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Glossary of Mortgage Terms

The vocabulary of home buying, explained simply

Mortgage paperwork comes with a language all its own. Here are the terms you're most likely to run into while buying or refinancing a home, explained in plain English.

Amortization

The process of paying off a loan over time through regular payments that cover both principal and interest.

Annual Percentage Rate (APR)

The total yearly cost of your loan, including interest and certain fees, expressed as a percentage.

Appraisal

A licensed appraiser's estimate of a home's market value, required by your lender before final approval.

Closing Costs

Fees paid at closing to finalize your loan, including lender fees, title insurance, taxes, and more.

Debt-to-Income Ratio (DTI)

The percentage of your monthly income that goes toward debt payments, used by lenders to gauge affordability.

Down Payment

The portion of a home's purchase price you pay upfront, not financed by the loan.

Earnest Money

A deposit that shows a seller you're serious about the purchase, usually applied toward closing costs or the down payment.

Equity

The difference between your home's market value and what you still owe on your mortgage.

Escrow

An account your lender uses to collect and pay your property taxes and homeowners insurance on your behalf.

Fixed-Rate Mortgage

A loan with an interest rate that stays the same for the entire loan term.

Loan Estimate

A standardized document showing your estimated rate, monthly payment, and closing costs, provided within 3 days of applying.

Loan-to-Value Ratio (LTV)

The loan amount compared to the home's appraised value, expressed as a percentage.

Origination Fee

A fee charged by your lender for processing a new loan application.

Pre-Approval

A lender's written confirmation, based on verified financial information, of how much you're qualified to borrow.

Pre-Qualification

An informal, non-verified estimate of what you might be able to borrow, based on information you provide.

Principal

The original amount borrowed, not including interest.

Private Mortgage Insurance (PMI)

Insurance required on some conventional loans with less than 20% down, protecting the lender if you default.

Rate Lock

An agreement that guarantees your interest rate for a set period while your loan is processed.

Title Insurance

A policy that protects you and your lender against problems with the property's legal ownership history.

Underwriting

The process a lender uses to verify your financial information and assess the risk of approving your loan.