

Home Mortgage Options

Fixed Rate Mortgage

The interest rate is fixed throughout the term of the loan. Payments are amortized over 15 to 30 years and remain the same throughout the loan period. Rates tend to be higher than adjustable rate loans and most of the time cannot be assumed by a subsequent buyer.

Adjustable-Rate Mortgage (ARM)

The interest rate is linked to a financial index, such as a Treasury security or a cost of funds, so monthly payments can be adjusted up or down over the life of the loan - usually 25 to 30 years. Interest rates can change monthly, annually, or every 3 or 5 years. Most ARMs have a cap on the interest rate increase, to protect the borrower. Other terms relating to adjustable-rate mortgages:

- Adjustment period: The length of time between interest rate changes. Example: one year ARM-interest changes annually.
- Cap: The limit on how much an interest rate or monthly payment can change at each adjustment or over the life of the loan.
- Conversion clause: A provision in some loans that enables you to change an ARM to a fixed rate loan, usually after the first adjustment period. This may require additional fees.
- Index: A measure of interest rate changes used to determine changes in the loan's interest rate over the term of the loan.
- Margin: The number of percentage points a lender adds to the index rate to calculate the ARM's interest rate at each adjustment.

VA Guaranteed Loan

Only qualified veterans can obtain VA loans with no down payment. VA-guaranteed loans can be combined with second mortgages and are assumable upon qualifying by any future buyer. The VA does not lend money as it simply guarantees a portion of the loan to meet Federal Banking Guidelines.

FHA Guaranteed Loan

As in VA loans, FHA does not lend money or make a loan; rather, it insures loans. The down payment can be as low as 2.25%. Discount points may be paid by either buyer or seller. FHA charges a 2.25% up front Mortgage Insurance Premium (or as little as 2% for a first time home buyer) that can be financed in the mortgage amount or paid in cash (no premium is required for condominiums). The borrower must also pay an annual Mortgage Insurance Premium or .5% which is collected monthly.

Purchase Money Mortgage

The seller of the house lends you either as a first mortgagee or as a complement to an existing first mortgage (2nd mortgage). The terms including the interest rate, are based on buyer/seller negotiations. It can be short-term or even for 30 years as with a conventional mortgage. It may also be amortized over the term of the loan or simply require interest only payments with the entire principal due at the end of the term.

Balloon Mortgage

This type of loan can have an amortization period of 30 years yet be required to be paid off after a shorter period. This is a good solution if you want lower payments initially but wish to pay off the loan within a shorter period of time. The advantage these loans offer is an interest rate that is lower than a mortgage that is made for 30 years.

Assumable Mortgage

Buyer takes over the mortgage obligation of the seller providing the loan is assumable. The interest rate may remain the same or be adjusted depending on the loan documents signed with the lender. There is normally an assumption fee which varies depending on the lender as well. Most such loans require that the buyer be approved by the lender.