

Mortgage Loan Terms



- **Interest Rate** - the price of money expressed as a percentage rate. Interest rates vary day to day. In order to accurately compare loans among lenders, call for quotes on the same day.
- **APR (Annual Percentage Rate)** - APR represents the total cost of the loan including the interest rate, points, and fees that the borrower pays for the loan. It is expressed as a percentage of the loan amount. Since this is a uniform calculation, it is a good basis for comparing the cost of loans.
- **Points** - One point is one percent of the loan amount. Points are fees paid to the lender at the time the loan is funded. Generally the more points that are paid for a loan, the lower will be the interest rate.
- **PITI** - stands for Principal, Interest, Taxes, Insurance which are the components of your monthly housing expense.
- **Mortgage Insurance** - Lenders generally require mortgage insurance if a borrower has less than a 20% downpayment. The borrower pays the premium for this insurance. The lender is paid a portion of the outstanding loan balance if the homeowner defaults on the loan. Ask the lender how long the mortgage insurance is required and when and how the insurance can be canceled.
- **Interest Rate Lock-In** - The lender agrees to make a loan at a pre-determined interest rate for a specific period of time, regardless of what may happen to actual interest rates. There may be a fee for this lock-in privilege.
- **Prepayment of Principal** - The lender may charge the borrower a fee if the loan is paid off early. Be sure to ask the lender if there is a penalty for prepayment. This would impact you if you were interested in refinancing or if you were to sell your home.
- **Pre-qualification** - an informal determination by a lender of how large a mortgage loan a buyer can afford. A pre-qualification is an estimate of the loan amount that can be borrowed, but does not obligate the lender to approve the loan.
- **Pre-approval** - a guarantee that the lender will provide you with the loan amount for which you have applied. (This assumes that the home's appraised value is equal to or greater than the offer price). A pre-approval is valid for a certain period of time. A lender pre-approval can be of significant value in negotiating for the purchase of a home.

Adjustable Rate Mortgage Terms

- **Initial interest Rate** the starting interest rate for your adjustable rate mortgage. It can be a "teaser" rate and jump significantly after the initial period. Ask your lender for what period this interest rate is valid.
- **Rate adjustment period** - the length of time between interest rate changes. Ask the lender how often your interest rate and loan payment will vary. That is, how frequently will the interest rate be adjusted and can it decrease or only increase.
- **Financial Index** - the indicator used to determine the adjustments to interest rates. An index will typically reflect prevailing market conditions. Some indexes are more volatile than others.
- **Margin** - the amount that is added to the financial index to establish the mortgage interest rate (the fully-indexed rate) at each adjustment period.
- **Negative Amortization** - occurs when your monthly payments are too low to cover the interest rate agreed upon. This difference between your payment and the actual interest owed is added to your principal and increases the size of your debt. This could cause you to owe more money than the original amount of the loan.

Interest Rate Caps

- **Periodic Rate Cap** - limits the amount your interest rate can be adjusted at each adjustment interval.
- **Life Cap** - limits the amount your interest rate can be adjusted over the entire life of the loan.
- **Payment Cap** - limits the increase of your monthly payment at any one period of adjustment. If your payment as a result of the payment cap is less than the actual interest rate would require, you still owe the lender the difference. This difference in the amount owed versus the amount actually paid will be added to the principal of your loan. This scenario can increase the total amount of money you owe.