

Financing Options

Fixed Rate Mortgage

The interest rate is constant throughout the term of the loan - usually 15 or 30 years - the principal interest portion of your payment remains the same. Payments are stable but initial rates tend to be higher than adjustable rate loans and often cannot be assumed by a subsequent Buyer.

VA Loan

The Veteran Administration does not lend money; it guarantees a portion of the loan so that Lenders who originate the loan. Qualified veterans can obtain loans up to \$417,000 with no down payment. VA-guaranteed loans are assumable upon qualifying by any future buyer.

FHA Loan

The Federal Housing Administration does not lend money or make a loan; rather, it insures loans. The down payment can be as low as 3.5%. FHA charges an up-front Mortgage Insurance Premium (MIP) that can be financed, paid monthly in the mortgage payment, or paid in cash at the time of closing.

Balloon Mortgage

This is a loan which must be paid off in full after a certain period, often five years. The advantage is an interest rate that is lower than a mortgage fixed for 30 years. If you enter a balloon mortgage you need a plan of repayment or plan to refinance at the due date.

Adjustable-Rate Mortgage (ARM)

The interest rate is linked to a financial index, such as a Treasury security or a cost of funds - your monthly payments can vary up or down over the life of the loan - usually 25 to 30 years. Interest rates can change monthly, annually, or every 3 or 5 years. Some ARMs have a cap on the interest rate increase to protect the borrower.

Terms relating to adjustable-rate mortgages:

Adjustment period: The length of time between interest rate changes.

Example: On a one-year ARM, interest changes annually.

Cap: The limit on how much an interest rate or monthly payment can change at each adjustment or over the life of the loan.

Conversion clause: A provision in some loans that enables you to change an ARM to a fixed rate loan, usually after the first adjustment period. This may require additional fees.

Index: A measure of interest rate changes used to determine changes in the loan's interest rate over the term of the loan.

Margin: The number of percentage points a Lender adds to the index rate to calculate the ARM's interest rate at each adjustment.