



## Choosing the Right Mortgage Home Loan

In an effort to sell more loans and provide more flexibility for consumers, mortgage companies have created many different home loan programs to suit a wide range of needs and goals. In fact, there are so many options out there that it might be confusing for people which loan is right for them. For example, you can get fixed rate loans for terms of 15, 30, 40, and even 50 years. You can also get adjustable rate mortgages with fixed rate periods from 1 to 10 years. Or you can get ARM loans that allow you to pay only interest for a certain amount of time. There are even ARM loans that allow you to choose how much you want to pay each month, with one of the payments choices being lower even than paying for just the interest due. With so many options, it can be challenging to pick the right one for your situation. The following are a few guidelines that can help you make a smart decision.

### Determine How Much You Can Afford

Different home loans require different payment amounts each month. Adjustable rate mortgages are designed to provide low monthly payments at least for a year or two (the payments may jump up dramatically thereafter.) A 30-year fixed rate payment will probably be higher than an ARM loan initially but may balance it out over time. If you decide to go with a 15-year fixed rate mortgage your payment will be much higher because you are attempting to pay off the loan in half the time.

The key is to determine exactly how much you can afford. It may be helpful to use the lenders' rule of thumb to figure this out. Basically your total debt, including your mortgage payment should not equal more than 36 percent of your income. So for instance, you make \$5,000 a month. Thirty-six percent of that would be \$1800. If you have debts each month equal to \$700, then you have \$1100 that you can safely put towards a mortgage payment each month. Your lender can help you figure this out, but it would be smart to know how much you are comfortable paying before you apply for a loan, as some lenders may offer you bigger loans than you really want.

### Determine How Long You Plan to Stay

How long you plan to stay in your home can often be a big determining factor in which loan makes the most sense for you. If you are certain you will be moving within a few years, it generally makes most sense to take advantage of the low initial payments of an ARM loan. (Be careful though. If the market turns sour and you are unable to sell your home as planned you may have to pay more money to refinance into a new fixed loan later or simply make higher payments when your rate adjusts down the road.) If you plan to stay in your home long-term, however, a fixed rate loan may provide the best predictability and terms.

### Determine Your Financial Goals

Finally, the type of home loan you choose should also be a product of your overall financial goals. Some people find it extremely attractive to pay off their mortgage as soon as possible in order to be free of debt and to free up cash for other things, like college tuition for children. If this is your goal, you should consider the 15-year fixed rate loan. If however, your plans are more about saving on your own while taking advantage of the valuable mortgage interest tax



shelters, a 30-year fixed loan will probably suit you better. You can always make an extra payment once in a while to pay down your balance quicker if you so choose.

The better informed you are going into a discussion with a mortgage lender, the better prepared you will be to make a smart decision of the loan programs available. Considering your price range, your time frame, and your long-term financial goals can give you this edge when you apply for a mortgage home loan.