

MORTGAGES TERM GLOSSARY

Adjustable-Rate Mortgage (ARM)

An adjustable-rate mortgage, also known as a variable-rate mortgage, generally starts out with an interest rate lower than a fixed-rate mortgage. This saves you money early on, and may help you qualify for a more expensive home. However, your rate is tied to a market index. As the index goes up or down, your interest rate and payments will also change at each scheduled adjustment date. Rate caps limit the amount your interest rate can change, but your payment could increase quite a bit, possibly by hundreds of dollars a month. Make sure you know what your maximum payment could be and whether you can afford it.

Annual Percentage Rate (APR)

An APR measures both the interest charged as well as any other costs associated with the loan, such as discount points or lender origination fees. Because APR is designed to show you the total cost of a loan, it can be useful when comparing loans from different lenders.

Closing Costs

Closing costs are fees paid for services provided during the mortgage application and closing process. These fees vary, but typically range from 2%-6% of the total loan amount.

Closing Disclosure

The Closing Disclosure is a document that sums up the terms of your loan and what you pay at closing. You should receive your Closing Disclosure at least three days before your closing.

Credit Score

Your credit score, provided by a credit reporting agency, helps a lender determine how likely you are to repay a new loan. To calculate your score, a credit reporting agency considers factors such as how you pay your bills, your outstanding debt, how long you've had credit, the types of credit you've had and how many times you've applied for credit.

Down Payment

A down payment is part of the purchase price paid in advance in cash, reducing the amount of money you plan to borrow to purchase your home. Many lenders require a down payment of 20% of the price of the home to avoid having to purchase private mortgage insurance. The amount of the down payment may also affect the interest rate you pay. Lenders offer a variety of programs that make it possible to buy a home with a down payment of less than 20%.

Escrow

An escrow account is set up by your lender to pay your homeowners insurance and property taxes. Both of those bills are sent directly to your lender and are paid annually, but most lenders require you to pay 1/12th of the annual bill each month as part of your monthly payment. The lender deposits the partial payments in an escrow account, where they'll accumulate until it's time to pay your taxes and insurance the following year.

Fixed-rate Mortgage

A fixed-rate mortgage is the most popular type of mortgage. As the name implies, it offers a fixed interest rate for the life of the mortgage, meaning your monthly principal and interest payments never change. If you have an escrow account, your monthly payment could change based on your insurance and tax payments.

Good Faith Funds

Once you provide your intent to proceed with your loan application, we'll collect Good Faith Funds from you. These will be applied toward your closing costs, including the appraisal and/or any loan processing fees.

Home Inspection

Before a home is purchased, a professional inspector may perform a home inspection, which is a visual examination of the readily accessible areas of a home to provide an accurate evaluation of the home's condition.

Homeowners Insurance

Also commonly known as hazard insurance, homeowners insurance is a form of insurance that protects your property against loss from theft, liability and most common disasters. Mortgage lenders often require a borrower to maintain an amount of homeowners insurance on the property equal to the amount of the mortgage loan or the insurable value of the improvements.

Intent to Proceed

Once you've found the right mortgage for you, the next step is to express your intent to proceed. Your lender may not charge any fees (except a credit report fee) until you have received your Loan Estimate and tell your Mortgage Banker you want to proceed with the mortgage application.

Interest Rate

The interest rate is the cost of borrowing, stated as a percentage, charged by a lender on the principal amount of your mortgage. Sometimes lenders offer an introductory rate, which is a temporarily discounted rate for home equity lines of credit or adjustable-rate mortgages. This rate is usually low and lasts only for a short period.

Jumbo Loan

A jumbo loan is a home loan with an amount greater than \$417,000 in most parts of the United States (\$625,500 in the highest-cost areas)—which is larger than the limits set by government agencies such as Fannie Mae and Freddie Mac.

Loan Estimate

The Loan Estimate is provided within three days of submitting an application and contains the terms of the loan, projected monthly payments, total estimated closing costs and the total estimated cash needed to close the loan.

Points

Paying points will lower your interest rate (as well as your monthly payment) over the life of the loan. When you pay a point, you're essentially paying part of your interest to the lender in advance. One point is equal to 1% of the loan amount, paid at closing. For example, one point on a \$100,000 loan equals \$1,000. These points usually are paid at closing and may be paid by the borrower or the seller, or may be split between them. Generally speaking, the longer you plan to remain in a property or hold your mortgage, the more advantageous it is to pay points. There is no requirement to pay points—whether or not you decide to pay points is completely up to you.

Prequalification

A prequalification tells you how much financing you're likely to qualify for before you start your home search. We can help you prequalify or get conditionally approved for the loan that best fits your needs. Please note that a prequalification isn't a loan approval or commitment.

Principal Balance

The principal balance is the outstanding amount of your mortgage loan, not including interest—or the amount on the note minus any principal payments you have made.

Private Mortgage Insurance (PMI)

If you're making a down payment of less than 20%, many lenders will require that you obtain PMI, which helps repay the lender if you default on your loan. PMI costs will likely result in a slight increase in your overall monthly payment, but can be a useful strategy for buying a house with a lower down payment.

Rate Lock

A rate lock is a written agreement that guarantees a specific interest rate on your mortgage loan as long as there are no major changes in your loan application and the loan closes within the agreed-upon timeframe. This timeframe is generally 30-60 days and is referred to as the "Rate Lock Period."