# Mortgages key terms

## 5/1 Adjustable Rate Mortgage

A 5/1 adjustable rate mortgage (ARM) or 5-year ARM is a mortgage loan where “5” is the number of years your initial interest rate will stay fixed. The “1” represents how often your interest rate will adjust after the initial five-year period ends. The most common fixed periods are 3, 5, 7, and 10 years and “1,” is the most common adjustment period. It’s important to carefully read the contract and ask questions if you’re considering an ARM.

Learn more about how adjustable rates change.

## Ability-to-repay rule

The ability-to-repay rule is the reasonable and good faith determination most mortgage lenders are required to make that you are able to pay back the loan.

Read more

## Adjustable Rate Mortgage (ARM)

An adjustable rate mortgage (ARM) is a type of loan for which the interest rate can change, usually in relation to an index interest rate. Your monthly payment will go up or down depending on the loan’s introductory period, rate caps, and the index interest rate. With an ARM, the interest rate and monthly payment may start out lower than for a fixed-rate mortgage, but both the interest rate and monthly payment can increase substantially.

Learn more about how ARMs work and what to consider.

## Amortization

Amortization means paying off a loan with regular payments over time, so that the amount you owe decreases with each payment. Most home loans amortize, but some mortgage loans do not fully amortize, meaning that you would still owe money after making all of your payments.

Some home loans allow payments that cover only the amount of interest due, or an amount less than the interest due. If payments are less than the amount of interest due each month, the mortgage balance will grow rather than decrease. This is called negative amortization. Other loan programs that do not amortize fully during the loan may require a large, lump sum “balloon” payment at the end of the loan term. Be sure you know what type of loan you are getting.

Learn more about the homebuying process.

## Amount financed

It means the amount of money you are borrowing from the lender, minus most of the upfront fees the lender is charging you.

Read more

## Annual income

Annual income is a factor in a mortgage loan application and generally refers to your total earned, pre-tax income over a year. Annual income may include income from full-time or part-time work, self-employment, tips, commissions, overtime, bonuses, or other sources. A lender will use information about your annual income and your existing monthly debts to determine if you have the ability to repay the loan.

Whether a lender will rely upon a specific income source or amount when considering you for a loan will often depend upon whether you can reasonably expect the income to continue.

Learn more about why your ability to repay is important to lenders.

# Annual Percentage Rate (APR)

An annual percentage rate (APR) is a broader measure of the cost of borrowing money than the interest rate. The APR reflects the interest rate, any points, mortgage broker fees, and other charges that you pay to get the loan. For that reason, your APR is usually higher than your interest rate.

Learn how to compare APRs

# Appraisal fee

An appraisal fee is the cost of a home appraisal of a house you plan to buy or already own. Home appraisals provide an independent assessment of the value of the property. In most cases, the selection of the appraiser and any associated costs is up to your lender.

Learn more about the homebuying process.

# Automatic payment

Automatic payments allow you to set up recurring mortgage payments through your bank. Automatic payments can be a convenient way to make sure that you make your payments on time.

# Balloon loan

For mortgages, a balloon loan means that the loan has a larger-than-usual, one-time payment, typically at the end of the loan term. This one-time payment is called a “balloon payment, and it is higher than your other payments, sometimes much higher. If you cannot pay the balloon amount, you might have to refinance, sell your home, or face foreclosure.

Find out why balloon loans might be risky.

# Bi-weekly payment

In a bi-weekly payment plan, the mortgage servicer is collecting half of your monthly payment every two weeks, resulting in 26 payments over the course of the year (totaling one extra monthly payment per year). By making additional payments and applying your payments to the principal, you may be able to pay off your loan early. Before choosing a bi-weekly payment, be sure to review your loan terms to see if you will be subject to a prepayment penalty if you do so. Check if your servicer charges any fees for a bi-weekly payment plan. You may be able to accomplish the same goal without the fee by making an extra monthly mortgage payment each year.

# Closing Disclosure

A Closing Disclosure is a required five-page form that provides final details about the mortgage loan you have selected. It includes the loan terms, your projected monthly payments, and how much you will pay in fees and other costs to get your mortgage.

Learn how to double-check that all the details about your loan are correct on your closing disclosure.

# Construction loan

A construction loan is usually a short-term loan that provides funds to cover the cost of building or rehabilitating a home.

Read more

# Conventional loan

A conventional loan is any mortgage loan that is not insured or guaranteed by the government (such as under Federal Housing Administration, Department of Veterans Affairs, or Department of Agriculture loan programs).

Learn more about conventional loans and other loan types.

## Co-signer or co-borrower

A co-signer or co-borrower is someone who agrees to take full responsibility to pay back a mortgage loan with you. This person is obligated to pay any missed payments and even the full amount of the loan if you don't pay. Some mortgage programs distinguish a co-signer as someone who is not on the title and does not have any ownership interest in the mortgaged home. Having a co-signer or co-borrower on your mortgage loan gives your lender additional assurance that the loan will be repaid. But your co-signer or co-borrower's credit record and finances are at risk if you don't repay the loan.

Learn more about the homebuying process.

## Credit history

A credit history is a record of your credit accounts and your history of paying on time as shown in your credit report. Consumer reporting companies, also known as credit reporting companies, collect and update information about your credit record and provide it to other businesses, which use it make decisions about you. Credit reports have information about your credit activity and current credit situation such as your loan paying history and the status of your credit accounts.

Learn more about checking your credit history before buying a home.

## Credit report

A credit report is a statement that has information about your credit activity and current credit situation such as loan paying history and the status of your credit accounts. Lenders use your credit scores and the information on your credit report to determine whether you qualify for a loan and what interest rate to offer you.

Find out how to get a copy of your credit reports.

## Credit score

A credit score predicts how likely you are to pay back a loan on time. Companies use a mathematical formula—called a scoring model—to create your credit score from the information in your credit report. There are different scoring models, so you do not have just one credit score. Your scores depend on your credit history, the type of loan product, and even the day when it was calculated.

Find out where you can get your credit score.

## Debt ratio

Your debt-to-income ratio is all your monthly debt payments divided by your gross monthly income. This number is one way lenders measure your ability to manage the monthly payments to repay the money you plan to borrow.

Learn how to calculate your debt-to-income ratio.

## Deed-in-lieu of foreclosure

A deed-in-lieu of foreclosure is an arrangement where you voluntarily turn over ownership of your home to the lender to avoid the foreclosure process. A deed-in-lieu of foreclosure may help you avoid being personally liable for any amount remaining on the mortgage. If you live in a state in which you are responsible for any deficiency, which is a difference between the value of your property and the amount you still owe on your mortgage loan, you will want to ask your lender to waive the deficiency. If the lender waives the deficiency, get the waiver in writing and keep it for your records. A deed-in-lieu of foreclosure is one type of loss mitigation.

## Delinquent

Delinquent is another term for being late on your payments. Your loan can become delinquent when you miss a payment or don't make a full payment by the due date. After you are delinquent for a certain period of time, a lender or servicer may begin the foreclosure process. The amount of time can vary by state.

Federal rules may also apply to when the foreclosure may start. Learn more about your options if you can't pay your mortgage.

### If you are impacted by the coronavirus

Get more information about mortgage relief options.

# Demand feature

The Closing Disclosure has a statement that reads "Your loan has a demand feature," which is checked "yes" or "no." A demand feature permits the lender to require early repayment of the loan.

Read more

# Down payment

A down payment is the amount you pay toward the home upfront. You put a percentage of the home's value down and borrow the rest through your mortgage loan. Generally, the larger the down payment you make, the lower the interest rate you will receive and the more likely you are to be approved for a loan.

Learn more about determining your down payment.

# Down payment programs or grants

A down payment grant or program typically refers to assistance provided by an organization such as a government or non-profit agency, to a homebuyer to assist them with the down payment for a home purchase. The funds may be provided as an outright grant or may require repayment, such as when the home is sold.

Understand where you can get information on down payment programs and grants.

# Earnest money

Earnest money is a deposit a buyer pays to show good faith on a signed contract agreement to buy a home. The deposit is held by a seller or third party like a real estate agent or title company. If the home sale is finalized or "closed" the earnest money may be applied to closing costs or the down payment. If the contract is terminated for a permissible reason, the earnest money is returned to the buyer. If the buyer does not perform in good faith, the earnest money may be forfeited and paid out to the seller.

Learn more about the homebuying process.

# Equity

Equity is the amount your property is currently worth minus the amount of any existing mortgage on your property.

Learn what a home equity loan is.

# Escrow

An escrow account is set up by your mortgage lender to pay certain property-related expenses, like property taxes and homeowner's insurance. A portion of your monthly payment goes into the account.  If your mortgage doesn't have an escrow account, you pay the property-related expenses directly.

Find out more about how the escrow impacts your monthly mortgage payment.

# Fannie Mae

The Federal National Mortgage Association (Fannie Mae) purchases and guarantees mortgages from lending institutions in an effort to increase affordable lending. Fannie Mae is not a federal agency. It is a government-sponsored enterprise under the conservatorship of the Federal Housing Finance Agency (FHFA).

Learn more about conventional loans.

# FHA funding fee

The Federal Housing Administration (FHA) requires an FHA funding fee and a monthly insurance premium (MIP) for most of its single-family programs. This upfront mortgage insurance premium is sometimes called an upfront mortgage insurance premium (UFMIP).

Find out if an FHA mortgage is right for you.

# FHA loan

FHA loans are loans from private lenders that are regulated and insured by the Federal Housing Administration (FHA). FHA loans differ from conventional loans because they allow for lower credit scores and down payments as low as 3.5 percent of the total loan amount. Maximum loan amounts vary by county.

Learn about this and other mortgage loan options.

# FHA mortgage limits

FHA mortgage limits are the dollar amount limits for qualifying mortgages that the FHA will insure as part of its single-family home mortgage program. These limits are based upon location and they may be revised each year.

Use the FHA's tool to look up your county-level loan limits .

# Finance charge

A finance charge is the total amount of interest and loan charges you would pay over the entire life of the mortgage loan.

Read more

# First-time home buyers (FTHB) loan programs

First-time home buyers (FTHB) may use a number of different types of loan programs to purchase their first home. Popular FTHB loans include programs offered by FHA, VA, USDA, Fannie Mae, and Freddie Mac with low down payments. Some programs define a FTHB as someone who hasn't purchased a home in three years or more.

Understand your loan options.

# Fixed-rate mortgage

A fixed-rate mortgage is a type of home loan for which the interest rate is set when you take out the loan and it will not change during the term of the loan.

Learn more about how fixed-rate mortgages work and what to consider.

# Forbearance

Forbearance is when your servicer allows you temporarily to pay your mortgage at a lower rate or temporarily to stop paying your mortgage. Your servicer may grant you forbearance if, for example, you recently lost your job, suffered from a disaster, or from an illness or injury that increased your health care costs. Forbearance is a type of loss mitigation.

Learn more about mortgage forbearance

Depending on the kind of loan you have, there may be different forbearance options. You must contact your loan servicer to request forbearance. Remember that you will have to make up these missed or reduced payments when your forbearance period is over.

### If you are impacted by the coronavirus

Get more information about mortgage relief options.

# Force-placed insurance

Your servicer may require force-placed insurance when you do not have your own insurance policy or if your own policy doesn't meet your servicer's requirements. Force-placed insurance usually protects only the lender, not you. The servicer will charge you for the insurance. Force-placed insurance is usually more expensive than finding an insurance policy yourself.

# Foreclosure

Foreclosure is when the lender or servicer takes back property after the homeowner fails to make mortgage payments. In some states, the lender has to go to court to foreclose on your property (judicial foreclosure), but other states do not require a court process (non-judicial foreclosure). Generally, borrowers must be notified if the lender or servicer begins foreclosure proceedings. Federal rules may apply to when the foreclosure may start.
If you're concerned about foreclosure, learn how to get help.

### If you are impacted by the coronavirus

Get more information about mortgage relief options.

# Freddie Mac

The Federal Home Loan Mortgage Corporation (Freddie Mac) is a private corporation founded by Congress. Its mission is to promote stability and affordability in the housing market by purchasing mortgages from banks and other loan makers. The corporation is currently under conservatorship, under the direction of the Federal Housing Finance Agency (FHFA).

Learn more about conventional loans.

# Good Faith Estimate

A Good Faith Estimate (GFE) is a form that a lender must give you when you apply for a reverse mortgage. The GFE lists basic information about the terms of the reverse mortgage loan offer.

Find out when you'd receive a Good Faith Estimate.

# Government recording charges

Government recording charges are fees assessed by state and local government agencies for legally recording your deed, mortgage and documents related to your home loan.

Read more

# Higher-priced mortgage loan

In general, a higher-priced mortgage loan is one with an annual percentage rate, or APR, higher than a benchmark rate called the Average Prime Offer Rate. Read more

# HOA dues

If you're interested in buying a condo, co-op, or a home in a planned subdivision or other organized community with shared services, you usually have to pay condo fees or Homeowners' Association (HOA) dues. These fees vary widely. Condo or HOA fees are usually paid separately from your monthly mortgage payment. If you do not pay these fees, you can face debt collection efforts by the homeowner's association and even foreclosure.

Learn more about the homebuying process.

# Home appraisal

An appraisal is a written document that shows an opinion of how much a property is worth. The appraisal gives you useful information about the property. It describes what makes it valuable and may show how it compares to other properties in the neighborhood. An appraisal is an independent assessment of the value of the property.

Learn more about why appraisals are important.

# Home equity line of credit (HELOC)

A home equity line of credit (HELOC) is a line of credit that allows you to borrow against your home equity. Equity is the amount your property is currently worth, minus the amount of any mortgage on your property. Unlike a home equity loan, HELOCs usually have adjustable interest rates. For most HELOCs, you will receive special checks or a credit card, and you can borrow money for a specified time from when you open your account. This time period is known as the "draw period." During the "draw period," you can borrow money, and you must make minimum payments. When the "draw period" ends, you will no longer be able to borrow money from your line of credit. After the "draw period" ends you may be required to pay off your balance all at once or you may be allowed to repay over a certain period of time. If you cannot pay back the HELOC, the lender could foreclose on your home.

# Home equity loan

A home equity loan (sometimes called a HEL) allows you to borrow money using the equity in your home as collateral. Equity is the amount your property is currently worth, minus the amount of any existing mortgage on your property.  You receive the money from a home equity loan as a lump sum. A home equity loan usually has a fixed interest rate – one that will not change. If you cannot pay back the HEL, the lender could foreclose on your home.

# Home inspection

A home inspection is often part of the home buying process. You typically have the right to hire a home inspector to examine a property and point out its strengths and weaknesses. This is often especially helpful to test a home's structural and mechanical systems including heating, ventilation, air conditioning, and electrical.

Learn how to schedule an inspection.

# Homeowners' Association (HOA)

A homeowners' association (HOA), is typically formed to manage shared expenses such as landscaping and other maintenance costs for a planned subdivision or other organized community. Condominium HOAs take on more responsibilities including, for example, the maintenance of driveways, shared structures, and roofs.

Get more information on how HOAs may appear on your mortgage statement.

# Homeowner's insurance

Homeowner’s insurance pays for losses and damage to your property if something unexpected happens, like a fire or burglary. When you have a mortgage, your lender wants to make sure your property is protected by insurance. That’s why lenders generally require proof that you have homeowner’s insurance. Homeowner’s insurance is not the same as mortgage insurance.

Learn more about the homebuying process.

# Home purchase price

A home’s purchase price is the amount agreed to by the buyer and seller to be paid to the seller to purchase the home.

Learn more about finding the right home.

# HUD

The Department of Housing and Urban Development (HUD) is a government agency that helps people get and maintain quality affordable housing. They train and sponsor housing counselors all over the country. A HUD-approved housing counseling agency can provide you with homebuyer counseling to help you understand and evaluate your options.

Find a HUD-approved housing counseling agency.

# HUD-1 settlement statement

The HUD-1 Settlement Statement lists all charges and credits to the buyer and to the seller in a real estate settlement, or all the charges in a mortgage refinance. You receive a HUD-1 if you apply for a reverse mortgage or if you applied for a mortgage on or before October 3, 2015.

Find out when you’d receive a HUD-1.

# Index

The index is a benchmark interest rate that reflects general market conditions. The index changes based on the market. Changes in the index, along with your loan’s margin, determine the changes to the interest rate for an adjustable-rate mortgage loan.

Understand how the index factors into the interest rate for an adjustable-rate mortgage loan.

# Initial adjustment cap

An initial adjustment cap is typically associated with adjustable rate mortgages (ARMs). This cap determines how much the interest rate can increase the first time it adjusts after the fixed-rate period expires. It’s common for this cap to be either two or five percent – meaning that at the first rate change, the new rate can’t be more than two (or five) percentage points higher than the initial rate during the fixed-rate period.

Understand how the index factors into adjustable-rate mortgage loans.

# Initial escrow deposit

An initial escrow deposit is the amount that you will pay at closing to start your escrow account, if required by your lender.

Read more

# Interest-only loan

An interest-only mortgage is a loan with scheduled payments that require you to pay only the interest for a specified amount of time.

Read more

# Interest rate

An interest rate on a mortgage loan is the cost you will pay each year to borrow the money, expressed as a percentage rate. It does not reflect fees or any other charges you may have to pay for the loan. For example, if the mortgage loan is for $100,000 at an interest rate of 4 percent, that consumer has agreed to pay $4,000 each year he or she borrows or owes that full amount.

Explore interest rates in your area.

# Interest rate cap

An interest rate cap, sometimes referred to as an annual cap, is the maximum interest rate increase that can occur annually for an adjustable rate mortgage (ARM) even if the rate would have increased more under market interest rates. For example, if this cap is two percent, the new rate can't be more than two percentage points higher than the previous rate.

Understand how lenders use the index and margin to adjust your interest rate.

# Jumbo loan

Each year Fannie Mae, Freddie Mac, and their regulator, the Federal Housing Finance Agency (FHFA), set a maximum amount for loans that they will buy from lenders.

Read more

# Lenders title insurance

Lender's title insurance protects your lender against problems with the title to your property-such as someone with a legal claim against the home. Lender's title insurance only protects the lender against problems with the title. To protect yourself, you may want to purchase owner's title insurance.

Read more

# Lifetime adjustment cap

A lifetime adjustment cap is typically used with adjustable rate mortgages (ARMs). This cap determines how much the interest rate can increase in total, over the life of the loan. For example, if this cap is five percent, that means the rate can never be five percentage points higher than the initial rate. Some lenders may have a different or higher cap.

Understand how the index factors into adjustable-rate mortgage loans.

# Loan estimate

A Loan Estimate is a three-page form that you receive after applying for a mortgage.

Read more

# Loan modification

A mortgage loan modification is a change in your loan terms. The modification is a type of loss mitigation. A modification can reduce your monthly payment to an amount you can afford. Modifications may involve extending the number of years you have to repay the loan, reducing your interest rate, and/or forbearing or reducing your principal balance. If you are offered a loan modification, be sure you know how it will change your monthly payments and the total amount that you will owe in the short-term and the long-term.

Learn more about mortgage loan modification

If you are impacted by the coronavirus

Get more information about mortgage relief options.

# Loan-to-value ratio

The loan-to-value (LTV) ratio is a measure comparing the amount of your mortgage with the appraised value of the property. The higher your down payment, the lower your LTV ratio. Mortgage lenders may use the LTV in deciding whether to lend to you and to determine if they will require private mortgage insurance.

Learn how your loan-to-value ratio relates to your costs.

# Loss mitigation

Loss mitigation refers to the steps mortgage servicers take to work with a mortgage borrower to avoid foreclosure. Loss mitigation refers to a servicer's responsibility to reduce or "mitigate" the loss to the investor that can come from a foreclosure. Certain loss-mitigation options may help you stay in your home. Other options may help you leave your home without going through foreclosure. Loss mitigation options may include deed-in-lieu of foreclosure, forbearance, repayment plan, short sale, or a loan modification.

If you are having trouble making your mortgage payments, or if you have been offered and are considering various loss mitigation options, reach out to a Department of Housing and Urban Development (HUD)-approved housing counseling agency.

You can use the CFPB's "Find a Counselor" tool to get a list of housing counseling agencies in your area that are approved by HUD. You can also call the HOPE™ Hotline, open 24 hours a day, seven days a week, at (888) 995-HOPE (4673).

If you are impacted by the coronavirus

Get more information about mortgage relief options.

# Margin

The margin is the number of percentage points added to the index by the mortgage lender to set your interest rate on an adjustable-rate mortgage (ARM) after the initial rate period ends. The margin is set in your loan agreement and won't change after closing. The margin amount depends on the particular lender and loan.

Understand how the margin factors into an adjustable-rate mortgage loan.

# Monthly expenses

This is how much you spend every month. It can include, but is not limited to, recurring obligations like rent or mortgage payment, utilities, car payments, child support payments, and insurance payments, as well as essentials like food. Most of these obligations will have a fixed due date.

Assess your monthly spending with this spending tracker.

# Mortgage

A mortgage is an agreement between you and a lender that allows you to borrow money to purchase or refinance a home and gives the lender the right to take your property if you fail to repay the money you've borrowed.

If you are ready to take out a mortgage, learn more about buying a house.

# Mortgage closing checklist

A mortgage closing checklist is a list of steps that you can use to prepare and learn what to expect. It can help you identify key questions to ask ahead of time so that you can close with confidence.

Use this worksheet to prepare for closing.

# Mortgage closing costs

Mortgage closing costs are all of the costs you will pay at closing. This includes origination charges, appraisal fees, credit report costs, title insurance fees, and any other fees required by your lender or paid as part of a real estate mortgage transaction. Lenders are required to provide a summary of these costs to you in the Loan Estimate.

Learn more about what happens at closing.

# Mortgage insurance

Mortgage insurance protects the lender if you fall behind on your payments. Mortgage insurance is typically required if your down payment is less than 20 percent of the property value. Mortgage insurance also is typically required on FHA and USDA loans. However, if you have a conventional loan and your down payment is less than 20 percent, you will most likely have private mortgage insurance (PMI).

Understand how mortgage insurance works

# Mortgage loan modification

A mortgage loan modification is a change in your loan terms. The modification is a type of loss mitigation.

Read more

# Mortgage refinance

Mortgage refinance is when you take out a new loan to pay off and replace your old loan. Common reasons to refinance are to lower the monthly interest rate, lower the mortgage payment, or to borrow additional money. When you refinance, you usually have to pay closing costs and fees. If you refinance and get a lower monthly payment, make sure you understand how much of the reduction is from a lower interest rate and how much is because your loan term is longer.

Should I refinance?

A Consumer’s Guide to Mortgage Refinancings

Your Home Loan Toolkit

Consumer Handbook on Adjustable-Rate Mortgages

# Mortgage term

The term of your mortgage loan is how long you have to repay the loan. For most types of homes, mortgage terms are typically 15, 20 or 30 years.

Explore loan term options.

# Origination Fee

An origination fee is what the lender charges the borrower for making the mortgage loan.  The origination fee may include processing the application, underwriting and funding the loan, and other administrative services. Origination fees generally can only increase under certain circumstances.

Learn more about the costs of mortgage origination.

# Owner's title insurance

Owner’s title insurance provides protection to the homeowner if someone sues and says they have a claim against the home from before the homeowner purchased it.

Read more

# Pace financing

PACE financing provides a way to fund energy efficiency home improvements.

Read more

# Payoff amount

Your payoff amount is how much you will actually have to pay to satisfy the terms of your mortgage loan and completely pay off your debt. Your payoff amount is different from your current balance. Your current balance might not reflect how much you actually have to pay to completely satisfy the loan. Your payoff amount also includes the payment of any interest you owe through the day you intend to pay off your loan. The payoff amount may also include other fees you have incurred and have not yet paid.

# PCS orders

Active duty servicemembers may be given permanent change of station (PCS) orders. PCS orders are an official relocation of a servicemember (and any family living with them) to a different duty location.  If the servicemember owns a home, they may choose to sell it. If the servicemember owes more on the home than the home is worth, they may have trouble selling their home. Some servicers offer programs to allow servicemembers to sell their home and not have to pay back the rest of the loan balance. Visit servicemember resources for more information.

# PITI

Principal, Interest, Taxes, and Insurance, known as PITI, are the four basic elements of a monthly mortgage payment.

Read more

# PMI

Private Mortgage Insurance (PMI) is a type of mortgage insurance that benefits your lender.  You might be required to pay for PMI if your down payment is less than 20 percent of the property value and you have a conventional loan. You may be able to cancel PMI once you’ve accumulated a certain amount of equity in your home.

Understand more about when PMI is required

# Prepaid interest charges

Prepaid interest charges are charges due at closing for any daily interest that accrues on your loan between the date you close on your mortgage loan and the period covered by your first monthly mortgage payment.

Read more

# Prepayment penalty

A prepayment penalty is a fee that some lenders charge if you pay off all or part of your mortgage early. If you have a prepayment penalty, you would have agreed to this when you closed on your home. Not all mortgages have a prepayment penalty.

# Principal

The principal is the amount of a mortgage loan that you have to pay back. Your monthly payment includes a portion of that principal. When a payment on the principal is made, the borrower owes less, and will pay less interest based upon a lower loan size.

Understand the difference between the interest rate and principal.

# Property taxes

Property taxes are taxes charged by local jurisdictions, typically at the county level, based upon the value of the property being taxed. Often, property taxes are collected within the homeowner's monthly mortgage payment, and then paid to the relevant jurisdiction one or more times each year. This is called an escrow account. If the loan does not have an escrow account, then the homeowner will pay the property taxes directly.

Learn more about the homebuying process.

# Qualified mortgage

A Qualified Mortgage is a category of loans that have certain, more stable features that help make it more likely that you'll be able to afford your loan. Read more

# Qualified Written Request (QWR)

A Qualified Written Request, or QWR, is written correspondence that you or someone acting on your behalf can send to your mortgage servicer. Instead of a QWR, you can also send your servicer a Notice of Error or a Request for Information.

Read more

# Repayment plan

A repayment plan is a structured way to make up your missed mortgage loan payments over a certain period of time. This is a type of loss mitigation. If you have trouble making your mortgage payments, your lender or servicer may allow you to enter into a repayment plan. Before entering into a repayment plan, make sure you understand the requirements of the plan and whether you will be able to make the new payments.

# Reverse mortgage

A reverse mortgage allows homeowners age 62 or older to borrow against their home equity. It is called a "reverse" mortgage because, instead of making payments to the lender, you receive money from the lender. The money you receive, and the interest charged on the loan, increases the balance of your loan each month. Most reverse mortgages today are called HECMs, short for Home Equity Conversion Mortgage.

Find out what you should consider before applying for a reverse mortgage.

# Right of rescission

The right of rescission refers to the right of a consumer to cancel certain types of loans. If you are buying a home with a mortgage, you do not have a right to cancel the loan once the closing documents are signed. However, if you are refinancing a mortgage, you have until midnight of the third business day after the transaction to rescind (cancel) the mortgage contract. The three-day clock does not start until you sign the credit contract (usually called the promissory note), you receive a Truth in Lending disclosure form, and you receive two copies of a notice explaining your right to rescind.

# Second mortgage

A second mortgage or junior lien is a loan you take out using your house as collateral while you still have another loan secured by your house.

Learn more about second mortgages.

# Security interest

The security interest is what lets the lender foreclose if you don't pay back the money you borrowed.

Read more

# Seller financing

Seller financing is a loan that the seller of your home makes to you.

Read more

# Servicer

Your mortgage servicer is the company that sends you your mortgage statements. Your servicer also handles the day-to-day tasks of managing your loan.

Your loan servicer typically processes your loan payments, responds to borrower inquiries, keeps track of principal and interest paid, and manages your escrow account (if you have one). The loan servicer may initiate foreclosure under certain circumstances. Your servicer may or may not be the same company that originally gave you your loan.

# Shared appreciation mortgage

Under a shared appreciation mortgage, you agree to give your lender a share of any increase in the value of your home.

Read more

# Short sale

A short sale is a sale of your home for less than what you owe on your mortgage. A short sale is an alternative to foreclosure, but because it is a sale, you will have to leave your home. If your lender or servicer agrees to a short sale, you may be able to sell your home to pay off your mortgage, even if the sale price or proceeds turn out to be less than the balance remaining on your mortgage. A short sale is a type of loss mitigation. If you live in a state in which you are responsible for any deficiency, which is the difference between the value of your property and the amount you still owe on your mortgage loan, you will want to ask your lender to waive the deficiency. If the lender waives the deficiency, get the waiver in writing and keep it for your records.

# Subprime mortgage

When lenders use the term, they generally mean a loan program for borrowers who do not qualify for a prime loan, often with a higher interest rate.

Learn more about the homebuying process.

# Survey

A survey is a drawing of your property showing the location of the lot, the house and any other structures, as well as any improvements on the property.

Read more

# Title service fees

Title service fees are part of the closing costs you pay when getting a mortgage. When you purchase a home, you receive a document most often called a deed, which shows the seller transferred their legal ownership, or "title," to the home to you. Title service fees are costs associated with issuing a title insurance policy for the lender.

Read more

# Total interest percentage (TIP)

The Total Interest Percentage (TIP) is a disclosure that tells you how much interest you will pay over the life of your mortgage loan.

Read more

# Total of payments

This number tells you the total amount of money you will have paid over the life of your mortgage.

Read more

# TRID

"TRID" is an acronym that some people use to refer to the **T**ILA **R**ESPA **I**ntegrated **D**isclosure rule.

Read more

# USDA Loan

The Rural Housing Service, part of the U.S. Department of Agriculture (USDA) offers mortgage programs with no down payment and generally favorable interest rates to rural homebuyers who meet the USDA's income eligibility requirements.

Learn more about this and other special loan programs.

# VA loan

A VA loan is a loan program offered by the Department of Veterans Affairs (VA) to help servicemembers, veterans, and eligible surviving spouses buy homes. The VA does not make the loans but sets the rules for who may qualify and the mortgage terms. The VA guarantees a portion of the loan to reduce the risk of loss to the lender. The loans generally are only available for a primary residence.

If you're a veteran, find out if a VA loan is the right fit for you.