Loan & Mortgage Glossary

RESOURCES FOR NORTHERN COLORADO REAL ESTATE · BRY BARTON

Plain-language definitions for the terms you will encounter while shopping for and processing your home loan.

01 APR (Annual Percentage Rate)

The true yearly cost of your loan, including the interest rate plus most lender fees, expressed as one percentage. It is almost always higher than your interest rate alone, and it is the number to use when comparing offers from different lenders side by side.

02 PMI (Private Mortgage Insurance)

An extra monthly cost added to conventional loans when your down payment is less than 20%. It protects the lender, not you, in case you stop paying. Once you reach 20% equity in your home, you can typically request to have it removed.

03 Amortization

The schedule that shows how each monthly payment is split between principal and interest over the life of your loan. Early payments are mostly interest; later payments are mostly principal, even though your total payment stays the same the whole time.

04 ARM (Adjustable-Rate Mortgage)

A mortgage where your interest rate is fixed for an initial period, often 5 or 7 years, then adjusts periodically based on market rates. It usually starts lower than a fixed-rate loan, but your payment can go up or down after the fixed period ends.

05 DTI Ratio (Debt-to-Income Ratio)

The percentage of your monthly gross income that goes toward debt payments, including your future mortgage. Lenders use this number, alongside your credit score, to decide how much you can realistically afford to borrow.

06 Equity

The portion of your home you actually own, calculated as your home's current value minus what you still owe on the mortgage. It grows over time as you pay down your loan and as your home's value increases.

07 Fixed-Rate Mortgage

A loan where your interest rate stays exactly the same for the entire term, whether that is 15, 20, or 30 years. Your principal and interest payment never changes, which makes budgeting simple and predictable.

08 LTV Ratio (Loan-to-Value Ratio)

The percentage of your home's value that you are borrowing, calculated by dividing your loan amount by the home's appraised value. A smaller down payment means a higher LTV, which can affect your rate and whether PMI is required.

09 Rate Lock

An agreement with your lender that guarantees a specific interest rate for a set period of time, typically 30 to 60 days, while your loan moves through processing. It protects you from rate increases during that window, though you may pay a fee to extend it if closing takes longer.

10 Title Insurance

A one-time insurance policy that protects you and your lender from problems with the legal ownership of the home, such as an old debt, a records error, or an unknown heir showing up later with a claim to the property.

11 Underwriting

The process where your lender verifies everything in your loan file: income, assets, credit, and the property itself, to decide whether to approve your loan. It is usually the longest step in getting a mortgage, often taking one to three weeks.

12 Down Payment

The portion of the purchase price you pay upfront in cash, rather than financing through the loan. It typically ranges from 0% to 20% or more depending on the loan type, and a larger down payment usually means a lower monthly payment and less interest over time.

13 Pre-Approval

A formal review where a lender checks your credit and verifies your income and assets, resulting in a letter stating the maximum loan amount you qualify for. This is what sellers expect to see before accepting an offer, and it is a real commitment from the lender, not just an estimate.

14 Note Rate

The actual interest rate written into your loan agreement, the number used to calculate your monthly principal and interest payment. This is different from your APR, which also factors in fees.

15 Closing Disclosure

A standardized form your lender must give you at least three business days before closing, spelling out your final loan terms, monthly payment, and exact closing costs. Always compare it line-by-line against your original Loan Estimate to catch any changes.

16 Contingency

A condition that must be met for your loan or purchase to move forward, such as the home appraising at or above the purchase price, or your financing being formally approved. If a contingency is not met, you typically have the right to walk away without penalty.

Know the terms, know the process, buy and sell with confidence.

Bry Barton

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