

Don't Sign Off On Your Mortgage Unless You Fully Understand The Following 20 Terms!

Buying a home is a major commitment and achievement for almost every one. Pride of ownership, tax deduction and equity build up are just a number of the many benefits you'll enjoy with your new home.

Your home purchase may very well be one of the largest investment you've made. But the home buying process could be confusing at times. You may encounter terms with which you are unfamiliar.

Some of us may feel a bit embarrassed to ask what we consider too many or too basic questions. Some may have made a note of their questions but forget to revisit those points.

We want to make sure that you have complete confidence in your home loan process, invest a moment to read this report and become familiar with the concepts and terms you're most likely to encounter.

Remember, knowledge is power. The more you are familiar with the process, the better the decisions you are going to make. Our objective is to help you be confident about your decision and sleep soundly every night.

Adjustable Rate Mortgage (ARM)

A.k.A Variable Rate Mortgage. The interest rate in this type of mortgage is adjusted periodically based on a pre-selected index.

Annual Percentage Rate (APR)

An interest rate that reflects the cost of a mortgage as a yearly rate. This kind of interest takes into account all the points and fees and is based on the loan going to its full-term.

Assumption

This is an agreement between the buyer and the seller where the buyer assumes responsibility for the seller's existing mortgage. This kind of arrangement typically saves the buyer money because there will likely be no closing costs.

Buy-down

This is a method of lowering the buyer's monthly payment for a short period of time. The lender or home-builder subsidizes the mortgage by lowering the interest rate for the first few years of a loan.

Caps

This is a limit in the amount the interest rate or monthly payments for an ARM type of loan. It's typically there to protect the buyer. However, be careful of what the cap is. Sometimes, the cap may be set too high.

Closing

A.k.a. settlement. This is the time when there's a conclusion of a real estate sale in which the property and funds are exchanged between the two parties involved.

Debt-to-Income Ratio

A percentage from dividing a borrower's monthly payment obligation on long-term debts by the borrower's total monthly income.

Discount Points

This is the prepaid interest assessed at closing by the lender. One point equals 1 percent of the loan amount.

Down Payment

The sum paid by the buyer at closing that makes up the difference between purchase price and the mortgage amount.

Earnest Money

The initial amount of money given to the seller by the buyer as a deposit to commit the buyer to the future transaction.

Equity

The value an owner has in real estate over and above the obligation against the property. Equity is fair market value minus the current indebtedness.

Escrow

Funds given to a neutral third party which will be held to cover payments such as tax or insurance payments and earnest money deposits.

Fixed Rate Mortgage

The interest rate in this type of mortgage remains constant throughout the life of the loan.

Loan-to-Value Ratio

The ratio between the amount of the mortgage loan and the appraised value of the property.

Market Value

A price that a buyer is willing to pay and the seller is willing to accept on a property.

Mortgage Insurance

Insurance that protects lenders against loss if a borrower defaults. This is a federal requirement when the loan-to-value ratio is more than 80%.

Origination Fee

A fee, typically as a percentage of the loan, charged by a lender for processing a loan application.

PITI

Principal, Interest, Taxes, and Insurance.

Underwriting

The decision-making process of granting a loan to a potential home-buyer.

Variable Rate Mortgage

A.k.a. Adjustable Rate Mortgage. A mortgage in which the interest rate is adjusted periodically based on a pre-selected index.

We hope these tips and ideas are of value to you. If there is any way we can be of service, please contact the Max Team.

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