## Set yourself up for success

Understanding the terms ahead of time can help you feel more at ease throughout the process, more confident asking questions, and more comfortable comparing options. Familiarize yourself with these terms so you can get the most out of every conversation.

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| Principal | The principal is the amount you borrow from a lender to pay for a home before any interest is added. It is the total financed amount on which interest begins to accumulate. |
| Interest | In terms of a mortgage loan specifically, interest is the amount you must pay in addition to the principal amount borrowed. It's typically represented as a percentage rate that is based on the total balance remaining on the loan. |
| Annual percentage rate (APR) | An annual percentage rate is the effective percentage you pay for your mortgage each year — over and above the principal amount you owe — when you include all extra costs. Your APR will usually be higher than your regular interest rate because, in addition to interest, it factors in costs like broker fees, points paid, closing costs, and other fees. It's possible for different lenders to offer you the same interest rate but have a different APR due to different fee amounts. That's why it's important to compare both. |
| Points | Mortgage points are fees you pay your mortgage lender to reduce the interest rate of your loan. The cost of one point is equal to 1% of your total loan amount, and there are two kinds: origination points and discount points. Origination points are paid to the lender for processing your loan. Discount points are paid upfront to reduce the interest rate of your loan. |
| Loan amortization | Amortization is the process of paying off a loan in regular installments over a period of time. Your lender will likely provide an amortization schedule that shows how much of each monthly payment goes toward the principal and how much goes toward interest on your loan. |
| Private mortgage insurance | If your down payment for a conventional loan is less than 20% of the home purchase price, you may be required to get private mortgage insurance (PMI). PMI protects the lender — not the buyer — if you stop paying your mortgage payments. You typically pay for PMI monthly alongside your usual mortgage payment. Once you reach 20% equity, you should request to cancel PMI, which can reduce your monthly mortgage payment.<br><br>Government loans, like those issued by the FHA, require mortgage insurance (MI), which is similar to PMI except you typically do not have the option to cancel once 20% equity is reached. |
| Equity | Your equity is the dollar amount of the value of the home that you currently own free from any liens. As the owner of a home, your equity is calculated as the difference between your home's current market value and the outstanding balance of your mortgage loan and any other monetary liens against the property. |

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