders on loans with less than 20% down payment.

Real Estate Agent – a person licensed to negotiate and transact the sale of real estate on behalf of the property owner.

Survey – a drawing or map showing the precise legal boundaries of a property, the location of improvements, easements, rights of way, and other physical features.

Title Insurance – insurance to protect the lender or buyer against loss arising from disputes over ownership of property.

Title search – a check of title records to ensure the seller or borrower is the legal owner of a property and that there are no other liens or claims outstanding.

Underwriting – the process of evaluating a loan application to determine the risk involved for the lender. It involves an analysis of the borrower's assets and credit worthiness as well as the quality of the property itself.

VA Loan – a loan that is guaranteed by the Department of Veterans Affairs.