Common Mortgage Terms

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Mortgage Types

- **By Interest Rate Structure**
  - **Adjustable-Rate Mortgage (ARM):** A mortgage with an interest rate that can change periodically based on an index.
  - **Fixed-Rate Mortgage:** A mortgage with a constant interest rate for the entire term of the loan.
  - **Variable-Rate Mortgage:** Another term for an adjustable-rate mortgage (ARM).
- **By Loan Conformity and Backing**
  - **Conforming Mortgage:** A mortgage loan that conforms to rules created by the FHFA and can be guaranteed by government-sponsored entities like Fannie Mae and Freddie Mac.
  - **Conventional Mortgage:** A mortgage that is not insured or guaranteed by a government agency.
  - **Non-Conforming Mortgage:** A mortgage that does not conform to FHFA rules (including Jumbo loans and other specialty loans).
- **By Government Backing**
  - **FHA Loan:** A mortgage insured by the Federal Housing Administration with lenient borrowing guidelines.
  - **USDA Loan:** A loan guaranteed by the U.S. Department of Agriculture for homes in designated rural areas.
  - **VA Loan:** A mortgage loan available to veterans and their families, guaranteed by the Department of Affairs (VA).

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Financial Terms

- **Mortgage:** A mortgage is a loan used to purchase or maintain a home, plot of land, or other real estate. The borrower agrees to pay the lender over time, typically in a series of regular payments divided into principal and interest.
- **Amortization:** The term during which the balance must be paid off, typically ranging from 10 to 30 years.

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Mortgage Components

- **Principal:** The amount of money borrowed for a mortgage.
- **Interest Rate:** The amount charged by a lender to a borrower for the use of assets, expressed as a percentage of the principal.
- **Annual Percentage Rate (APR):** The yearly cost of a loan, including interest and fees, expressed as a percentage.
- **Loan-to-Value Ratio (LTV):** A calculation dividing the mortgage amount by the home's value. Lenders typically require an LTV ratio of at least 80%.

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Fees and Payments

- **Origination Fee:** A fee charged by a lender for processing a new loan application.
- **Discount Point:** A fee paid at closing to reduce the interest rate. One point equals one percent of the loan amount.
- **Points:** Fees paid to the lender at closing in exchange for a reduced interest rate.
- **Down Payment:** A portion of the home price, usually between 3-20%, paid upfront in cash.
- **Earnest Money Deposit:** A deposit showing commitment to buying a home, usually refundable if contract contingencies are not met.
- **Buydown:** An arrangement where an interest subsidy reduces the borrower's monthly payments typically in the early years of the loan.
- **Rate Lock:** A written promise from a lender to give you a specific interest rate for a set period before closing.

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Insurance and Protections

- **Private Mortgage Insurance (PMI):** Insurance protecting the lender in case of borrower default on a conventional loan.
- **Equity:** The difference between the home's value and the mortgage loan amount.

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Financial Ratios and Calculations

- **Debt-to-Income Ratio:** The percentage of gross monthly income that goes toward paying monthly housing expenses and other debts.
- **Basis Points (BPS):** Numbers representing interest rates in an absolute way, often used to describe changes in mortgage rates.

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Loan Processes

- **Amortization:** A blueprint for paying off your mortgage in equal installments over a set time.
- **Refinance:** The process of obtaining a new mortgage to replace an existing one.

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Home Buying Process

- **Valuation and Offers**
    - **Appraisal:** An analysis by a professional appraiser estimating a home's value by comparing other sales of nearby homes.
    - **Counteroffer:** An offer made in response to a previous offer, often involving a revised sale price.
    - **Offer:** A formal bid from the home buyer to the home seller to purchase a home.
- **Pre-Approval and Qualification**
    - **Pre-Approval:** A process by which a lender indicates how much money you're eligible to borrow.
    - **Pre-Approval Letter:** A letter from a mortgage lender indicating that you qualify for a mortgage of a specific amount.
    - **Pre-Qualification:** A preliminary assessment of the amount a lender will lend to a potential home buyer.
    - **Pre-Qualification Letter:** A letter from a mortgage lender stating you're prequalified to buy a home.
- **Documentation and Estimates**
    - **Good Faith Estimate:** An estimate by the lender of the closing costs from the mortgage.
    - **Loan Estimate:** A form providing important details about the loan requested.
    - **Commitment Letter:** A binding offer from the lender including the mortgage amount, interest rate, and repayment terms.

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Legal and Financial Protections

- **Title:** A legal document proving property ownership.
- **Title Insurance:** Insurance protecting against financial loss from defects in title to real property.
- **Warranty Deed:** A deed conveying the seller's interest in real property to the buyer.

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Closing Process

- **Closing:** The process of completing a financial transaction, including signing documents and transferring ownership of the property.
- **Closing Agent**: The person or entity coordinating closing activities, including preparing and recording documents and disbursing funds.
- **Closing Costs:** Upfront fees charged to originate a mortgage, typically 2% to 6% of the loan amount.
- **Closing Date:** The date on which the property sale and loan transaction are finalized.
- **Closing Disclosure:** A document providing final details about a mortgage loan, including terms, projected monthly payments, and fees.

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Financial Arrangements

- **Escrow:** A savings account set up by your lender to collect and pay property taxes, homeowners' insurance, and mortgage insurance as they come due.
- **Underwriting:** The process a lender uses to determine if the risk of offering a mortgage loan to a particular borrower is acceptable.
- **Loan Servicer:** The company that handles the day-to-day tasks of managing your loan, including collecting payments, sending monthly statements, and managing escrow accounts.
- **Escrow Analysis:** An annual review conducted by the loan servicer to ensure that enough funds are collected to pay property taxes and insurance premiums when they are due.

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Contract Status

- Under Contract: When a buyer and seller sign a purchase agreement, indicating the house is "under contract."

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