

# Mortgage Terms Glossary

Common mortgage jargon explained in plain English

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## **APR (Annual Percentage Rate)**

The total yearly cost of your loan as a percentage. Includes rate plus fees. Use APR to compare loan offers apples-to-apples.

## **Amortization**

How payments split between principal and interest over time. Early payments are mostly interest; later payments mostly principal.

## **Closing Costs**

Fees paid at end of transaction — typically 2–5% of purchase price. Includes appraisal, title insurance, origination fees, prepaid taxes and insurance.

## **Conventional Loan**

A mortgage not backed by a government agency. Usually requires 620+ credit and at least 3% down. PMI required if less than 20% down.

## **DTI (Debt-to-Income Ratio)**

Total monthly debt payments divided by gross monthly income. Most lenders want this below 43%.

## **Escrow**

Account held by your lender to pay property taxes and insurance. A portion of each payment goes into escrow automatically.

## **FHA Loan**

Government-backed loan allowing credit scores as low as 580 and down payments as low as 3.5%. Popular with first-time buyers.

## **Fixed-Rate Mortgage**

Interest rate stays the same for the entire term. Your principal and interest payment never changes.

## **ARM (Adjustable-Rate Mortgage)**

Rate is fixed for an initial period then adjusts periodically based on market conditions. Can start lower than fixed rates.

## **LTV (Loan-to-Value Ratio)**

Loan amount divided by the home's appraised value. 80% LTV means 20% down.

## **PMI (Private Mortgage Insurance)**

Required when down payment is less than 20% on conventional loans. Drops off at 20% equity.

## **Points (Discount Points)**

Prepaid interest to lower your rate. One point = 1% of loan amount. Useful for long-term homeowners.

## **Pre-Approval**

Lender's written commitment based on verified income, assets, and credit. Much stronger than pre-qualification.

## **Pre-Qualification**

Informal estimate based on self-reported info. A starting point, not a commitment.

## **Title Insurance**

Protects against claims on the property's ownership history. One-time fee at closing.

**Underwriting**

Lender reviews all documentation to make a final loan decision. Last step before clear-to-close.

**USDA Loan**

Zero-down loan for eligible rural/suburban areas. Income limits apply; many areas near WA cities qualify.

**VA Loan**

Zero-down, no-PMI loan for eligible veterans, active-duty members, and surviving spouses.

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