

Terms You Should Know

Amortization

Repayment of loan principal over time with scheduled payments that consist of both principal and interest. The loan balance declines by the amount of the principal in the scheduled payment.

Annual Percentage Rate (APR)

The APR shows the costs of your mortgage loan as a yearly rate. The APR includes up-front fees (such as points) as well as interest and is intended to show you the true cost of your loan. When comparing one loan to another, be sure to compare APR's to get a true picture of what each one will cost you.

Closing Costs

The cost of getting a mortgage in addition to the down payment. Usually 3-6% of the total loan amount.

Credit bureau

An agency that collects statistics on individual payment records on loans, credit cards and other debts.

Debt-to-income (DTI) ratio

The percentage of gross monthly income that goes toward paying all monthly debts, such as mortgage loans, car loans, student loans, credit cards, etc.

Equity

Equity is the portion of the property that you actually own through your payments, versus the portion that you still owe the mortgage lender. The longer you stay in your house, the more equity you will have.

Escrow

An account set up on your behalf in which a portion of your monthly payment is held to pay property taxes and Insurance.

Gross income

Amount earned before taxes or types of payroll deductions. Gross income includes overtime, commissions, dividends and any other sources for which a steady history can be shown.

Points

Percentage points of the loan amount. Often in order to get a lower interest rate, lenders will allow borrowers to lower the rate by paying points upfront.

Pre-qualification

While not an approval, this gives borrowers an estimate of how much money they could borrow to purchase a home.

Pre-approval

A commitment from the Lender to make a loan to a specified borrower prior to identification of the specific property.

