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Understanding Mortgages

Mortgage Terms

Mortgages are generally available at 15-, 20-, or 30-year terms. In general, longer terms equate to lower monthly payments. However, you pay more interest overall if you borrow for a longer term.

Fixed or Adjustable Interest Rates

A fixed rate allows you to lock in a low rate as long as you hold the mortgage and, in general, is usually a good choice if interest rates are low. An adjustable-rate mortgage (ARM) is designed so that your loan's interest rate will rise as market interest rates increase. ARMs usually offer a lower rate in the first years of the mortgage. ARMs also usually have a limit as to how much the interest rate can be increased and how frequently they can be raised. These types of mortgages are a good choice when fixed interest rates are high or when you expect your income to grow significantly in the coming years.

Balloon Mortgages

These mortgages offer very low interest rates for a short period of time — often three to seven years. Payments usually cover only the interest so the principal owed is not reduced. However, this type of loan may be a good choice if you think you will sell your home in a few years.

Government-Backed Loans

These loans are sponsored by agencies such as the Federal Housing Administration (www.fha.gov) or the Department of Veterans Affairs (www.va.gov) and offer special terms, including lower down payments or reduced interest rates to qualified buyers.

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