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JUSTINE PETERSEN

HOMEOWERSHP TERMINOLOGY.

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Your Guide to Understanding the Language of Homeownership

Whether you are preparing to purchase your first home or planning your next move, understanding common mortgage and homeownership terms can help you make informed decisions with confidence.

Annual Percentage Rate (APR)

The APR is a standardized way of showing you the total cost of borrowing money. The APR is a combination of the interest rate charged by the lender along with any fees they might charge. This is the true cost of borrowing the money.

Debt-to-Income Ratio

Your debt-to-income ratio compares your monthly debt payments to your monthly income and is used by lenders to figure out affordability and creditworthiness. You compute your debt-to-income ratio by dividing your monthly minimum debt payments, excluding your rent or mortgage, by your monthly take-home pay.

Cash Reserve

The lender might require that you have two months' worth of your mortgage payment saved up, as a reserve, after you've paid your closing costs.

Closing Costs

All settlement or transaction charges (above and beyond the actual cost of the property) that home buyers need to pay at closing when the property is transferred.

Down Payment

A down payment is a portion of the sales price you pay to the seller to close a sale, with the understanding that the balance will be paid at settlement.

Earnest Money Deposit

A partial deposit that shows your commitment to purchasing the property.

Escrow

The holding of funds or documents by a neutral third party prior to closing your home sale.

Equity

The difference between how much your property is worth and how much you still owe on your mortgage.

Federal Housing Administration (FHA)

A federal agency in HUD that provides mortgage insurance and underwriting standards.

FHA-Insured Loans

Home mortgage loans insured by the Federal Housing Administration.

Fixed Interest Rate

An interest rate that stays the same over the life of a loan.

Gross Income

Your total income before deductions such as taxes, retirement contributions, Medicare, or Social Security.

House Closing

The final transfer of ownership of a house from the seller to the buyer.

Point

One percent of the dollar amount of the mortgage loan.

Variable Interest Rate

An interest rate adjusted periodically based on economic indicators.

PITI

Principal + Interest + Taxes + Insurance. These are the major expenses that make up your monthly mortgage payment.

PMI

Private Mortgage Insurance protects the lender if a borrower defaults. It is commonly required when a down payment is less than 20%.

EQUITY

Equity = Property Value – Mortgage Balance. Building equity increases your ownership stake in your home.

Ready to Begin Your Homeownership Journey?

Justine PETERSEN helps individuals and families prepare for sustainable homeownership through housing counseling, financial education, credit building, and homebuyer preparation programs.

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