A Helpful Mortgage Glossary

Definitions of the most common terms

When working with a mortgage lender, it is important that borrowers understand the most frequently used terms. Consult this helpful list of definitions whenever you come across a loan term you do not understand.

Adjustable-rate mortgage (or ARM)—A mortgage with an interest rate that is adjusted periodically (based on a pre-selected index).

Annual percentage rate (or APR)—The annual cost of a loan, expressed as a yearly rate. APR takes into account interest, discount points, lender fees, and mortgage insurance, so it will be slightly higher than the interest rate on the loan.

Appraisal—A written estimate of a property's current market value.

Closing costs—Money paid to close a loan, including lender fees and third-party charges.

Down payment—An upfront payment made by the buyer toward the property purchase price. Typically ranges from five to 20%.

Fixed-rate mortgage—A mortgage with an interest rate that does not change over the term of the loan.

Jumbo loan—A mortgage with an amount higher than the conforming loan limits (which are set annually by Fannie Mae and Freddie Mac).

Loan-to-value Ratio (or LTV)—The percentage of the property value that is borrowed. For example, an LTV of 80% means the mortgage loan is for 80% of the value of the property, with the borrower making a 20% down payment.

Principal—The amount of debt (not including interest) left on a loan.

Private mortgage insurance (or PMI)—An insurance policy that protects the lender against default on loans. PMI is typically required if a down payment is less than 20%.

Whether customers are purchasing a new home or refinancing an existing mortgage, Sierra Pacific Mortgage is committed to providing the information they need.

Please contact me today.

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