



Top Terms Every Home Buyer Needs to Know

Before you contact lenders or hit any open houses, you may want to familiarize yourself with some of the terms you'll hear throughout home-buying process.

Acceptance

Agreeing to the terms of an offer and creating a contract between buyer and seller.

Adjustable-rate mortgage (ARM)

A loan with an interest rate that fluctuates based on a market index. Interest rates and payments can rise or fall over the life of the loan.

Amortization

Paying off a debt, such as a mortgage, by making regular payments that cover principal and interest over a specified period of time.

Aggregate adjustment

A calculation lenders use to prevent collecting more money than allowed for your escrow account. If the aggregate escrow adjustment is negative, the lender credits the amount to the borrower, which reduces the amount the borrower must deposit into the escrow account at closing.

Annual percentage rate (APR)

The interest charged plus points and certain fees associated with the mortgage.

Appraisal

An estimate of the value of a house or property made by a qualified professional.

Closing

Also known as "settlement." The last step in buying and financing a home when you and the other parties involved in the mortgage transaction sign the necessary documents and the property changes hands from the seller to the buyer.

Closing costs

Fees paid to a mortgage lender and other third parties, like the attorney, for services performed during the application and process. Closing costs typically range from two to five percent of the home's purchase price, but can vary between states.

Consummation

The date the borrower becomes responsible to repay the mortgage debt. While consummation and closing/settlement may occur at the same time, they are separate and distinct events from a legal perspective.

Contingency

A provision in a purchase agreement stating that the transaction is dependent on a specific event. For example, a buyer may put in place a contingency for their current home to sell by a specified date.

Credit score

A rating from a credit bureau that helps banks determine how likely you are to repay a loan. The score factors in how timely you pay your bills, your outstanding debt, and credit history.

Default

When you stop making payments on a loan or fail to comply with other requirements.

Debt-to-income (DTI) ratio

Total recurring monthly debt – including credit cards, car payments, student loans, home equity lines of credit (HELOCs), other real estate owned, and alimony/child support – divided by gross (before taxes) monthly income. Expressed as a percentage, it is used in determining how much loan you qualify for.

Down payment

The initial investment you make to secure your mortgage financing terms.

Equity

The current market value of your house minus the amount you still owe on your mortgage(s).

Escrow

An account your lender creates to pay your property taxes and/or insurance. Each month, part of your monthly mortgage payment goes into the account, and when your taxes and insurance premiums are due, your lender pays them on your behalf from this account.

Fixed-rate mortgage

The interest rate remains the same for the life of the loan (10, 15, 20 or 30 years).

Home inspection

A visual examination of a home – including the plumbing, electrical, foundation, walls, heating, and appliances – by a certified professional to provide an accurate evaluation of the home's condition at the time of purchase.

Homeowners insurance

A policy that protects your property against loss from theft, liability, and most common disasters. Lenders often require you to maintain an amount that is equal to the amount of the mortgage loan. Some properties, depending on their location, may also require additional policies, for example to cover floods, hurricanes, fire, etc.

Interest rate

The amount charged, expressed as a percentage of principal, by a lender to a borrower, for the use of assets.

Lien

A financial claim by a person or company against the property of another person. Liens are used by lenders to secure their interest in the collateral property.

Loan origination fee

The amount charged by a lender or bank to begin a mortgage loan, which could include an underwriting fee or a processing fee.

Loan-to-value (LTV) ratio

The mortgage amount divided by the appraised value of a property. Expressed as a percentage, it's used in determining your interest rate.

Mortgage

A loan provided by a lender or a bank to help finance a home.

Mortgage note (real estate lien note or borrower's note)

A promissory note secured by a specified mortgage loan. Mortgage notes are a written promise to repay a specified sum of money plus interest at a specified rate and length of time to fulfill the promise.

Open house

A real estate agent opens a house to the public for viewing.

PITIA

Abbreviation for the components of a mortgage payment: principal (the amount borrowed), interest, (property) taxes, (homeowners) insurances, and association dues (if applicable).

Points (discount points)

Interest you prepay at closing in exchange for a lower interest rate for the life of the loan. One point is equal to 1% of the requested loan amount.

Pre-approval

A lender evaluates your financial history and runs a credit report, then gives you a letter stating how much they would be willing to loan you.

Pre-payment penalty

A fee that a lender may charge you for paying off a loan ahead of time.

Pre-qualification

A lender tells you how much you may be able to borrow based on information you share, such as debt, income, and assets, but which they do not verify.

Private mortgage insurance (PMI)

An insurance policy that protects the holder of your mortgage if you can't make your loan payments. You are responsible for paying the premium, usually as part of your monthly payment. Banks require PMI if you put less than 20 percent down.

Rate lock

The guarantee of an interest rate for a specified period of time.

Real estate agent

Licensed professional who represents buyers or sellers in a real estate transaction. The agent's fees are typically paid by the seller.

Title

A legal document that serves as proof of ownership and possession of a house.

Total interest percentage (TIP)

The total amount of interest that you will pay over the life of the loan. TIP, which is expressed as a percentage of loan amount, assumes you make all payments in full and on time and do not make additional payments, and is calculated by dividing the interest by the loan amount.



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