

Get a Mortgage: Key Terms

The 28/36 Rule — a guideline to help you balance your housing expenses and other debt payments. It states that you should spend no more than 28% of your pre-tax income on housing expenses and no more than 36% of your income on your total debt.

Adjustable-rate mortgage (ARM) — a housing loan with an interest rate that changes throughout the life of the loan

Closing (or settlement) — when you, your lender, and anyone else involved in a mortgage agreement sign the documents and make it official

Closing costs — the costs of creating and taking out a mortgage that you pay upfront when you buy a house

Closing disclosure statement — a document you receive before you buy a house that includes all of your closing costs and loan information

Collateral — something you own that your lender can take if you don't repay your loan

Conventional loan — a type of mortgage that's from a private lender and not backed or insured by the government

Debt-to-income ratio (DTI) — a number that compares how much debt you have to how much money you make

Default — when you don't meet the requirements of your loan or other debt agreement

Down payment — a sum of money you pay upfront when you buy a house

Escrow — an account held by your mortgage lender where funds are held for you to pay home-related expenses

Escrow statement — a document that outlines the terms and costs of your escrow account when you buy a house

FHA loan — a type of mortgage that's insured by the government (meaning if you don't pay your mortgage, the government guarantees your lender will still get their payment)

Fixed-rate mortgage (FRM) — a housing loan with an interest rate that stays the same throughout the life of the loan

Foreclosure — when your mortgage lender takes your property or home when you don't meet the requirements of your mortgage

Hard money loan — a short-term loan that's backed by a house or property

Loan estimate — a document that outlines an in-depth estimate of the exact terms of your mortgage

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Mortgage — a type of loan that allows you to buy a house or real estate

Mortgage broker — a third-party service that connects homebuyers with potential mortgage lenders

Mortgage lender — a loan provider that directly offers mortgages but doesn't offer other banking products

Mortgage note — your mortgage contract

Mortgage points — money you pay your lender upfront in exchange for a lower interest rate

Pre-approval — when a lender looks at your financial info to decide whether you're likely to be approved for a loan before you officially apply

Pre-approval letter — a document from a lender that says they'll tentatively lend to you up to a certain amount

Prequalification — when a lender uses your financial information to estimate what kind of loan you'll likely be approved for

Private mortgage insurance (PMI) — insurance that covers your lender's losses if you don't make your mortgage payments

Recasting — a process where you lower your monthly mortgage payments by paying a lump sum on the principal. Your lender recalculates your monthly payments based on the lower amount.

Refinancing — the process of taking out a new loan to cover what you owe on another loan

Secured loans — loans that are backed by collateral

Underwriting — the process of approving a mortgage

USDA home loan — a type of mortgage guaranteed by the US Department of Agriculture that helps families in rural areas with low incomes buy homes

VA home loan — a type of mortgage guaranteed by the US Department of Veteran Affairs that helps veterans, service members, and their families buy homes

Short refinance — when your mortgage lender offers you a new mortgage that's less than what you currently owe on yours and forgives the difference

Special forbearance — where your payments are reduced or suspended temporarily during a financial hardship