CALIFORNIA ASSOCIATION OF REALTORS®

A SIMPLE GLOSSARY FOR FINANCE & MORTGAGES

Buying or selling a home can be the biggest financial decision of your life, which can feel a bit overwhelming. You're not alone! Real estate has a language all its own and understanding it can make the whole process feel clearer, more manageable, and a lot less stressful. These are some of the most common financial terms you're likely to encounter during a home purchase or sale.

- **Adjustable-Rate Mortgage (ARM):** A mortgage with an interest rate that stays the same for an initial period (like one, five or 10 years) and then may change over time.
- **Annual Percentage Rate (APR):** The yearly cost of borrowing, including the interest rate, points, fees and certain other charges.
- **Conventional Mortgage:** A home loan that is not insured or guaranteed by federal government agencies such as the FHA, USDA, or VA.
- **Debt-to-Income Ratio:** The percentage of your monthly income that goes toward housing costs, car loans, credit cards and other debt.
- **Escrow:** Money or documents held by a neutral third party until certain conditions are met — commonly used in real estate closings.
- **Equity:** The portion of your home's value that you truly "own." For example, if your home is worth $130,000 and you owe $100,000, you have $30,000 in equity.
- **Fannie Mae:** A public company operating under a federal charter that buys mortgage loans from large commercial lenders, helping more people secure affordable mortgages.
- **Federal Housing Authority (FHA) loan:** A mortgage loan guaranteed by the U.S. FHA, usually offering more flexible qualifications and lower down payments to borrowers who might not qualify for conventional loans.
- **Freddie Mac:** A GSA similar to Fannie Mae, but focused on purchasing mortgages from community banks, regional banks and credit unions.
- **Fixed-Rate Mortgage:** A mortgage with a steady interest rate that won't change during the entire loan term, meaning that your monthly payment stays consistent.
- **Interest Rate:** The cost of borrowing money, expressed as a percentage of the amount borrowed.
- **Mortgage:** A loan you use to buy your home, or a loan secured by the home you already own.
- **Primary Mortgage Insurance (PMI):** Insurance that protects the lender if a borrower defaults on the loan. It's typically required when the down payment is less than 20 percent.
- **Points:** A mortgage point is 1 percent of your total loan amount. Buying points allows you to prepay interest upfront in exchange for a lower interest rate and monthly payment.
- **Underwriting:** The evaluation process lenders use to decide whether to approve a home loan.
- **USDA Loan:** A mortgage loan guaranteed by the U.S. Department of Agriculture for low-to-middle-income buyers in rural and suburban areas.
- **Veterans Affairs (VA) loan:** A mortgage guaranteed by the U.S. Department of Veterans Affairs, designed to help eligible veterans and service members.