

Financing Options

Fixed Rate Mortgage

The interest rate stays the same throughout the term of the loan - usually 15 or 30 years - so the principal interest portion of your payment remains the same. Payments are stable but initial rates tend to be higher than adjustable rate loans and often cannot be assumed by a subsequent buyer.

Balloon Mortgage

This is a loan, which must be paid off after a certain period. The advantage they offer is an interest rate that is lower than a mortgage that is made for 30 years.

Adjustable-Rate Mortgage (ARM)

The interest rate is linked to a financial index, such as a Treasury security or a cost of funds - so your monthly payments can vary 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. Some 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 Loan

The VA does not lend money; it guarantees a portion of the loan so that lenders who originate the loan feel comfortable with their risk. Qualified veterans can obtain loans up to \$203,000 with no down payment. VA-guaranteed loans can be combined with second mortgages and are assumable upon qualifying by any future buyer.

FHA Loan

FHA does not lend money or make a loan; rather, it insures loans. The down payment can be as low as 2.25%. Either buyer or seller may pay discount points. 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.

Seller Assisted Second Mortgage

The seller of the house lends the buyer enough to make up the difference between the purchase price and the down payment plus first-mortgage balance (a commercial lender may also make this kind of loan). The terms including the interest rate are based on buyer/seller agreement. It is often a short-term (5 to 15 year) loan; sometimes "interest only" payments until the term date when the balance is due in full. A buyer can then refinance the home.

Assumable Mortgage

Buyer "takes over" or assumes the mortgage obligation of the seller (with concurrence of the lender). The interest rate doesn't change and is sometimes lower than current rates. Often the loan fees are less as well.