Mortgage Basics: Preapproval, Rates, Points, and PMI in Plain Language

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> The mortgage decides more about what you pay for a house than the negotiation does, and the industry wraps it in vocabulary designed to be nodded at rather than understood. Here is the working knowledge: what each term means, which numbers matter, and where borrowers leave money on the table.

BEFORE YOU SHOP: PREAPPROVAL

A **prequalification** is an estimate from a conversation. A **preapproval** is a lender's written commitment after actually verifying income, assets, and credit, and it is the one sellers take seriously. Get it before touring homes: it sets your real budget and makes your financing contingency credible. On "how much can I afford": lenders qualify you on debt-to-income ratios, commonly allowing total debts up to around 43% of gross income. Qualification is a ceiling, not a recommendation; a payment that leaves room for maintenance, savings, and a life is the actual budget.

RATE, APR, POINTS, AND BUYDOWNS

- **Rate vs APR:** the rate prices your payment; the APR folds in lender fees. Compare offers on both.
- **Discount points:** prepaid interest, roughly 1% of the loan buys roughly a quarter-point of rate. Worth it when you will hold the loan past the break-even (divide the cost by the monthly savings); wasted money when you refinance or sell early.
- **Temporary buydowns (2-1):** a lump sum, often seller-paid as a negotiated credit, lowers the rate 2 points in year one and 1 in year two. A useful negotiation tool in a slow market; budget for the full year-three payment.
- **Rate locks:** free-to-cheap protection for 30 to 60 days while you close. Ask what happens if rates drop after you lock; some lenders offer a float-down.

PMI: WHAT IT IS AND HOW IT LEAVES

Put down less than 20% on a conventional loan and you pay private mortgage insurance, which protects the lender. It is not forever: federal law lets you **request cancellation at 80% loan-to-value and requires automatic termination at 78%**, based on the original value. Appreciation can get you there years early via a new appraisal; a calendar reminder to check is worth real money. FHA loans work differently, with mortgage insurance that often lasts the life of the loan, which is a common reason to refinance FHA into conventional once equity allows.

WHERE BORROWERS LEAVE MONEY

- **Not shopping.** Two or three loan estimates on the same day routinely differ by thousands over the loan's life. Lenders expect to be shopped.
- **Missing assistance.** Oregon's down payment programs, zero-down USDA and VA paths, and local grants stack with normal loans; the companion Down Payments and Funding Sources guides map them.
- **Refinancing on a slogan.** The old "1% rule" is a starting point, not an answer: compare closing costs against monthly savings and your realistic time in the home.

Rates, programs, and underwriting standards change constantly; figures describe general practice as of mid-2026. General information, not financial advice or a loan offer. Confirm your numbers with a licensed lender, and shop more than one.