SNBT HOME

THE STEPHENSON National Bank & Trust

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Jargon Cheat Sheet for Your Mortgage Loans

The home buying process is stressful enough on its own. Not being able to understand your loan officer's jargon shouldn't part of it. To help with the confusion that comes with basic mortgage terminology, here is a list of common terms and what they mean.

Annual Percentage Rate (APR):

Short for annual percentage rate, APR is how much your loan will cost over the course of a year. This figure is almost always higher than the interest rate, because it takes into account the interest charged as well as fees or additional costs associated with the loan. Since all lenders use the same formula, it can be a more effective way of comparing mortgages rather than just the interest rate.

Closing costs/settlement fees:

The costs, in addition to the price of the property, that buyers and sellers are charged to complete a real estate transaction. Costs include loan origination fees, discount points, appraisal fees, title searches, title insurance, surveys, taxes, deed-recording fees, and credit report charges.

Escrow:

An account held by a neutral third party (called an escrow agent) who works for both the lender and the borrower. Escrow accounts are usually required by lenders to cover property taxes and mortgage insurance. After an initial deposit, borrowers pay into the escrow monthly – usually as part of the mortgage payment.

Good Faith Estimate (GFE):

An accurate estimate of fees associated with a loan provided to the customer by a mortgage lender or broker. A GFE is required by law under the Real Estate Settlement Procedures Act (RESPA). The estimate must be provided within 3 business days of applying for a loan.

Mortgage Broker:

An individual or company who connects borrowers and lenders for the purpose of facilitating a mortgage loan. Unlike a mortgage lender, a broker does not make the loan or service the mortgage. A mortgage broker may represent various lenders or may offer loans from one single source.

Points:

Borrowers can pay a lender points to reduce the interest rate on the loan, resulting in a lower monthly payment. The cost of one point is equal to 1 percent of the loan amount. Depending on the borrower, each point lowers your interest rate by one-eighth to one one-quarter of a percent.