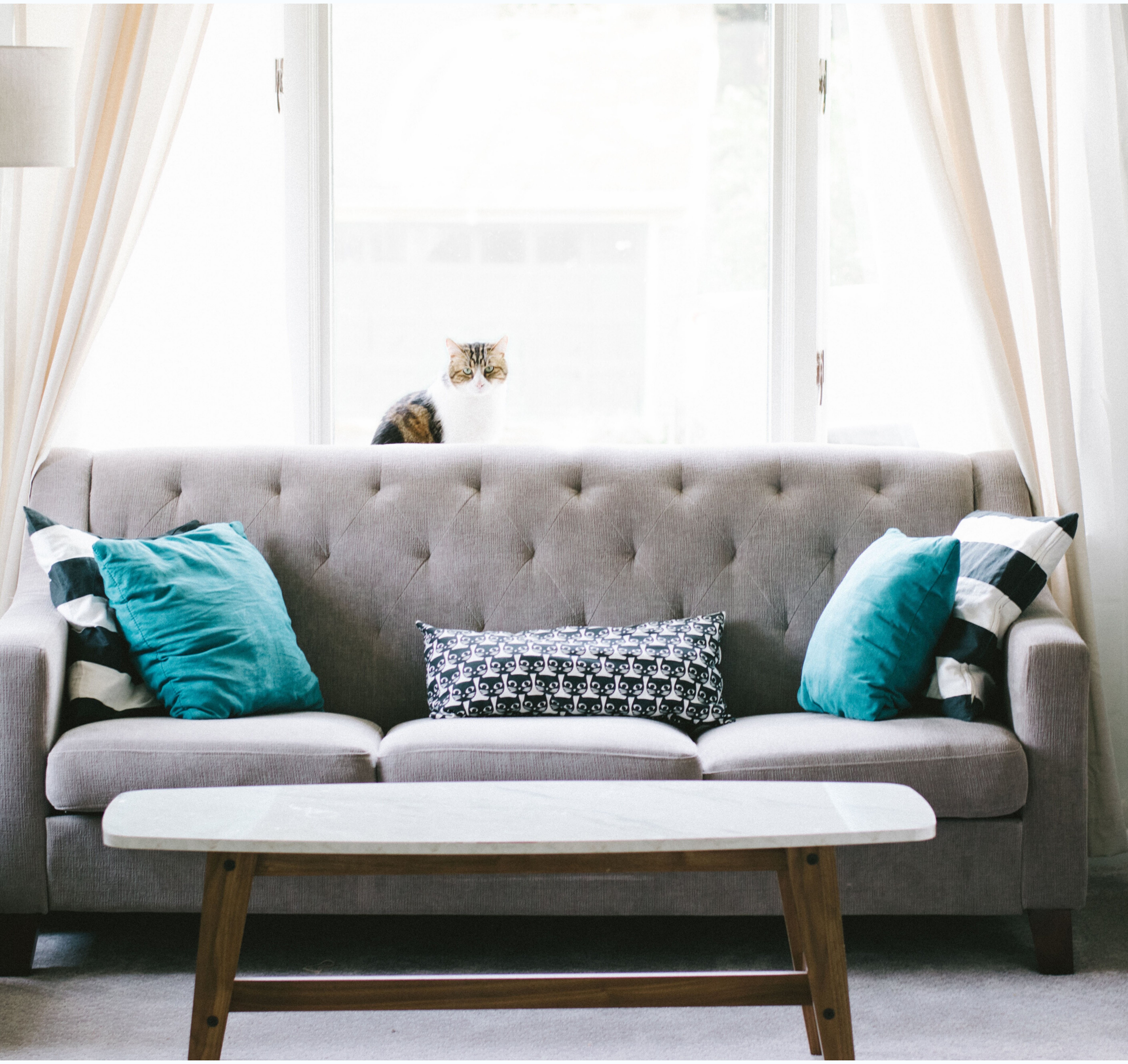
MORTGAGE TERMS 101



Brightleaf
mortgage company

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Terms Covered

- Appraisal
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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

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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.

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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.

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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.

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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

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Pre-Approval

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.

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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 & Savings

401k & IRA

Stocks & Mutual Funds

Bonds

Etc.

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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.

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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. But there are caps that limit how much it can rise.

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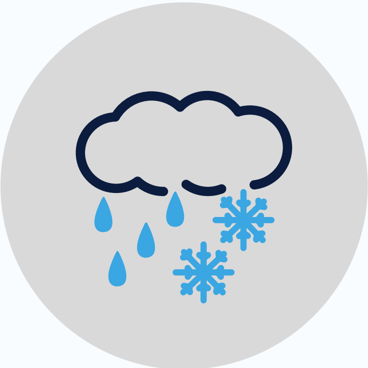
Homeowners Insurance

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

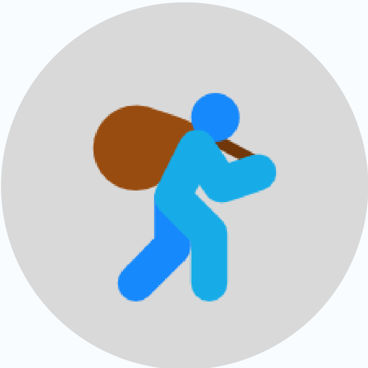
A monthly premium is paid to an insurance provider in exchange for coverage.

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

Covered Examples:



Storms



Burglary

Fire

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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

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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.

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Down Payment

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

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

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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.

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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.

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Deed

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

The deed is received when the loan is closed.

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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

2 Types of Real Estate Agents

Buyer's Agent

Seller's Agent

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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.

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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

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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:

- Appriasal Fees
- Loan Origination Fees
- Pest Inspection Fees

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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

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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.

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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

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Title Insurance

Common closing cost.

Title insurance protects against outside claims to the property.

It is a single payment at closing.

Protects the owner for as long as they own the home.

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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.