

Types of Mortgage Loans

Fixed Rate Mortgages

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Fixed Rate Mortgages

If you are planning on staying in your home for more than 5 years and want the security of a monthly mortgage payment that will never change, a fixed rate mortgage is a smart choice. Of course, your property taxes and homeowners insurance may increase over time, but your principal and interest payments will stay the same.

Fixed rate mortgages are available for 30 years, 20 years, 15 years and even 10 years but the most common fixed rate loans are 15 and 30 year mortgages.

30 year fixed

This fixed rate mortgage takes 30 years to pay off and is the easiest fixed rate loan to qualify for. Because it's a longer term it gives you the best chance to keep your monthly mortgage payments low and use your extra cash for other purposes.

15 year fixed

This fixed rate mortgage takes 15 years to pay off. It offers a lower interest rate than a 30 year mortgage and will save you a significant amount of interest over the life of the loan. More of your payment goes towards principal and less to interest, allowing you to build equity at twice the pace of the 30 year mortgage. However, your monthly mortgage payment will be significantly higher than for a 30 year mortgage.

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Adjustable Rate Mortgages (ARMs)

If an initially lower interest rate and lower monthly payments appeal to you and you are not concerned with potential rate increases, you may want to consider an adjustable rate mortgage. These types of mortgages feature an interest rate that changes at specified intervals (i.e. every 6 months or every year) depending on changing market conditions. If interest rates go up, your monthly mortgage payment will also go up. However, if rates go down, your mortgage payment will also drop.

The starting rate for ARMs is generally lower than the rate offered on a standard fixed rate mortgage. With lower initial interest rates, initial monthly payments will be lower, so you may be able to qualify for a larger mortgage amount.

Common types of ARMs are as follows:

7/1 ARM

A loan with a fixed interest rate and monthly payments for the first 7 years, and then an annual adjustable interest rate for the remaining 23 years.

3/1 ARM

A loan with a fixed interest rate and monthly payments for the first 3 years, and then an annual adjustable rate for the remaining 27 years.

1 Year ARM

A 30 year loan with an interest rate and monthly payments that adjust annually.

6 Month ARM

A 30 year loan with an interest rate and monthly payments that adjust every 6 months.

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Balloon Mortgages

If you plan to sell or refinance your home within a few years and want a fixed, low monthly payment, then a balloon loan may work for you. Balloon loans offer lower interest rates for shorter term financing, usually five, seven, or ten years. At the end of the loan term there will be a remaining principal loan balance and the lender will require refinancing or paying off the outstanding balance with a lump-sum or "balloon" payment. Since this loan is a very short term loan and the lender is taking less risk, it is easier to qualify for this type than for a loan amortized over 30 years.

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FHA Mortgages

FHA (Federal Housing Administration) mortgages offer low down payments, income, asset, and credit qualifying criteria that may be more attractive to buyers whose mortgage needs fall within the FHA regional loan limit guidelines.

FHA is a fixed-rate or adjustable-rate program with a down payment of approximately three percent of the purchase price. Because qualifying ratios are more lenient, you are able to be approved for a larger loan amount with less income. All of your closing costs may come from a gift of up to 6% from the seller. There are loan amount limitations that vary by region across the nation.

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VA Mortgages

The U.S. Department of Veteran's Affairs was established in 1944 with the passage of the original GI Bill. Included in the many provisions of that bill was a program to assist returning World War II veterans with the purchase of a new home. The program has been expanded from time to time to include other veterans since then (see eligibility below).

The assistance provided is a guarantee of a portion of a mortgage loan used to finance the purchase of a primary home. Each eligible veteran is granted a dollar amount of entitlement, which can be used in place of a down payment on a home, and can result in a loan for 100% of the purchase price.

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