

Financing Options Overview

The following information is being provided as a general summary of the most commonly used home loan financing options. This is not a comprehensive list and is not designed to specifically address your particular situation. You must talk to your lender or mortgage broker about specific home loan products that will work best for you and your situation. Also included in the Printable PDFs on this DVD is a Lender Questionnaire to assist you with interviewing and selecting a lender who is right for you.

Fixed-Rate Mortgages

The interest rate stays the same for the entire term of the loan—usually 15 or 30, and in some cases 40, years—so the interest and principal portions of your monthly payment remain the same. Your payments are stable and predictable, but initial interest rates tend to be higher on a fixed-rate mortgage than on adjustable-rate loans.

Adjustable-Rate Mortgages (ARM)

The interest on an adjustable-rate mortgage is linked to a financial index, such as a treasury security, so your monthly payments can vary, up or down, over the life of the loan—usually 30 years. Some adjustable-rate mortgages have a cap on the interest rate increase to protect the borrower. The lower initial payments on ARMs make it easier for buyers to qualify for more house. ARMs are available for FHA and conventional loans.

Interest Only Loans

An interest-only loan is a loan in which the borrower pays only the interest on the capital for a set term; the capital remains outstanding. At the end of the term, the borrower repays the capital, or converts the loan to a repayment loan. This may be beneficial if you only plan to live in your home for a few years.

FHA/VA Loans

The Federal Housing Administration (FHA) and the Department of Veterans Affairs (VA) insure qualified loans offered by your lender to promote homeownership for those with low or moderate income and limited savings. The features of these loans include low down payment, flexible income, debt and credit requirements and a variety of fixed-rate and adjustable loan options. Factors to consider when comparing an FHA/VA loan to a traditional loan include: down payment, gift money, debt-to-income ratio, credit history and purchase price.

Balloon Mortgages

A balloon mortgage has a fixed interest rate and a fixed monthly payment, but after a period of time, such as 5 years, the entire balance of the loan becomes due at once. The homeowner will have to arrange a new mortgage if they cannot pay off the entire balance. This is usually a last resort for those who cannot qualify for standard or adjustable rate mortgages.

A Note about Private Mortgage Insurance

If you offer less than 20% for the down payment on your new home you may be required to pay for private mortgage insurance (PMI) as part of your monthly mortgage payment. PMI is an insurance policy written by private companies insuring lenders against loss resulting from defaults on mortgages. Be sure to ask your lender about PMI.