

Why should I refinance and when does it pay to do so?

Definitions of Common Mortgage Terms*

Adjustable rate mortgage (ARM)

A mortgage in which the interest rate is not fixed but is tied to an index and is periodically adjusted as the rate index moves up and down. The initial rate is lower than the fixed rate mortgage. Such ARMs commonly provide for an option to convert to a fixed rate mortgage.

Annual percentage rate (APR)

The actual cost of borrowing money, expressed in the form of an annual rate to make it easier to compare the cost of borrowing money among several lenders or sellers on credit. The APR includes all the financing costs of a mortgage, including points, origination fees and other finance charges and the mortgage interest.

Balloon (payment) mortgage

A mortgage providing for specific payments at stated regular intervals, with the final payment considerably more than any periodic payments. Usually paid over a short term, such as five to seven years. This type of mortgage may be beneficial if you move before the final payment, as you can benefit from a slightly lower rate.

FHA (Federal Housing Administration) mortgage

The Federal Housing Administration is a federal agency established by Congress in 1934. The FHA insures mortgage loans made by FHA approved lenders on homes that meet FHA standards. Generally FHA loans require lower down payments than conventional mortgages and have less stringent income requirements.

Fixed rate mortgage

A mortgage with an interest rate that remains constant for the life of the loan, generally repaid over 15 or 30 years.

PITI (principal, interest, taxes, and insurance)

These are items that are frequently included in the monthly mortgage payment to lenders. Some lenders may allow you to pay taxes and insurance yourself.

Point

A fee or charge equal to one percent (1%) of the principal amount of the loan which is collected by the lender at the time the loan is made. It is collected only once. Generally the lower the interest rate, the more points you'll pay.

*Source: Black's Law Dictionary, Mortgage Bankers Association of America, USA TODAY research