KEY MORTGAGE TERMS

The mortgage process can be one of the most jargon-filled parts of homebuying. We want to help you feel prepared to have conversations with your loan officer.

LUCAS REYES
YOUR 1ST STEP TOWARDS HOMEOWNERSHIP

LOAN MORTGAGE

A mortgage is a type of loan to help you finance the purchase of a house. For this type of loan, the property acts as collateral for the debt.

DEBT-TO-INCOME (DTI) RATIO

Your DTI is your monthly debt payments divided by your monthly gross income. It shows how your debt compares to your income. Lenders typically use a 43% ratio, which means they will not allow your debt (including your mortgage payments) to go above 43% of your pre-tax income.

GIFT LETTER

A document stating that money received from a friend or a relative is a gift, not a loan.

PRIVATE MORTGAGE INSURANCE

MI is what borrowers typically need to pay when they take out a mortgage from a commercial lender that is more than 80% of the price of the home. In these cases, the homebuyer puts less than 20% down. PM insures the mortgage for the lender in the event that the borrower defaults.

CLOSING COSTS

Closing costs are the upfront costs of closing on your home. These costs will typically range from 1.5-6% of the purchase price of the home. For example, if your home was bought for $500,000, closing costs would range from $7,500 - $25,000.

CASH RESERVES

The amount of money in savings or cash a borrower has available after paying for the closing of a property transaction. Lenders want to see that vou have funds available to continue to make your monthly payments.

ASSESSED APPRAISAL

An appraisal is the sessed market value of the property. The appraiser is usually chosen by the lender and paid for by the borrower. It helps determine the principal amount of your mortgage.

HOMEOWNERS INSURANCE

Most lenders will ask you to have home insurance to protect your home in the case of unforeseen circumstances.

PROPERTY TAX

A tax you pay for owning property. This varies depending on the city/county you live in. This tax can be included in your monthly payment along with your mortgage.

ADJUSTABLE-RATE MORTGAGE (ARM)

This is a type of mortgage in which the interest rate varies throughout the life of the loan. Normally, the initial rate is fixed for a period of time, after which it resets periodically. There are many different types of ARMs you can get based on what you may want.

FIXED-RATE MORTGAGE

This is a type of mortgage in which the interest rate stays the same over the lifetime of the loan.

ANNUAL PERCENTAGE RATE

The broader measure of the cost of a mortgage, including the interest rate, plus other costs such as broker fees, discount points, and some closing costs. This rate is expressed as a percentage. When you apply for a mortgage, the lender sends you a "good faith estimate" within three business days.

DOWN PAYMENT

The amount, usually stated as a percentage, of the total cost of a property that you pay in cash as a part of a real estate transaction. It is the difference between the selling price and the amount of money you will borrow to buy the property.

INTEREST RATE

This is the price you pay to borrow money from a lender. It's a percentage of the principal and is different for everyone. Your credit score, down payment, and other financial factors impact your interest rate.

HOMEOWNERS ASSOCIATION (HOA)

Many condos, townhomes, and communities have an organization of homeowners who are responsible for the upkeep of the property. There are documents outlining the rules, responsibilities, and dues of homeowners residing in a property with an HOA.

PRINCIPAL

The original sum lent. This is the amount the lender has agreed to loan you. Part of your monthly mortgage payment goes to pay back the principal and part is to pay the interest.