

FIRST-TIME HOMEBUYERS' GUIDE TO **REAL ESTATE ACRONYMS**

First-time homebuyers face an alphabet soup of terms that they need to know and understand. Here are some of the most common acronyms you'll see during your journey to a new home.



APR: Annual percentage rate

The fixed interest rate you'll pay every year on the remaining balance of the loan. For example, if you owe \$100,000 this year on your mortgage with a 5% APR, you'll pay \$5,000 in interest.



ARM: Adjustable rate mortgage

A mortgage in which the interest rate varies over the life of the loan. Most ARMs start with a low fixed rate for a period of time, then adjust upward based on market rates.



CD: Closing disclosure

A five-page disclosure, given to the buyer at least three days before closing, that details the terms of the loan, payments, fees, escrow, and more.



DTI: Debt to income

The ratio of monthly debt—including mortgages, car loans, student loans, and credit card debt (but not expenses such as utility bills and health insurance)—compared with monthly gross income. Lenders prefer a DTI of 36% or less, with no more than 28% devoted to the mortgage payment.



FHA: Federal Housing Administration

FHA loans may be available for homebuyers who can't put 20% down or don't have an optimal credit score. This type of mortgage always requires PMI.



FSBO: For sale by owner

A property for sale without a broker assisting the seller. FSBO sales generally come with more risk to the buyer and take longer to complete.

**HOA: Homeowners association**

Some condos and community homes may be part of an HOA, which sets and enforces property rules for the neighborhood or building, provides basic maintenance for the community, and collects fees toward that maintenance.

**LE: Loan estimate**

A document delivered after completing a mortgage application that details the cost of the loan and closing, as well as estimated monthly payments.

**LTV: Loan to value**

The ratio of how much you want to borrow compared with the appraised value of the property you want to purchase. Lenders prefer a lower LTV—ideally less than 80%.

**MLS: Multiple listing service**

A local database that real estate agents and brokers use to list and provide information about properties on the market.

**PITI: Principal, interest, taxes, insurance**

The main components of a typical mortgage payment. Principal pays off a portion of the remaining loan balance, interest is based on the loan's APR, taxes are collected and put into escrow to pay the yearly property tax bill, and insurance represents homeowner's insurance as well as any PMI.

**PMI: Private mortgage insurance**

A fee you pay that protects the lender in case you default on the loan. PMI is usually required if you don't put 20% down, and it stays on your monthly bill until you achieve 20% equity in your home.

**VA: Veterans Affairs**

VA loans offer mortgages at favorable rates to active members and veterans of the United States military.

**Here are some other terms that aren't acronyms but are also important for first-time homebuyers to understand:****Amortization**

The division of payments over the lifetime of a loan. An amortization schedule shows how much you're paying in principal and interest each month until the loan is paid off.

Points

Fees paid directly to the lender in exchange for a lower interest rate. A point represents 1% of the loan amount and, typically, reduces the interest rate by 0.25%.

REALTOR®

An active, certified member of the National Association of REALTORS®. Not all real estate agents are REALTORS®.

Short sale

The sale of a property for less than what is owed on the mortgage. A short sale is usually more complex and takes longer to close.

Ready to learn more about the homebuying process?

Talk to a HomeSmart agent today or visit [HomeSmart.com/Buyers](https://www.HomeSmart.com/Buyers)

LEARN MORE



Copyright © 2020 HomeSmart International, LLC. Each brokerage independently owned and operated.