

Home / Money / Mortgages / How to Evaluate a Mortgage L...

How to Evaluate a Mortgage Loan Estimate

Use mortgage loan estimates to help you identify the best option for your budget.

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A mortgage loan estimate outlines the terms of a potential mortgage loan from a specific lender.

Key Takeaways

- Your mortgage loan estimate will outline the terms and conditions of a lender's approximate offer.

- You should evaluate your mortgage loan estimate with an eye on affordability.
- You can get estimates from multiple lenders and compare terms.

A mortgage loan estimate is a three-page document that outlines key terms of a mortgage loan that you could receive from a lender.

You'll get a mortgage loan estimate after you apply for a loan but before you've been officially approved. To evaluate an estimate, you'll want to brush up on your mortgage vocabulary and have a good sense of [how much house you can afford](#).

▶▶ **See:** [Best Low- and No-Down-Payment Mortgages](#)

How to Understand Your Mortgage Loan Estimate

Your mortgage loan estimate will outline the terms of your potential loan from a particular lender.

The following details are based on the [sample loan estimate](#) provided by the Consumer Financial Protection Bureau.

Loan Estimate

DATE ISSUED 2/15/2013
APPLICANTS Michael Jones and Mary Stone
 123 Anywhere Street
 Anytown, ST 12345
PROPERTY 456 Somewhere Avenue
 Anytown, ST 12345
SALE PRICE \$180,000

LOAN TERM 30 years
PURPOSE Purchase
PRODUCT Fixed Rate
LOAN TYPE Conventional FHA VA _____
LOAN ID # 123456789
RATE LOCK NO YES, until 4/16/2013 at 5:00 p.m. EDT
Before closing, your interest rate, points, and lender credits can change unless you lock the interest rate. All other estimated closing costs expire on 3/4/2013 at 5:00 p.m. EDT

Loan Terms		Can this amount increase after closing?
Loan Amount	\$162,000	NO
Interest Rate	3.875%	NO
Monthly Principal & Interest <i>See Projected Payments below for your Estimated Total Monthly Payment</i>	\$761.78	NO
Prepayment Penalty	Does the loan have these features? YES • As high as \$3,240 if you pay off the loan during the first 2 years	
Balloon Payment	NO	

Projected Payments		
Payment Calculation	Years 1-7	Years 8-30
Principal & Interest	\$761.78	\$761.78
Mortgage Insurance	+ 82	+ —
Estimated Escrow <i>Amount can increase over time</i>	+ 206	+ 206
Estimated Total Monthly Payment	\$1,050	\$968
Estimated Taxes, Insurance & Assessments <i>Amount can increase over time</i>	\$206 a month	This estimate includes <input checked="" type="checkbox"/> Property Taxes <input checked="" type="checkbox"/> Homeowner's Insurance <input type="checkbox"/> Other: <i>See Section G on page 2 for escrowed property costs. You must pay for other property costs separately.</i>
		In escrow? YES YES

Costs at Closing	
Estimated Closing Costs	\$8,054 Includes \$5,672 in Loan Costs + \$2,382 in Other Costs – \$0 in Lender Credits. <i>See page 2 for details.</i>
Estimated Cash to Close	\$16,054 Includes Closing Costs. <i>See Calculating Cash to Close on page 2 for details.</i>

Visit www.consumerfinance.gov/mortgage-estimate for general information and tools.

Personal Information and Loan Overview

The top of your loan estimate should feature your name, your address, the address of the property you're looking to purchase and the sale price. In addition, it should include some basic information about your loan, including its term and type ([conventional](#) or not).

Your loan estimate will also indicate whether you have a [rate lock](#). But it's recommended that you take this step once you're under contract for your home purchase.

Loan Terms

Next, you'll see the loan amount, interest rate, and your monthly principal and interest payment.

Principal and interest generally don't encompass all of your monthly mortgage costs – you'll need to skim further down the loan estimate for that.

The loan amount you qualify for may not be the loan amount you want to borrow.

"For banks to lend out as much money as possible, that's their business, that's what they do," says Ivan Havrylyan, a certified financial planner and owner of Outside The Box Financial Planning.

But don't take the amount on your loan estimate, or that you're ultimately approved to borrow, as equivalent to the amount you can afford. You should evaluate your loan's affordability, including with tools such as mortgage affordability calculators. "Know that they're not doing you any favors," Havrylyan says.

This section of your estimate will also tell you whether the loan has a [prepayment penalty](#). If there's a chance that you may want to pay off your loan early, make sure your loan doesn't include this.

Projected Payments

Next, you'll see a breakdown of your mortgage costs that culminates in an estimated total monthly mortgage payment.

That should include mortgage insurance, which is typically required if you make a down payment of less than 20%, as is [the case for many homebuyers](#). It should also include your estimated [escrow](#), which can include property taxes and homeowners insurance.

You'll need to think beyond the numbers to fully understand the cost of homeownership.

"What happens with homeownership, it's not just the mortgage payment. It's the ongoing maintenance and not to mention, now you're paying property taxes and maybe there's HOA fees in

there, etc.," says Kashif A. Ahmed, a certified financial planner, professor of finance at Suffolk University and president of American Private Wealth, a financial planning firm.



Closing Costs

This portion of your loan estimate will include an overview of your closing costs followed by a more detailed breakdown.

Some parts of your closing costs, such as your origination fee, may be [negotiable](#). You can also explore [closing cost assistance](#) to decrease the financial burden of closing on your mortgage.

In addition to covering your closing costs, you'll need to have your down payment funds ready at closing.

Other Information

The last page of your loan estimate will likely include some information about your lender and the cost of your loan. You'll also be able to see whether the lender plans to transfer your loan to a loan servicer.

You may also see a note about homeowners insurance, which you'll need to obtain. This is another area where you can look for a good value. If your priority is closing quickly, you might not have the time to do enough research.

"That is something that can save hundreds if not thousands of dollars a year," Havrylyan says.

Additional Information About This Loan

LENDER Ficus Bank
NMLS/ __ LICENSE ID
LOAN OFFICER Joe Smith
NMLS/ __ LICENSE ID 12345
EMAIL joesmith@ficusbank.com
PHONE 123-456-7890

MORTGAGE BROKER
NMLS/ __ LICENSE ID
LOAN OFFICER
NMLS/ __ LICENSE ID
EMAIL
PHONE

Comparisons		Use these measures to compare this loan with other loans.
In 5 Years	\$56,582	Total you will have paid in principal, interest, mortgage insurance, and loan costs.
	\$15,773	Principal you will have paid off.
Annual Percentage Rate (APR)	4.274%	Your costs over the loan term expressed as a rate. This is not your interest rate.
Total Interest Percentage (TIP)	69.45%	The total amount of interest that you will pay over the loan term as a percentage of your loan amount.

Other Considerations

Appraisal	We may order an appraisal to determine the property's value and charge you for this appraisal. We will promptly give you a copy of any appraisal, even if your loan does not close. You can pay for an additional appraisal for your own use at your own cost.
Assumption	If you sell or transfer this property to another person, we <input type="checkbox"/> will allow, under certain conditions, this person to assume this loan on the original terms. <input checked="" type="checkbox"/> will not allow assumption of this loan on the original terms.
Homeowner's Insurance	This loan requires homeowner's insurance on the property, which you may obtain from a company of your choice that we find acceptable.
Late Payment	If your payment is more than 15 days late, we will charge a late fee of 5% of the monthly principal and interest payment.
Refinance	Refinancing this loan will depend on your future financial situation, the property value, and market conditions. You may not be able to refinance this loan.
Servicing	We intend <input type="checkbox"/> to service your loan. If so, you will make your payments to us. <input checked="" type="checkbox"/> to transfer servicing of your loan.

Confirm Receipt

By signing, you are only confirming that you have received this form. You do not have to accept this loan because you have signed or received this form.

Applicant Signature

Date

Co-Applicant Signature

Date

How to Compare Mortgage Loan Estimates

Consumers can (and should) [get multiple mortgage loan estimates](#) before they pick an offer. To effectively compare estimates, you should:

- **Look at the total cost of borrowing.** Each loan estimate will break down fees and the costs that go into your loan's annual percentage rate. This can help you get the full picture and avoid being drawn in by marketing.
- **Have lenders compete.** You may be able to leverage a more competitive loan offer to receive better terms from one of the other lenders you're considering. "To not shop around is a disservice," Havrylyan says.
- **Ask questions.** As you review loan terms, don't be afraid to ask the lender to explain. Getting more insight into different charges could help you make a case for reduced fees.
- **Look for outliers.** "If one of them is overly generous in what they think they can give you, I would question that a little bit," Ahmed says.

Tags: [mortgages](#)

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