

QUICK GUIDE TO HOME LOAN TERMINOLOGY

The mortgage business seems to have its own language. It's complicated and full of acronyms, terms and jargon, many of which you may know about or others that come as a surprise.

We know mortgages are hard to understand, and that's why we work with you every step of the way. Our experienced mortgage lenders have helped us develop a glossary to help define "mortgagese" for you. The following list consists of the most commonly used terms, but you can get additional definitions from the [U.S. Department of Housing and Urban Development](#). We're also happy to help answer any of your questions – just give us a call.

Additional Principal Payment:

Money paid to the lender in addition to the established payment amount used directly against the loan principal to shorten the length of the loan and/or lessen the amount of interest paid in connection with the loan.

Adjustable-Rate Mortgage (ARM):

A mortgage loan that does not have a fixed interest rate. During the life of the loan, the interest rate will change periodically based on the index rate. They are also referred to as adjustable mortgage loans (AMLs) or variable-rate mortgages (VRMs).

Annual Percentage Rate (APR):

A measure of the cost of credit, expressed as a yearly rate. It includes interest as well as other charges. Because all lenders, by federal law, must follow the same rules to ensure the accuracy of the annual percentage rate, it provides consumers with a good basis for comparing the cost of loans, including mortgage plans. APR is a higher rate than the simple interest of the mortgage.

Basis Points (BP):

One one-hundredth of a percent used in measuring yield differences among bonds.

Closing Costs:

Fees for final property transfer not included in the price of the property. Typical closing costs include charges for the mortgage loan, such as origination fees, discount points, appraisal fee, survey, title insurance, legal fees, real estate professional fees, prepayment of taxes and insurance, and real estate transfer taxes. A common estimate of a Buyer's closing costs is 2 to 4 percent of the purchase price of the home. A common estimate for Seller's closing costs is 3 to 9 percent.

Contingency:

A clause in a purchase contract outlining conditions that must be fulfilled before the contract is executed. Both buyer and seller may include contingencies in a contract, but both parties must accept the contingency.

Debt-to-Income Ratio:

A comparison or ratio of gross income to housing and non-housing expenses. With the FHA, the monthly mortgage payment should be no more than 31% of monthly gross income (before taxes) and the mortgage payment combined with non-housing debts should not exceed 43% of gross income.

Fannie Mae:

This is the Federal National Mortgage Association (FNMA), a federally chartered enterprise owned by private stockholders that purchases residential mortgages and converts them into securities for sale to investors. By purchasing mortgages, Fannie Mae supplies funds that lenders may loan to potential homebuyers. Fannie Mae is also known as a Government Sponsored Enterprise (GSE).

FHA:

This is the Federal Housing Administration, which was established in 1934 to advance homeownership opportunities for all Americans. The FHA assists homebuyers by providing mortgage insurance to lenders to cover most losses that may occur when a borrower defaults. This encourages lenders to make loans to borrowers who might not qualify for conventional mortgages.

Fixed-Rate Mortgage:

A mortgage with principal and interest payments that remain the same throughout the life of the loan because the interest rate and other terms are fixed and do not change.

Freddie Mac:

This is the Federal Home Loan Mortgage Corporation (FHLM), a federally chartered corporation that purchases residential mortgages, securitizes them and sells them to investors. This provides lenders with funds for new homebuyers. Freddie Mac is also known as a Government Sponsored Enterprise (GSE).

PITI:

Your monthly mortgage payment typically is made up of four components: principal, interest, taxes, and insurance, together known as PITI.

Preapproval:

A lender commits to lend to a potential borrower a fixed loan amount based on a completed loan application, credit reports, debt, savings and the review of an underwriter. The commitment remains as long as the borrower still meets the qualification requirements at the time of purchase. This does not guarantee a loan until the property has passed inspections and underwriting guidelines.

USDA Mortgage:

A mortgage guaranteed by the United States Department of Agriculture. It is often referred to as a Rural Development Mortgage.

VA Mortgage:

A mortgage guaranteed by the Department of Veterans Affairs (VA).

Understanding the vocabulary will help you feel more confident about the mortgage process. Know that you can count on your loan officer and Realtor to help you understand what these terms mean to you and your homebuying process.

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