Mortgage Terms 101

Presented By:

MORTGAGE
ZONE

www.mortgagezone.us

TERMS COVERED:

- APPRASIAL
- PRINCIPAL
- ANNUAL PERCENTAGE RATE (APR)
- TERM
- AMORTIZATION
- PREAPPROVAL
- ASSETS
- FIXED-RATE MORTGAGE
- ADJUSTABLE RATE MORTGAGE (ARM)
- HOMEOWNERS INSURANCE
- PROPERTY TAXES
- DEBT TO INCOME (DTI) RATIO
- DOWN PAYMENT
- PRIVATE MORTGAGE INSURANCE (PMI)
- TITLE
- DEED
- REAL ESTAGE AGENT
- EARNEST MONEY DEPOSIT
- HOME INSPECTION
- CLOSING COSTS
- SELLER CONCESSIONS
- ESCROW
- DISCOUNT POINTS
- TITLE INSURANCE
- CLOSING DISCLOSURE

APPRAISAL

A rough estimate of how much the home is worth

Appraisals are required by lenders before a home loan can be signed

The appraisal tells the lender how much can be loaned to the borrower

Appraisals come from an independent third party, not the lender

PRINCIPAL

The starting balance, or the amount that is taken out in a loan

The principal balance will shrink as payments are made on the loan over time

If a loan is taken out for $150,000, the principal amount is $150,000

ANNUAL PERCENTAGE RATE (APR)

Interest rate on loan amount that is paid on an annual basis, plus any additional lender fees

Usually expressed as a percentage

APR includes fees

TERM

The number of years the loan will be paid on until fully paid off

A 15-year term means monthly payments will be made for 15 years before the loan matures

The most common terms are 15, and 30

AMORTIZATION

Process of how payments spread out over time

An amortization schedule can reflect consistent monthly payments and keep the borrower on track to pay off the loan within the term

At first, a percentage of payment goes toward interest and a percentage goes toward the loan principal. However, as the borrower chips away at the principal over time, they will pay less in interest

PREAPPROVAL

Document that tells how much can be taken out in a home loan, based off of criteria like credit score, income and assets

Based on the information provided lenders can determine how much a borrower qualifies for in a home

Preapprovals are more reliable than prequalifications

ASSETS

Anything owned that has a cash value

Lenders verify assets to ensure that the borrower has enough money in savings and investments to cover the mortgage in the case of a financial emergency.

- CHECKING AND SAVINGS ACCOUNTS
- 401(K) AND IRA ACCOUNTS
- CERTIFICATES OF DEPOSIT (CDS)
- STOCKS
- BONDS
- MUTUAL FUNDS

FIXED-RATE MORTGAGE

Loan with an interest rate that does not change at any point during the term of the loan

4% on a 15yr fixed-rate loan means there will be 4% interest on every monthly payment for the 15-year life of the loan

Homeowners who choose a fixed-rate term often believe that rates will rise over the course of their loan and want the stability and predictability this type of loan provides.

ADJUSTABLE RATE MORTGAGE (ARM)

Type of loan with an interest rate that varies depending on how market rates move

After signing onto an ARM, there is a short period of fixed interest known as the introductory period. The introductory period can last up to 10 years

The interest rate during the introductory period is usually lower than what is offered with a fixed-rate loan

Once the introductory period expires, the interest rate follows the market interest rates

ARMs have caps in place that limit the total amount that interest can rise or fall over the course of the loan

HOMEOWNERS INSURANCE

Type of protection that compensates for home damages during a covered peril

A monthly premium is paid to an insurance provider in exchange for coverage

Although it is not legally required, mortgage lenders may require a certain level of coverage for the life of the loan

Covered Peril Examples

WINDSTORMS

BURGLARY

FIRE

PROPERTY TAXES

Taxes paid to the local government for owning a property

The amount owed in property taxes depends on the home's value and location

PROPERTY TAXES FUND:

- POLICE DEPARTMENTS
- ROADS
- LIBRARIES
- COMMUNITY DEVELOPMENT

DEBT-TO-INCOME (DTI) RATIO

DTI is equal to total fixed, recurring monthly debts divided by total monthly gross household income = total fixed monthly debts/total gross household income

Mortgage lenders look at DTI to make sure there is enough money coming in to make payments

Most lenders cater to applicants who have a DTI of 50% or lower

DOWN PAYMENT

First payment made on mortgage loan, brought to table at time of closing

Down payment is listed as a percentage of the loan value

20% down payment on $100,000 loan means $20,000 will be brought to closing

Most loan types require some kind of down payment, however some types of government-backed loans may allow the purchase of a home with no down payment

PRIVATE MORTGAGE INSURANCE (PMI)

Type of insurance that protects lender in the event that the borrower defaults on the loan

If less than a 20% down payment is made, many lenders will require borrower to pay PMI

TITLE

Proof that the borrower owns the home

The title includes a physical description of the property, the names of anyone who owns the property and any liens on the home

“I’m on the title” refers to some kind of legal ownership of the property

DEED

A deed is the physical document that proves ownership of the home

The deed is received when the loan is closed

REAL ESTATE AGENT

Local property professional who can help you shop for a home more effectively

Real estate agents can show homes in your price range, draw up offer letters and work with sellers to get a great deal on a home

TWO TYPES OF REAL ESTATE AGENTS

Seller's Agents

- work on behalf of sellers

Buyer's Agents

- work with those shopping for a home

EARNEST MONEY DEPOSIT

A check written to a seller when an offer is made on a home, letting the seller know the offer is serious

Most are equal to 1%-2% of the home's value

If the seller accepts the offer, the earnest money deposit goes towards the down payment at closing

HOME INSPECTION

Identifies specific problems in the home

An inspector will walk through the home and test things like heating or cooling systems, light switches, and appliances to see if anything needs to be repaired or replaced

CLOSING COSTS

Settlement costs and fees paid to the lender in exchange for finalizing the loan

The specific costs depend on the location and property type

Closing costs usually equal between 3%-6% of the total value of the loan

CLOSING COSTS CAN INCLUDE:

- APPRAISAL FEES
- LOAN ORIGINATION FEES
- PEST INSPECTION FEES

SELLER CONCESSIONS

Clauses the buyer includes with the offer to buy a home that asks the seller to pay certain closing costs

It might be asked that the seller cover things like appraisal fees or the title search

A seller can reject the concessions or send a counteroffer with concessions removed

ESCROW

Escrow accounts are where lenders to hold money for property taxes or homeowner's insurance

The escrow account allows the borrower to split taxes and insurance over 12 months instead of paying all at once

A lender may add escrow payments to monthly mortgage dues along with principal and interest payments

DISCOUNT POINTS

Optional closing cost where a borrower can pay to "buy" a lower interest rate

One discount point is equal to 1% of the loan value. The more purchased, the lower the interest rate will be

Discount points must be covered in cash at closing

Essentially the borrower will pay more upfront but enjoy savings over the life of the loan

DISCOUNT POINTS

Optional closing cost where a borrower can pay to "buy" a lower interest rate

One discount point is equal to 1% of the loan value. The more purchased, the lower the interest rate will be

Discount points must be covered in cash at closing

Essentially the borrower will pay more upfront but enjoy savings over the life of the loan

TITLE INSURANCE

Common closing cost

Title insurance protects against outside claims to the property

A single payment at closing

Protects the owner for as long as they own the home

CLOSING DISCLOSURE

Document that shows the final terms of the loan

Includes interest rate, loan principal, and closing costs that must be paid

Lender is legally required to give the borrower at least 3 days to review the closing disclosure before signing on the loan