

## Understanding Different Types of Loans

### **Fixed-rate mortgages**

As the name implies, a fixed-rate mortgage carries the same interest rate for the life of the loan. Traditionally, fixed-rate mortgages have been the most popular choice among homeowners, because the fixed monthly payment is easy to plan and budget. Fixed-rate mortgages are most common in 30-year and 15-year terms, but some Lenders are offering other term lengths, such as 10, 20 and 40 yrs.

### **Adjustable-rate mortgages (ARM)**

Adjustable-rate mortgages differ from fixed-rate mortgages in that the interest rate and monthly payment can change over the life of the loan. The interest rate for an ARM is tied to an index (such as Treasury Securities) that may rise or fall over time. In order to protect against dramatic increases in the rate, ARM loans usually have caps that limit the rate from rising above a certain amount between adjustments (i.e. no more than 2 percent a year), as well as a ceiling on how much the rate can go up during the life of the loan (i.e. no more than 6 percent). Be aware, if the interest rates on fixed loans is affordable, they are less risky.

### **Balloon payments**

A balloon payment refers to a loan that has a large, final payment due at the end of the loan. For example, there are currently fixed-rate loans which allow homeowners to make payments based on a 30-year loan, even though the entire balance of the loan may be due (the balloon payment) after 7 years.

### **FHA and VA loans**

U.S. government loan programs such as those of the Federal Housing Authority (FHA) and Department of Veterans Affairs (VA) are designed to promote home ownership for people who might not otherwise be able to qualify for a conventional loan. Both FHA and VA loans have lower qualifying ratios than conventional loans, and often require smaller or no down payments.

Bear in mind, however, that FHA and VA loans are not issued by the government; rather, the loans are made by private Lenders but *insured* by the U.S. government in case the borrower defaults. While any U.S. citizen may apply for a FHA loan, VA loans are only available to qualified Veterans or their spouses and certain government employees.

### **Conventional loans**

A conventional loan is simply a loan offered by a traditional private Lender. They may be fixed-rate, adjustable or other types.