Quick over view of Mortgage Types:

Exploring and getting to know your mortgage (types) options can possibly save you thousands of dollars. The following is a brief over view examining the major home loan types that are available today for your consideration.

>Fixed Rate Mortgages
>Adjustable Rate Mortgages
>The Convertible ARM
>FHA & VA (Government) Loans

Fixed Rate Loans:

With a "Fixed Rate Loan" your interest rate does not change for the duration of the loan. Therefore your principle and interest payment will not change over the life of the loan. Your monthly loan payment will consist of principle, interest, taxes, insurance, and condo/association fees if applicable. The only part of your payment that will float will be the property taxes.

That being said, a "Fixed Rate Loan" may not always be the best choice. If interest rates are high at the time you take out your fixed rate mortgage, you will be stuck with that high interest for the life of the loan (unless you refinance). Conversely, if interest rates are low, you will come out the winner with interest rates that will stay low no matter how high the rates go in the future.

The following are the advantages and disadvantages of the varying lengths of fixed rate mortgages:
15 Year Fixed-Rate:

- Pay off the loan in half the time of a 30 year loan.
- Equity builds up more quickly than in a 30 year loan.
- Payments are high (which may be a problem if you lose a job or become unable to work)

20 Year Fixed Rate:

- Pay off the loan in 2/3 the time of a 30 year loan.
- The overall interest paid is considerably less than a 30 year loan.

30-Year Fixed Rate:

- The most common choice, especially for the first-time homebuyers, as it's the easiest of the fixed rate loans to qualify for.
- Monthly payments are lower than the 15 year and 20 year loans. This can prove especially helpful if you do not have a lot of "padding" between the amount you can afford to spend and the monthly payment for your desired property.
- More desirable if you plan on staying in the same home for years, since equity builds more slowly than for shorter term loans.

Adjustable Rate Mortgages (ARM's):

**If interest rates are high at the time you take out your loan, an adjustable rate mortgage (ARM) may be the solution. You might also choose this type of loan if your planned ownership of the property is short term or if you expect your income to increase to cover any potential rise in the interest rate.
**Generally, the interest rate when you take out your loan will be lower than a fixed rate mortgage. Please note this is true initially, not necessarily long term.
**Since an AFM rate rises and falls depending on the prevailing interest rate, your mortgage payment will rise and fall accordingly. If your income is not sufficient to cover the highest possible payment, then this option is not for you. On the positive side, the lower initial payments will allow you to qualify for a larger loan than if you choose a fixed rate. The downside is that your payments will increase if/when the rates go up.
**Typically, ARM interest rates are tied to a specific financial index (such as Certificate of Deposit index, Treasure or T-Bill rate, cost of Bunds-indexed Arms or COFI, or LIBOR [London Interbank Offered Rates]) and your payment will be based on the index your lender uses plus a margin, generally of two to three points. Get the formula used by you're lender in writing and make sure you understand what it means.
NOTE: Fortunately, the most amount an ARM can increase is limited. There are "caps" on how much your lender can increase your rate, both for a period of one year and for the life of the loan. Plan ahead, and have your lender calculate what the maximum payment would be if your rate went to the highest amount allowed by the cap for your particular mortgage. If you are not confident you'll be able to pay that amount on a monthly basis, perhaps you should reconsider this type of loan.

Convertible ARM's:

If neither the fixed rate nor the adjustable-rate mortgage seems like the best option, perhaps the convertible ARM will be right for you. This alternative combines the initial advantage of an ARM with a fixed rate after a predetermined number of years. Obviously, this type of mortgage has more advantages when the initial interest rate is low and the future rate is not guaranteed.

Government Loans:

**Another mortgage option available to some people is a government loan, providing that you meet the qualifications for these loans.
**VA Loans: Veterans and active military families may qualify for a loan from the VA. There is a limit on the amount you can borrow. For Alaska that loan limit is $625,500 with "0" down.
**FHA Loans: The Federal Housing Association offers a loan that is open to all home buyers. Look for the phrase "FHA approved" when looking at ads for homes. For Alaska the loan limit is $355,000 with a 3.5% down.

Note: If this article generates additional questions or a need for additional information, the following link will allow you to ask your question(s), request additional information or make comments. It is not my intent to bug you with unwanted phone calls, emails, or text messages! It is my intent to allow you to benefit from my 35+ years real estate activity and to give you a buying experience beyond your expectations!

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