Terms to know for every stage of the home buying journey

The home buying journey can feel daunting with the flurry of questions, house tours, and unfamiliar details. We've put together a glossary of terms you may hear at every stage of the home buying journey.

Stage 1: Understanding financial terms

Collateral – A property or asset of the borrower that the lender uses as security for repayment of a loan.

Credit Score – A number rating an individual's credit history which may be used to determine their likelihood to repay a loan.

Debt-to-Income Ratio (DTI) – The result of dividing monthly debt payments by gross monthly income. This number is used by lenders to determine if an individual can manage monthly loan payments.

Down Payment – The amount paid upfront for the property to make up the difference between the home's value and the loan amount. Down payments may range between 0% and 20% of the sale price, depending on the type of loan.

FICO® – The Fair Isaac Corporation, which uses a formula to develop credit scores ranging between 300 to 850.

Stage 2: Selecting the loan for you

Adjustable Rate Mortgage (ARM) – A type of loan in which the interest rate fluctuates in relation to a market index.

Annual Percentage Rate (APR) – A measure of the cost of credit, expressed as an annualized rate, including finance charges. This is usually higher than an interest rate and may be used to compare loan offers and costs.

Balloon Loan – A type of loan that typically does not amortize over the term of the loan, which may offer low monthly payments during the term of the loan and a larger payment at the end to repay the remaining balance.

Bridge Loan – A type of loan that allows a borrower to use their current home as collateral to purchase a new home. Typically used when borrowers are selling one home and buying another.

5 documents typically requested during a mortgage application

1. Tax returns
2. Pay stubs or W-2s
3. Bank statements
4. Credit history
5. Photo ID

Conventional Loan – A type of loan not insured or guaranteed through a government entity. These loans are available through private lenders, such as banks, credit unions, and mortgage companies. However, some conventional mortgages can be guaranteed by two government-sponsored enterprises; the Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac).

FHA Loan – A type of loan provided by private lenders, but insured by the Federal Housing Administration (FHA). This insurance protects the lender if the borrower fails to pay. Mortgage insurance required.

Fixed Rate Mortgage – A type of mortgage loan with a set interest rate that will not change for the life of the loan.

Loan Estimate Disclosure – An estimate of the total costs for the loan that a lender must provide to the borrower within 3 business days of receiving a mortage application.

Maturity Date – The date that the final loan payment is due.

Mortgage Insurance – An insurance policy which compensates lenders or investors for losses due to the default of a mortgage loan.

Mortgage Loan Originator – The individual who acts as a liaison between the borrower and the lender throughout the loan origination process.

Origination Fee – The fee a lender may charge to originate the loan, and is outside of the third party costs paid to other vendors such as the appraisal, title work, etc. Usually paid by a borrower as part of closing costs.

Points – An upfront fee charged by the lender for the borrower to secure a specified interest rate.

Principal – The amount of money borrowed on a loan.

Rate lock – The lender commits to offer a specific interest rate for a definite period of time. If the allotted time passes, the interest rate is subject to change or the borrower may be charged to extend that rate if the process takes a longer period of time.

USDA Loan – A type of loan provided by the U.S. Dept. of Agriculture (USDA) directly, or provided by a private lender and guaranteed by the USDA, to borrowers in rural areas with no down payment and low interest rates. Borrowers must meet income and location requirements to be eligible Mortgage insurance required.

VA Loan – A type of loan provided by private lenders and guaranteed by the Dept. of Veterans' Affairs (VA) to eligible veterans, current servicemembers, and surviving spouses. This loan does not require a down payment or mortgage insurance.

Variable Rate – An interest rate that can fluctuate throughout the term of the loan.

Stage 3: Finding your new home

Earnest Money – A deposit made by the buyer as a sign a of good faith showing the buyer's true pursuit of the purchase. Usually provided with the buyer's offer on the property.

Home inspection – A comprehensive examination of a property for its strengths and weaknesses, and to test the property's heating, cooling, and electrical systems. Not a requirement of the loan process, but usually a step chosen by the buyer to

Did you know there are three government-insured mortgages?

FHA, VA, and USDA loans are all government-issued loans that make homeownership more accessible to qualified borrowers.

feel assured of the possible issues in their desired home.

Preapproval – The process in which a lender collects and reviews an individual's credit history, bank statements, and other financial documents to determine a specific loan amount the lender will agree to finance. The "preapproved" designation carries more weight and credibility than "prequalification" when a buyer makes an offer on a property.

Prequalification – The process in which a lender collects and reviews an individual's self-reported financial information to estimate the loan amount the individual can afford.

Stage 4: Waiting through the process

Appraisal – An independent, professional assessment of the value of a property.

Owner's title policy – Title insurance obtained by the buyer on a new purchase to protect them for the life of their ownership of the home. Often paid for by the seller.

Title – Legal document identifying who owns a piece of property.

Title insurance – Insurance from the title company to protect the lender and borrower against outside claims of property ownership.

Underwriting – The lender's process of reviewing and deciding to make a loan based on the borrower's credit history, assets, employment, etc., and defining a loan amount and interest rate based on that borrower's assessed risk level.

Stage 5: Commencing closing procedures

Broker – A third party who negotiates contracts or allocates assets. Not a lender.

Closing costs – Out-of-pocket transaction fees payable by the buyer and seller during a home closing, including origination fees, title fees, title insurance, appraisal fees, and other costs. These are usually between 3% and 5% of the loan amount and are in addition to any other down payment.

Closing disclosure – A form providing final details of the mortgage loan, including loan terms, estimated monthly payments, and closing costs.

Deed – A legal document showing transfer of property ownership, usually delivered to the buyer at closing with a full description of the property.

Escrow account – A portion of a borrower's monthly payment is deposited into an escrow account, which is an account set up by the lending company to pay property taxes and homeowner's insurance on behalf of the borrower.

Homeowner's Insurance – Insurance to protect the home from unexpected damages, burglary, and personal liability. Usually covers the value of the home plus more. This is required by lenders to cover the cost to rebuild a property if something were to happen.

Prepaids – Amount to be collected for taxes and insurance for the establishment of the escrow account, and for daily interest for the remaining days in the month after closing. Prepaids and closing costs are due at the time of closing. Usually consists of 1 year's homeowner's insurance plus approximately 3 months of taxes and insurance to set up the escrow account, plus any daily interest due.

Seller concessions – The seller agrees to pay a portion of the out-of-pocket closing costs, which could include appraisal fees, inspection repairs, points, origination fees, or other costs. This is a way for a borrower to buy a home with help from the seller. Concessions cannot be allocated toward the down payment, only toward closing costs or prepaids.

Stage 6: Life after closing

Forbearance – A time period when the lender reduces or suspends loan payments due to a borrower's qualifying financial hardship.

Foreclosure – A legal procedure when a lender takes back a property due to a borrower missing loan payments.

Form 1098 – A tax form showing mortgage loan interest and any points paid during the previous year.

Property taxes – Annual local taxes charged against the value of the property. Usually collected as part of monthly payments and stored in an escrow account later to be paid to the relevant jurisdiction.

Refinance – The process of paying off a current loan with proceeds from a new loan. Usually to take advantage of lower interest rates and lower monthly payments, or to take a cashout of the equity on the home.

Have any questions? We're here to help!

This glossary includes some of the most common terms you may encounter on your home buying journey, but it isn't an exhaustive list. If you have any questions about getting a mortgage, give us a call or email the First Federal Bank mortgage team.

5 things to do after closing on a home

1. Make copies and store your closing documents.
2. Update your address information.
3. Change locks and/or keypads.
4. Consider deep cleaning.
5. Meet your neighbors!

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