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| **Choosing the Right Mortgage For Your Real Estate Purchase**    When planning your mortgage, **mortgage experts have found two areas that impact which type of mortgage you choose: the length of time you plan to own and the monthly home loan payments your monthly income to expenses ratio allows**.  Mortgage officers work with homebuyers to secure the residential mortgage that fits their financial picture and plan. The basic choices in home mortgages is standard 15 or 30 year fixed rate mortgages, Adjustable Rate Mortgages (ARM), and balloon payment mortgages such as an interest-only loan. When planning for your loan, weigh the following points in your decision.   1. **How long do you plan to own your home?** Due to the interest to balance ratio in the first loan payments on fixed rate loans, short-term ownership does not create a large amount of equity. Long-term ownership allows borrowers to build up of equity until, of course, the mortgage note is paid off and equity is 100%. 2. For short-term home ownership of 3 - 5 years, **most of your mortgage payment goes to interest, so you may be able to reduce your monthly payments with an interest-only loan** or an ARM. You trade building less equity in the home for keeping payments low. This can also help a homeowner buy a larger house if you keep your monthly payment amount the same as if it was a fixed interest mortgage, but pay on an adjustable loan. 3. **Interest-only mortgages are also known as balloon payment mortgages**, since the balance of the loan is due in a lump-sum payment at the end of the loan. People usually obtain balloon payment loans when they plan to sell well before the mortgage comes due. 4. On an interest-only loan, you should also **take into consideration whether property values in the area is appreciating or depreciating**. If the local housing market is appreciating at least 3% a year, you will be able to build some equity in the property by the time you sell it and (hopefully) have your investment keep pace with inflation. 5. With fixed rate mortgages, there is another benefit trade-off to consider. On a 15 year mortgage, the interest rates are lower, but the monthly payments are higher. These loans allow for building your equity in the property faster. For the 30 year fixed rate, the interest rates are slightly higher, but the monthly payments are lower, making this one of the most popular residential real estate mortgages. If you choose a 30 year mortgage, make sure the loan allows for extra principal payments without a penalty. Just one extra payment a year can shave years off the mortgage and reduce the interest portion of the loan. 6. **How much of a loan can you pre-qualify for?** Lenders use your current income, credit score and debt-to-income ratio to figure how much of your monthly budget you can put toward your mortgage. You may have a payment variable in the amount of discretionary income you put toward your home's equity, especially in the early years, in order to build equity in the home faster. 7. **How much are you prepared to place as a down payment?** Having 20% of purchase price ready as a down payment, along with a very good credit score are necessary to qualify for the FHA loans with the best interest. 8. **How many points (interest paid in advance) are you buying?** In general, a point equals 1/8 of one percent off the mortgage's interest rate. Consider buying points if you are planning to stay in the home long-term of if you want to keep the monthly payments low and have the capital to invest in your home at closing. The amount paid for points is usually tax-deductible in the year they are paid. 9. **Compare the home mortgage rates of your local lenders, such as credit unions and banks**, to see which overall mortgage package is the best for your needs. Checking the overall home loan package is important, since many times the loan package with the lowest interest rate charges more in closing costs, mortgage insurance or fees. **A lower interest loan may have enough closing costs added into the final figure that it effectively raises your interest payments, though not your percent of interest**.   If you are thinking of purchasing a home, talk to your local lenders, the sooner the better. **Review our other reports that may help you improve your credit history and credit scores prior to making your loan application**. Following the reports guidelines can help position you to obtain a better interest rate and terms. When investing in probably your biggest asset, it pays to work with the lender that strives to match your financial situation with a mortgage package that has the right balance of equity building, interest reduction and lower monthly payments. |