Rate Types

Fixed-Rate or Adjustable?

A fixed-rate mortgage:

Lets you lock in an interest rate so your monthly payment will stay the same over the life of the loan (only slightly changing with tax & insurance changes).

A 30-year fixed-rate mortgage offers a lower monthly payment for the loan amount (for this reason, it's more popular than the 15-year option).

A 15-year fixed-rate mortgage typically offers a lower interest rate but a higher monthly payment because you're paying the loan amount off faster.

An adjustable-rate mortgage (ARM):

Good if you plan to live in a home for a short time or you expect your income to go up to offset potentially higher future rates.

• Offers a lower interest rate than a fixed-rate mortgage for an initial period of time — maybe, five or seven years — but the rate can fluctuate after the introductory period is over, depending on changes in interest rate conditions.

• Has caps that protect how high the rate can go.

• Different lenders may offer the same initial interest rate but different rate caps. It's important to compare rate caps when shopping around for an ARM.

• Adjustable-rate mortgages have a reputation for being complicated. As the Consumer Financial Protection Bureau advises, make sure to read the fine print.

When comparing adjustable-rate loans, ask your lender to calculate the highest payment you may ever have to make. Surprises are never good.

Conventional Loan or Government Loan?

Which fixed-rate or adjustable-rate mortgage you qualify for introduces a whole host of other categories, and they fall under two umbrellas: conventional loans and government loans.

Conventional loans: Originated in the private sector, and is not insured by the government.

•Often a credit score of 620 or above.
• 3% Down payment to qualify.
•Renovation Financing options available from 5% down.
• Very competitive interest rates.

Real-ativity
intelligent real estate

- 0% down with down payment assistance programs.

Government loans: Originated in the private sector, but is insured by the government.

FHA LOAN: Federal Housing Administration

- Low down payment of 3.5% with minimum credit score of 580 or sometimes lower.
- You must pay an upfront mortgage insurance premium (MIP) and an annual premium of 0.85%. Currently, the MIP is 1.75% of the loan amount ($1,750 for a $100,000 loan). This can be paid upfront at the closing or can be rolled into the monthly mortgage payment.
- FHA 203K Renovation financing loans available.
- 0% down with down payment assistance programs.

VA LOAN: U.S. Department of Veterans Affairs

- Available to active or retired military (or a veteran's surviving spouse).
- 0% down payment.
- The VA only allows lenders to charge 1% maximum to cover the costs of originating and underwriting the loan, so you save money at closing. There is, however, an additional upfront, one-time funding fee of 2.15%.
- No mortgage insurance.

USDA LOAN: U.S. Department of Agriculture & Rural Development

- Limited-income homebuyers in towns with populations of 10,000 or less, or that are "rural in character," meaning that some areas that now have bigger populations are grandfathered in.
- Lower interest rates than non-USDA loans.
- Down payments can be as low as 0%.
- Lenient credit score requirements.
- Upfront mortgage insurance fee of 1% of the loan amount and an annual mortgage insurance premium of 0.35%.