

MUST-KNOW MORTGAGE TERMS FOR REAL ESTATE AGENTS

Loan Qualification & Approval Terms

Pre-Qualification	Lender's initial assessment based on self-reported financial info; no verification needed.
Pre-Approval	Stronger financial review where a lender verifies credit, income, and assets to determine loan eligibility.
Loan Commitment	Formal approval from the lender, stating the buyer meets all conditions for the mortgage.
Clear to Close (CTC)	Final lender approval indicating all loan conditions are met and closing can proceed.

Loan Types & Programs

Conventional Loan	Mortgage that is not backed by the government (e.g., Fannie Mae or Freddie Mac). Requires as little as 3% down .
FHA Loan	Government-backed loan with low down payment options (3.5%) , ideal for first-time buyers.
VA Loan	Available to eligible military service members and veterans with zero down payment and no PMI.
USDA Loan	Zero-down loan for eligible rural and suburban buyers (income restrictions apply).
Jumbo Loan	Loan that exceeds conforming loan limits (typically \$766,550+ in most areas for 2024).
Non-QM Loan (Non-Qualified Mortgage)	Flexible financing option for buyers who don't meet standard guidelines (e.g., self-employed, high DTI, bank statement loans).

Key Loan Terms & Costs

Debt-to-Income Ratio (DTI)	Percentage of a borrower's gross monthly income that goes toward debt payments . Lower DTI = better loan terms.
Loan-to-Value Ratio (LTV)	Percentage of the home's price being financed. Higher LTV = higher risk for lenders.

Interest Rate vs. APR

Interest Rate	The cost of borrowing money, expressed as a percentage.
Annual Percentage Rate (APR)	Includes the interest rate + lender fees + closing costs , providing a more accurate cost of the loan.
Origination Fee	Lender's processing fee for underwriting the loan , typically 0.5% – 1% of the loan amount.
Discount Points	Fees paid upfront to buy down the interest rate (1 point = 1% of loan amount).

Down Payments & Mortgage Insurance

Private Mortgage Insurance (PMI)	Required for conventional loans with less than 20% down . Can be removed once 20% equity is reached.
Mortgage Insurance Premium (MIP)	Required for FHA loans , stays for the life of the loan unless a 10%+ down payment is made.
Down Payment Assistance (DPA)	State and local programs that help first-time buyers with down payment and closing costs.

Bonus: Quick Tips for Real Estate Agents

A Pre-Approval is Key!
Always ensure your buyers are pre-approved before house hunting.

Know the Loan Limits
Conventional, FHA, and VA loan limits change yearly and vary by location.

Seller Concessions Can Help Buyers
If a buyer is short on cash, seller-paid closing costs can keep deals alive.

PMI Can Be Removed
Agents should inform buyers that PMI on conventional loans can be canceled at 20% equity.



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Scan to apply for financing



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Mortgage Payments & Escrow

Principal, Interest, Taxes, Insurance (PITI)

Total monthly mortgage payment a borrower makes, including:

Principal	The loan balance being paid down.
Interest	The lender's charge for borrowing money.
Taxes	Property taxes paid through escrow.
Insurance	Homeowners insurance (and PMI/MIP, if required).

Escrow Account	A lender-managed account where taxes & homeowners insurance are collected and paid.
Reserves	Additional savings required by the lender , usually 2-6 months of mortgage payments after closing.

Rate Structures & Loan Features

Fixed-Rate Mortgage	The interest rate stays the same for the life of the loan (e.g., 15, 20, 30 years).
Adjustable-Rate Mortgage (ARM)	The rate is fixed for an initial period , then adjusts periodically based on market conditions (e.g., a 5/1 ARM is fixed for 5 years, then adjusts yearly).

Rate Buy-Down (Temporary vs. Permanent)

Temporary Buy-Down	Lowers the rate for the first 1-3 years (e.g., a 2-1 buy-down reduces the rate by 2% in year 1, 1% in year 2).
Permanent Buy-Down	Borrower pays upfront discount points to lower the interest rate for entire loan term .

Closing Process & Fees

Closing Costs	Fees paid at closing, typically 2-5% of the loan amount . Includes lender fees, title fees, prepaid taxes, and insurance .
Cash-to-Close	Total amount a borrower must bring to closing , including down payment + closing costs .
Seller Concessions	When a seller covers a portion of the buyer's closing costs (limits vary by loan type).
Title Insurance	Protects against ownership disputes or title defects. Required by lenders.

Post-Closing & Other Loan Terms

Amortization	The process of paying off a loan over time through scheduled payments. Early payments go mostly toward interest , later payments go mostly toward principal .
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Loan Servicer vs. Lender

Lender	The institution that originates the loan .
Servicer	The company that manages loan payments, escrow, and customer service (sometimes different from the lender).
Refinancing	Replacing an existing mortgage with a new one to get a lower rate, change loan terms, or cash out equity .

FINAL THOUGHTS Understanding these mortgage terms will help you:

- ✓ **Guide your buyers with confidence**
- ✓ **Set realistic expectations about financing**
- ✓ **Make transactions smoother and deals close faster**



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