

Mortgages

Mortgages used to be simple. You made a down payment on the house of your dreams and borrowed the balance at a fixed rate of interest, promising to pay it back in regular monthly payments over a period of years.

Today you must make choices. Do you want the traditional 30-year fixed rate mortgage with its guarantees of unchanging monthly payments? Perhaps a fifteen-year loan would be better? Or would you prefer an adjustable rate mortgage with monthly payments that can rise and fall in accordance with an index reflecting economic conditions?

Below is a brief synopsis and chart of the pros and cons of some of today's mortgage loans:

Fixed-Rate Loans

The fixed-rate mortgage is the most popular mortgage program in use today. Fixed-rate loans offer the borrower a fixed interest rate for the life of the loan, typically 15 to 30 years. Borrowers have peace of mind knowing that their monthly payment will not change over time. Conventional fixed-rate mortgages have underwriting requirements established by Freddie Mac and Fannie Mae, and require certain down-payment and debt-to-equity ratios to qualify. Fixed-rate loans are especially attractive to buyers who plan to stay in their home for more than a few years.

Adjustable Rate Loans

With an Adjustable Rate Mortgage (ARM), the interest rate changes periodically, and payments go up or down accordingly. Rates are tied to an index that reflects the cost of money at any given point in time. Generally speaking, lenders charge a lower initial interest rate for the ARM than for the fixed rate mortgage. If you are expecting interest rates to decrease in the future, or if you are trying to maximize your purchase power today knowing your income will rise in the future, then this loan may be right for you. Adjustable rate loans are attractive for buyers who expect to be in the home for a short period of time.

FHA and VA Loans

The Federal Housing Administration (FHA), offers loans for low-to-moderate-income home buyers. FHA loans have lower down payments, and have relatively easier requirements than conventional fixed-rate mortgages. FHA mortgages have no income restrictions and even those with lower credit scores may be considered. Past bankruptcy does not necessarily disqualify borrowers from using this program!

In addition, the Department of Veterans Affairs (VA) offers a zero-down mortgage program. To take advantage of this program, borrowers need to be among those listed as veterans and service personnel in the U.S. military. One of the biggest benefits of this program is that it eliminates the need for private mortgage insurance!

Local Homebuying Program

There are often many state and local programs available. These programs offer down-payment assistance and programs for local home ownership. Learn more about these local programs, recommended lenders, and other finance options by contacting us today!

TYPE	DEFINITION	ADVANTAGES	DRAWBACKS	COMMENTS
30-YEAR FIXED RATE	A long-term loan in which principal and interest are amortized over 30 years; both interest rate and amount of monthly payment remain unchanged for life of the loan.	<ul style="list-style-type: none"> * Considerable tax benefits, especially in early years. * Payments never rise, regardless of inflation. 	<ul style="list-style-type: none"> * Slow equity build-up. 	The most common mortgage in the U.S., a particularly good investment when rates are low.
15-YEAR FIXED RATE	As above but payback period is 15 years.	<ul style="list-style-type: none"> * Usually lower interest rate than 30-year. * Faster equity build-up. * Less interest paid out over life of loan. 	<ul style="list-style-type: none"> * Higher monthly payments. * Less tax-deductible interest. 	An excellent option for middle aged and older buyers.
ARM (Adjustable Rate Mortgage)	A mortgage whose rate changes over time according to terms specified by the lender, usually according to short-term Treasury vs. Treasury Bill rates.	<ul style="list-style-type: none"> * Low initial interest rate, sometimes below market. * Payments may decrease over time. 	<ul style="list-style-type: none"> * Payments may increase over time. * Risky if rates rise significantly. 	Good option for buyers whose income will rise and/or when rates are expected to drop.
FHA/VA MORTGAGE LOANS	Government-insured or guaranteed mortgages that can make purchase more affordable than conventional loans.	<ul style="list-style-type: none"> * Little or no down payment required. * Marginally better rate than conventional 30-year mortgages. 	<ul style="list-style-type: none"> * Lower limits on the maximum that can be borrowed. * VA requires current or past military service. 	Good option for first time buyers with little to invest in a down payment.