Richmond Mortgage Rates

Mortgage Terminology And Their Definition

When you apply for a mortgage, it is essential that you understand the terms which applies to it. There are various options available and it is the duty of the mortgage broker to ensure that their clients understand everything their mortgage has to provide. Below are some basic mortgage vocabulary that will help you understand your existing or new mortgage.

The term of the mortgage is the number of months or years that you would be required to pay a specific rate to the lending institution. Terms will usually range from 6 months to 12 months. The payment frequency is the frequency in which you pay back your loan. There are several alternatives available, like monthly, semi-monthly, biweekly, or weekly payment plans.

Amortization means the number of years it would take using fixed payments before the loan is totally paid off. Each and every payment includes both the interest amount together with the principal payment.

Open mortgages are contracts that allow the borrower to pay off any part of the principal at any time without penalty. A closed mortgage does not allow the borrower to pay off the principal unless they pay some penalties. The payout penalty, which is incurred by a client when they pay out their mortgage in advance, is determined by either 3 months interest or an interest rate differential, whatever is greater.

A mortgage where your interest rate stays flat for the whole term is known as a fixed rate mortgage. An adjustable rate mortgage is occasionally provided at a discount off prime, but depending on the prime rate, the interest would change. The prime rate is the lowest rate the bank will lend money at.

A mortgage where either part or the entire amount is held in a line of credit is called a Home Equity Line of Credit. This particular kind of mortgage is often re-advanceable. This means that, as you pay back the mortgage, you can then borrow it back.

Mortgages are referred to as conventional when the borrower makes a downpayment of more than 20 percent. A high ratio mortgage has a downpayment of less than 20 percent and requires mortgage insurance to ensure that the customer doesn't default on the loan. Mortgage insurance is in place to protect the lenders and banks.

This is the basic info which every consumer must know prior to going into a binding contract and should help you understand your financing options better. If you have any questions, it is essential that you ask your mortgage broker. It is their task to make purchasing a house as seamless and efficient as possible.