



What Length Mortgage Is Right For You?

You've found the home that is right for you, and now you need to do the same thing for a mortgage. There are several options for people out there, each one designed for a different type of buyer.

You need to ask yourself several questions when searching for a mortgage type.

1. How long am I planning on being in this home?
2. What monthly payment can I afford?
3. What type of payment fits into my long-term financial plan?
4. What type offers me the best rate for my situation?

Since most people like the security of knowing what their payments will be long term, many will get a 15 yr. Or a 30 yr. Fixed rate loan. But this may not be what would work best for you. Below are some things to consider when making your selection:

Fixed Rate Loan-

This works well for those with a steady income who like the stability of knowing what their monthly payments will be. If you have little or no down payment, a 30 yr. Fixed Rate loan is probably the best one for you. If you have a larger down payment and can afford a higher monthly payment you can opt for a Fixed Rate loan for 15 yrs., or even in lengths of 10, 20, or 25 years. Some lenders offer 40-year mortgages, which would allow some people to buy a larger house without the larger payment. The longer the loan terms, the more interest you end up paying. You always have an option to pay additional principal as the loan progresses. This would decrease the amount of interest you pay on the loan long term, and shorten the length of the loan.

Variable Rate Loan-

Most Variable Rate loans start out with a fixed rate for a specified length of time and change to a variable rate loan. These work well when people expect their income to increase dramatically after a few years, or those planning to move from the house after a few years. The most common loan lengths are 3/1, 5/1, 7/1, and 10/1. The first number is the length of time in years the loan is at a fixed rate. The second number is the length of time in years that it would adjust in after the fixed rate period. There is a cap on the amount of percentage points it can go up after the fixed rate period. It is usually 2% a year. With these types of loans you may pay more principal and less interest in the long run.

Biweekly Fixed Rate Loan-

This loan type works similar to the fixed rate loan, but essentially is a guarantee that you will put extra money toward your principal. You pay half your payment every two weeks instead of monthly. You end up making 13 payments a year instead of twelve, thereby reducing your principal early and reducing the length of your loan.

With some careful consideration on your part you will be picking the perfect loan for you in no time at all.