

Like most people, you've probably heard of a mortgage and know what it is. But do you understand the basics of a mortgage and how it works?

First things first, when you are beginning to look into getting a mortgage there are three terms you need to know.

- **Down Payment-** A down payment is a sum of money that you as the buyer will put down to show the mortgage lender that you are serious about the investment. While a 20 percent down payment is ideal, it may not be possible for some buyers. Fortunately, there are different loan types and lenders that allow for a smaller down payment. Talk to your lender to discuss what options are available to you.
- **Principal-** This is the amount of money you must pay back to your lender. This amount can be found by subtracting your down payment from the total cost of the home.
- **Interest Rate-** An interest rate refers to the percentage you will pay the lender in order to get a mortgage. Interest rates will vary by lender and according to your credit score.

In most cases mortgages are paid in monthly payments for the lifetime of your loan. These can vary between a 15-year to a 30-year loan. Mortgage payments can also include your home owner's insurance premium as well as your property taxes. These costs are set aside in an escrow account that your lender will use to pay these fees as they arise.

When should you apply for a mortgage?

Most new homebuyers don't realize that the first step in the homebuying process is getting pre-approved for a mortgage. Buyers need to work with a mortgage lender to get pre-approved and to determine the amount of money they can afford to spend on a home. During the pre-approval process your lender will check your credit score and report, assess your debt-to-income ratio and other financial aspects that will affect your ability to make mortgage payments.

In addition to determining what you can afford, a pre-approval can help sellers see that a prospective buyer is serious when putting an offer on their home. In a fast-paced market, it is a must to be pre-approved or your dream home could go to a competing offer that has a pre-approval letter.

As a first-time homebuyer it's important to know how mortgages work and their different variables so you can determine the right mortgage for you and your budget.