02 / GLOSSARY

MORTGAGE TERMS, DECODED

The words that come up the most, explained the way I'd explain them out loud — not the way they're written in your loan docs.

ESCROW

The account your lender uses to collect a little extra each month and pay your property taxes and insurance for you, so you're not stuck with one giant bill once a year.

PMI

Private mortgage insurance — an extra monthly cost that protects the lender, not you, when you put down less than 20%. It goes away once you've built enough equity.

EQUITY

The part of your home you actually own — what it's worth, minus what you still owe on it. It grows as you pay down your loan and as your home's value goes up.

APR

Your interest rate plus most of the fees, rolled into one number so you can compare loans apples-to-apples. It's usually a little higher than the rate itself.

POINTS

An upfront fee you can pay to lower your interest rate. Makes sense if you're staying in the home long enough to recoup the cost — otherwise, skip it.

LTV (LOAN-TO-VALUE)

How much you owe compared to what the home is worth. A lower number means more equity, and it's the number that decides things like PMI removal.

RATE LOCK

An agreement that freezes your interest rate for a set window while your loan closes, so you're not exposed if rates move before closing day.

AMORTIZATION

The schedule of how your payment is split between interest and principal over time. Early on, more goes to interest; later, more goes to paying down the actual loan.

APPRAISAL

An independent, licensed estimate of what your home is actually worth — used to confirm the loan amount makes sense for the property.

UNDERWRITING

The behind-the-scenes process where your loan gets a final review — income, credit, assets, the property itself — before it's officially approved.

DTI (DEBT-TO-INCOME)

What percentage of your monthly income goes toward debt payments. Lenders use it to figure out how much loan you can comfortably handle.

CASH-OUT REFINANCE

Replacing your current mortgage with a new, larger one, and taking the difference in cash — using your home's equity without selling it.