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## Choosing the Right Mortgage- Know What You're Getting Into

When it comes to choosing a mortgage loan, you have hundreds of options. Mortgage lenders have developed all sorts of programs in order to accommodate the widest range of home buyers. You do need to be careful however as you consider the right loan for you. Lenders are eager to finance your purchase as it will mean a sizeable return for them on the investment in terms of interest and closing costs and points. They will not necessarily qualify for you the loan that makes the most sense for your wants and needs. And in fairness, they may not truly understand your financial situation and your mortgage preferences. The key to choosing the best home loan for you is to do your own research and take responsibility for the choice you make. With so many people facing foreclosure today as a result of loose lending standards in the past, you will want to do all you can to choose a loan program and amount that will not put you in danger of such a devastating event.

Start with the choice between a fixed rate loan and an adjustable rate mortgage (ARM.) The difference is pretty self-explanatory. With a fixed rate loan, the interest rate you start out with is the one you end with and it remains constant throughout the life of the loan. With an ARM loan, the interest rate is allowed to adjust or change based on the market index it is tied to. Most ARMs today are hybrids, allowing you to have a fixed rate for an initial period of time, say one, three, or five years. Thereafter the rate is subject to change.

ARMs are very popular with buyers because the initial rate tends to lower than rates on fixed loans, meaning lower monthly payments during that initial period. These are also very popular with lenders and you may find yourself being steered into an ARM. If you feel this is the best option for your situation, there is no problem. Yet if you would rather enjoy the security and peace of mind offered by a fixed rate loan, you need to make that clear to your lender. You should realize that a majority of those who are facing foreclosure now as the result of lax underwriting standards in the past few years were sold ARM loans. Many were not aware of or did not prepare for the steep payment increases that can occur with ARM loans. There are usually rate-increase caps, meaning your rate cannot increase more than about 2 percent each time it adjusts, yet even that amount of increase may mean a significantly higher monthly payment, putting you at risk for "payment shock." The idea is to make sure you can truly afford which ever option you choose.

Then, of course, you have your choice of loan terms. The standard options are 30-year and 15-year loans. You will generally get lower interest rates on shorter terms and you will pay less interest overall in the end. The downside of shorter loans is that your payments will be higher, perhaps several hundred dollars more each month. Plus you give up your mortgage interest tax deductions earlier. Don't forget to consider other options as well. Even though the 30- and 15-year mortgages are the most common, you might compromise and come out on top by choosing a 20- or 25- year loan.

Once you know your personal financial capacity and the facts about the different programs, your decision should be a lot easier. Just make sure that it is your decision and not simply the loan program and terms that your lender felt was best for you. You'll prevent foreclosure easier and feel more satisfied in your purchase if you have taken the responsibility for the mortgage decision into your own hands!

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