



Some of the Available Loan Types

There are many mortgage products available on the market today. We can help you find out which one is right for you. Here are the most common options.

Fixed Rate Mortgages (FRM's)

- Interest rates stay constant for the life of the loan.
- Offered in 10, 15, 20, or 30 year terms.
- Payments are made up of principal and interest (P & I) portions and escrow portions. The P & I portion would not change for the life of the loan. Escrow amounts would pay for things like home owners insurance and property taxes. Escrow amounts may vary from time according to the cost of these items.
- If your loan requires that you carry Personal Mortgage Insurance (PMI), these payments would be added to your monthly payment amount until this mortgage would no longer be necessary. This is normally when you acquire 20% equity in the home.
- Fixed rate mortgages usually have low down payment requirements.

Adjustable Rate Mortgages (ARM's)

- Also called variable-rate loans.
- Starts out with a lower interest rate, and changes according to market fluctuations. How often it changes depends on the terms of the loan. The most common adjustment term is once every year.
- ARM's have limits, or caps, on the number of percentage points it can go up each year. It also has caps on how much it can go up for the life of the loan. This happens according to the terms of the loan you choose. For example- your mortgage starts at a rate of 4%. If you have a yearly cap of 2 points, and a life long cap of 6 points, this is what can happen to the percentage rate of your loan. At the end of one year your mortgage company can increase your rate by two points, to 6%. At the end of the second year, your mortgage company can increase your rate by 2 points, to 8%. (A total of 4 percentage points higher than the original term of the loan.) At the end of the third year, your mortgage company can increase your rate by 2 points, to 10%. A total of 6 percentage points higher than the original terms of the loan.) At this point you have had an increase of 6 percentage points and can no longer have your interest rate raised for the life of your loan. Of course these changes are tied to the index that your ARM is based on.
- A convertible ARM allows you to have the lower interest rates for the beginning of the loan, but the option to convert to a fixed rate loan when you choose. This usually requires a conversion fee as set up by your loan institution.

Balloon Mortgages

- These types of mortgages allow you to carry a lower interest rate than most other types of mortgages.
- Terms of these types of mortgages are usually for 5 to 7 years. At the end of this time period a payoff payment, or balloon payment, is required to pay off the remainder of the loan.
- If you plan on staying in the house at the end of your loan period, you must refinance your loan amount into a conventional mortgage plan to make your balloon payment. (A FRM or an ARM.)

Interest Only Mortgages

- An option that can be attached to any type of loan, not an actual loan type.
- You pay only the interest on your borrowed amount for the beginning terms of the loan. This is usually between 1 and 5 years in length.

- At the end of your interest- only period you begin making payments based on the interest rate of the type of mortgage you chose- a FRM or an ARM. You have conventional principal and interest payments, plus any escrow amounts due.
- You do not save any money on your principal when choosing this type of loan. It only delays you paying your principal for a preset length of time. Your P & I payments will actually be higher after your interest only period, because your payments will be amortized according to the remaining time left on the loan. Example- A 5 year interest only option on a 15 year mortgage for \$100,000.00. You will pay only the interest for the first five years, then you will pay P & I for only 10 years. Therefore, you will be paying off the \$100,000.00 over 10 years instead of 15 years, making your payments higher.
- This option works best for people in certain monetary situations. The most common ones are if you do not make a set amount of money every month, such as being paid on commission or bonuses. Another one would be if you are expecting a lump sum payment of money in the foreseeable future. A more risky reason would be if you are sure you can invest the money saved by doing this for a secure profit at the end of your interest only period.

Jumbo Loans

- Most loan institutions follow the Fannie Mae or Freddie Mac federal guidelines for loans. They have an established maximum loan amount of \$359,650.00. Any loan above this amount would be considered a Jumbo loan.
- Jumbo loans usually carry a higher interest rate.