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Back to Basics Part IV - Getting a Great Home Mortgage

You’ve seen the mortgage news headlines – “Foreclosures on the Rise,” “Mortgage Rates Jump Up,” “Credit Dries Up for Home Buyers,” “Dozens of Mortgage Lenders Shut Their Doors.” All of this drama can make getting a mortgage loan in today’s market seem very scary, if not impossible. Fortunately, the truth is that there are plenty of stable lenders and loans out there. If you are considering buying a home in the near future, you would be wise to first educate yourself about the mortgage basics in order to maneuver into a great loan in a not-so-great market.

Alreadyy discussed in this article series was the importance of a credit score and the down payment, as well as whether to choose a mortgage broker or lender. This part is aimed at helping you decide what type of loan program is best for your needs.

Choosing the Right Loan Program
Basically you have a choice between a fixed-rate and an adjustable rate mortgage (ARM) loan. A **fixed-rate loan** is the standard mortgage that amortizes the payments and interest over the life of the loan. You pay a portion of the principal and the interest each month with interest making up a bigger portion at the beginning of the loan. These loans are great for the stability they provide. The interest rate is fixed so you always know exactly how much you have to pay each month – the amount never changes. They are also the smartest way to go when mortgage interest rates are low; they allow you to lock into that low rate for the entire mortgage.

You can get fixed-rate loans in any number of terms. Of course the traditional length is a 30-year commitment, but these days you can get a 15-year, 20-year, 40-year, or even a 50-year fixed rate mortgage. The benefit of a shorter loan is that you save tens of thousands of dollars in interest charges over the course of the mortgage, but you have to make larger monthly payments. Longer loans allow you to make smaller payments, but you will end up paying a lot more because of the added years of interest.

Adjustable rate mortgages are loans that typically allow for an initial fixed interest rate period (anywhere from one to ten years), after which the interest rate is allowed to adjust periodically based on market indexes. The initial rate is usually a very low rate, making ARM loans very attractive when market rates are high. In such a case, most people keep the ARM until the fixed period ends, after which they refinance into another loan.

ARM loans are also beneficial if you do not plan to be in your home more than fixed rate period. You can take advantage of the low interest rate and then sell your home before the interest rate is allowed to adjust.

You should exercise caution however, if you plan to go with an ARM loan. The current subprime crisis is a product of unwise lending and borrowing of ARMs. Borrowers with poor credit took a chance on homeownership with risky ARM loans that they truly couldn’t afford. Once that their interest rates reset, many have been unable to keep up with the higher

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payments and have gone into foreclosure. If you intend to use an ARM loan, make sure you understand all of the terms and conditions. Also make sure you are financially able to make the highest payment possible that you might be required to pay with an ARM loan.

Now that you know the mortgage basics, it is time to put them into action and find yourself a home loan. Armed with this information you should be well prepared to score a great loan, even in today’s tighter credit market!

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