

# Lending Terms to Know

## **Amortization**

The repayment of loan principal over time with scheduled payments, including principal and interest; the loan balance declines by the amount of the principal in the scheduled payment.

## **Annual Percentage Rate (APR)**

This shows the yearly rate you'll pay for your loan, including interest and fees like points. By comparing the APR of loans, you can figure out which will cost you less in the long run.

## **Appraisal**

A professional evaluation used to estimate the value of a home.

## **Closing Costs**

The cost of getting a mortgage in addition to the down payment.

## **Credit Bureau**

An organization that gathers information on personal payment records regarding loans, credit cards, and other outstanding debts, and creates a credit profile using this data.

## **Debt-to-Income (DTI) Ratio**

This compares how much a borrower owes to how much they earn in a given month.

## **Earnest Money**

A deposit made by the homebuyer that shows serious intention to purchase the home.

## **Equity**

The portion of the property you own versus what you still owe the lender.

## **Escrow**

An account set up on your behalf in which a portion of your monthly payment is held to pay property taxes and insurance.

## **Gross Income**

The amount earned before any taxes or deductions, which may include overtime, commissions, or dividends with a consistent history.

## **Interest**

The amount you pay each month to borrow money.

## **Loan-to-Value (LTV) Ratio**

Describes the ratio of the value of the property to the amount of outstanding loan balance.

## **Mortgage Insurance (MI)**

Separate from home insurance, Mortgage Insurance allows borrowers to put less than 20% down and insures the bank against any potential loss due to default. Borrowers can request to remove PMI once their loan-to-value is 80% or less.

## **Points**

Also known as discount points; lower your interest rate in exchange for paying an upfront fee.

## **Pre-Qualification**

The process of finding out how much you can afford.

## **Principal**

The amount you pay each month to reduce the loan balance.



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