



# Top 10 Terms to Know Before Buying a New Home

## Annual percentage rate (APR)

The interest charged plus points and certain fees associated with the mortgage.

## Appraisal

An estimate of the value of a house or property made by a qualified professional.

## Debt-to-income (DTI) ratio

Total recurring monthly debt – including credit cards, car payments, student loans, home equity lines of credit (HELOCs), other real estate owned, and alimony/child support – divided by gross (before taxes) monthly income. Expressed as a percentage, it is used in determining how much home you qualify for.

## Closing disclosure

Federally mandated document that must be sent to the buyer three days before the loan closes which lays out all the terms of the loan.

## Loan estimate

A document provided by your mortgage lender that breaks down all the loan details, including the terms, estimated monthly payment, interest rate, annual percentage rate (APR), and total interest percentage (TIP) which tells you how much interest you'll pay over the life of the loan, and closing costs.

## Loan-to-value (LTV) ratio

The mortgage amount divided by the appraised value of a property. Expressed as a percentage, it's used in determining your interest rate.

## Private mortgage insurance (PMI)

An insurance policy that protects the holder of your mortgage if you can't make your loan payments. You are responsible for paying the premium, usually as part of your monthly payment. Banks typically require PMI if you put less than 20 percent down.

## Interest rate

The amount charged, expressed as a percentage of principal, by a lender to a borrower, for the use of assets.

## Points (discount points)

Fees paid directly to the lender at closing in exchange for a permanently reduced interest rate for the life of the loan. Points are essentially pre-paid interest, and it's sometimes referred to as "buying down the rate." One point is equivalent to one percent of the mortgage amount.

## Total interest percentage (TIP)

The total amount of interest that you will pay over the life of the loan. TIP, which is expressed as a percentage of loan amount, assumes you make all payments in full and on time and do not make additional payments, and is calculated by dividing the interest by the loan amount.



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