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Save Money By Downsizing Your Mortgage Loan Needs

When it comes to home mortgage loans, bigger is does not necessarily equal better. In fact, often times when you are looking for savings, smaller is better. If you are contemplating a new home loan or a home equity loan, consider the following suggestions to reap the most savings possible on your investment.

Only Buy as Much Home as You Need
Gone are the days of the housing boom, when people tried to buy the biggest home they could find, knowing the value would appreciate quickly enough to help them pay off their mortgage. The price appreciation has slowed down considerably around the country and has even digressed in a few places. The mortgage market has wizened up to its mistakes of the past few years and loans standards are being tightened everywhere. If you have good credit, income, and savings, you may still be able to qualify for more money than you actually need, but don't be tempted into such a deal. You will save yourself in interest charges by taking out the smallest loan possible, so that means finding a home that fits, but does not necessarily exceed your needs. While you may have to sacrifice some luxuries in downsizing, you will save big over the long run.

Increase Your Down Payment
No matter the size or price of the home you want to buy, you can decrease the loan amount needed by providing a larger down payment. Of course you pay more upfront this way, but that translates into more equity and less interest charges for you. This is especially true if you are buying a home that exceeds the conventional loan limit, or $417,000. Interest rates on these jumbo loans are considerably higher than their conventional counterparts. For example, at current market rates, if bought a $450,000 home with 5 percent down on a 30-year fixed-rate loan, you might be offered a rate somewhere between 7.8 percent and 8.8 percent. Yet if you provided a large enough down payment to bring your loan amount to $400,000, the same loan terms would net you an interest rate of 6.3 percent to 6.9 percent. That would mean a savings a over $200,000 in interest charges over the life of the loan!

Lower Your LTV
If you are looking to get into a home equity loan to pay off your debts, or make some home improvements, you can save the most money by reducing your LTV or loan-to-value ratio. This is the amount of loan you are taking out compared to the value of your home. When you take out more of your home equity, both you and the lender are taking on more risk that you will not be able to repay the loan. Therefore you will find cheaper rates on safer LTVs. Generally rates on home equity loan with an 80% percent LTV will be much better than anything higher than that. Only take out as much cash as you definitely need and resist the temptation to borrow more for extra luxuries right now.

The main point when it comes to home loans is that bridling your greed a little and saving up a little extra will go a long way to saving you money for the future!