Ocean Financial
Federal Credit Union
Catholic Values You Can Bank On.

Mortgage Lingo to Know

Buying a home is perhaps the largest purchase any person will make – and it is the most complicated. The following are some of the essential terms you should know so you are ready to make smart decisions with your investment.

1. **Adjustable Rate Mortgage (ARM):** a mortgage with an interest rate that can change over time. It typically has a low, fixed initial interest rate and then may adjust regularly either up or down depending on market conditions. It cannot exceed a set rate cap.

2. **Closing costs:** Fees for buying a home from both the lender and third parties, like inspectors, attorneys, surveyors and title insurance companies. These typically add up to 3% - 6% of the total home price, though some of these fees are negotiable.

3. **Down Payment:** When you are buying a house and financing it with a mortgage, most lenders require you to pay a certain amount of cash up front, usually 5% - 20% of the total purchasing price. Your mortgage loan covers the remaining purchase amount after the down payment.

4. **Escrow:** a neutral, third party account that protects the money of both the buyer and the seller until all real estate transactions are finalized. For example, if you choose to make an offer and a deposit on a house, it would first go into an escrow account rather than directly to the seller. Once the purchase is final, escrow accounts are also used to hold money for the homeowners insurance and property taxes until payment is due.

5. **FHA Loan:** A mortgage offered through the Federal Housing Administration that has less strict credit and down payment requirements compared with conventional loans. An FHA Loan is ideal for people with less-than-stellar credit who may not be able to qualify for conventional mortgages. The con to an FHA loan? Along with paying monthly mortgage insurance fees, you'll also pay a sizeable up front premium.

6. **Fixed Rate Mortgage:** a mortgage with an interest rate that won't change over the life of the loan. The rate may be higher than an Adjustable Rate Mortgage (ARM), but you'll never have to worry about your payment increasing.

7. **Interest:** The amount your lender charges you for the cash you borrow, indicated by an annual percentage rate, or APR (for example, 4.00%). Your interest rate depends on your credit history and how much you can afford as your down payment.

8. **Monthly payment:** Your monthly payment will be the same every month if you have a fixed rate mortgage, and it will include of a portion of the loan principal, interest, Private Mortgage Insurance (PMI) if you put less than 20%down, and a portion of your annual cost of property taxes and homeowners' insurance (escrow) – both are mandatory.

9. **Principal:** The amount of money you borrow. Due to interest, you do pay back a significant amount more than what you borrow.

Ocean Financial
Federal Credit Union
Catholic Values You Can Bank On.

10. **Private Mortgage Insurance (PMI):** If you don't provide 20% of the cost of the home as a down payment, many lenders require this insurance to lessen their risk. It's typically paid with a fee added to the monthly mortgage payment. Often, you can cancel it when you reach a certain amount of equity in the home.

11. **Purchase points**: Points are a fee paid to the lender up front as a way to lower your interest rate. Each "point" is equal to 1% of your mortgage principal and generally represents a .25% drop in your mortgage rate. If you have a$300,000 mortgage with a 5.00% interest rate, you could pay an additional $3,000 up front and reduce your interest rate to 4.75%. Points can produce big savings down the road if you have the money saved up.

12. **Term**: The term of your loan means how long your lender will give you to pay back your loan. Most mortgages have 30-year or 15-year terms. The longer the term, the lower the monthly payments, but you'll pay more over the lifetime of the loan because of interest.

13. **VA Loan:** a mortgage for qualified former or current military members. These loans often offer more favorable interest rates and require low to no down payment. They are offered by financial institutions but are backed by the Department of Veterans Affairs.

14. **Fees**: There are many fees you'll need to cover when you begin the mortgage process and at closing, when you finalize the loan. Specific amounts will vary based on the lender and other factors. It can feel overwhelming, but the good news is that lenders are required by law to provide a loan estimate and fee disclosure up front that breaks down all costs, fees and details regarding your mortgage.

The home buying process can be confusing – whether it is your first time or your third – knowing the vernacular may make it a little easier to navigate the process.

If you still have questions about the mortgage process or the mortgage loan that could be right for you, speak with an Ocean Financial Loan Officer over the phone at 516-620-8100 or in person at an Ocean Financial branch.