Guide to Home Loans: Finding the Right One

7 DIFFERENT LOAN TYPES

the mortgage co.

There are a lot of loan choices – so how do you figure out which is best?

If you're looking to buy your first home, refinance or cash out some equity in your current home, determining the right loan can take some work. If you are buying a home for the first time, this guide is for you. Whatever your situation, we've put together this handy dandy Guide to Home Loans to help you understand your options. Of course, our Loan Specialists are always happy to talk to you, to discuss your situation and make recommendations on the way to go based on your best interests.

The Conventional Mortgage:

Mortgage loans can have fixed or adjustable interest rates or a combination of both. When the rates are combined, the rate is set for a specific time period and then converts to an adjustable rate for the rest of the loan term. These vary from ten to thirty years, with the most common being fifteen or thirty.

Generally, shorter loan terms mean lower interest rates.

Be aware, however, that this does not necessarily imply a lower monthly payment as the loan will be amortized over a shorter time frame. For example, total interest on a fifteen-year loan may be half of that on a thirty-year loan, but the payment per month will be higher.

Mortgage loans can have fixed or adjustable interest rates or a combination of both. When the rates are combined, the rate is set for a specific time period and then converts to an adjustable rate for the rest of the loan term.

Fixed Rate Mortgage:

In many instances, fixed rate mortgages have higher mortgage payments than adjustable rate mortgages. This is most often because the interest rate remains unchanged for the duration of the loan. Typically, loans with longer terms will have a higher interest rate than loans with shorter terms due to interest rate risk, or the possibility of fluctuating interest rates.

Fixed Rate Mortgage Benefits:

- Competitive interest rates
- Locked interest rate for the life of your loan
- Easier-to-understand loan terms and paperwork

The Adjustable Rate Mortgage (ARM):

An adjustable rate mortgage (ARM) is a mortgage in which the interest rate may change over time. With an adjustable rate mortgage, the interest rate may change periodically, usually in relation to an index (such as the London Interbank Offered Rate, or LIBOR), and payments may "adjust" up or down accordingly. Unlike a fixed rate mortgage, homeowners with this type of home loan aren't guaranteed the same interest rate for the duration of their loan. The risk of an increasing interest rate is something that borrowers should take into account when considering an adjustable rate mortgage for their home financing.

Adjustable rate mortgages typically offer lower initial interest rates and monthly payments than fixed rate mortgages in exchange for possible future rate adjustments. With an adjustable rate mortgage, the initial interest rate is fixed for a set period, such as 3 to 10 years, and the interest rate adjusts up or down depending on market conditions after that.

Adjustable Rate Benefits:

- Flexibility for buyers who plan to move in the future or who anticipate their income increasing.
- Lower initial interest rate than fixed-rate mortgages, which means you will enjoy a lower monthly payment during the initial term.

TERMS TO KNOW

Fixed Rate

Fixed interest rates stay the same throughout the duration of your loan (usually 15 or 30 years).

Adjustable Rate

Adjustable mortgage rates, or ARMs, on the other hand, may be raised or lowered depending on the current economy.

Interest Rate Caps

Depending on the type of mortgage selected, interest rate caps offer some protection for homeowners who opt to finance their home with an adjustable rate mortgage. An interest rate cap sets a limit on the amount the interest rate can increase. There are two types of interest rate caps. A periodic adjustment cap limits the amount an interest rate can increase or decrease between two adjustment periods after the first adjustment. A lifetime cap limits the amount the interest rate can increase over the duration of the loan.

Payment Caps

Payment caps follow a similar structure as interest rate caps. Payment caps limit the amount the monthly payment may increase from one adjustment period to another, instead of the amount the interest rate can increase.

Down Payments

Traditional mortgages tend to have lower interest rates than other types of financing, but the wherewithal is needed for a sometimes hefty down payment. Down payments can range from 5% to 20% depending on the applicant's credit score.

If you pay 20% of your down payment you will be able to avoid the monthly mortgage insurance.

Government Guaranteed Loans

Instead of directly issuing loans, several government programs guarantee reimbursement to private-sector lenders in the case of loan defaults. These programs are listed below:

The FHA Mortgage:

The Federal Housing Administration (FHA) is a government entity that offers mortgage insurance on loans made by FHA-approved lenders. The FHA provides insurance on mortgages for many different types of homes including single-family and multifamily homes. The FHA is completely funded by its own self-generated income, meaning there is no cost to taxpayers for its operation and services.

What Are FHA Loans?

FHA loans are insured by the Federal Housing Administration. These loans are designed to help first-time homebuyers and experienced homeowners alike by providing them with a low down payment option. FHA mortgage insurance serves as protection for lenders in the event of a homeowner defaulting on their home loan.

FHA Loans Benefits

FHA insured loans often give potential homeowners the option of making a lower down payment than they would need to make if using a traditional, non-FHA insured mortgage. FHA loan benefits include:

- Down payments as low as 3.5%
- Loan is guaranteed by the government
- Less than perfect credit can apply
- Energy-efficient mortgages, reverse mortgages, refinances, and renovation loans also available

The USDA Rural Development (RD) Mortgage:

The USDA (United States Department of Agriculture) manages a program whereby a buyer can borrow up to 102% of the home's appraised value, thus eliminating a down payment. This program is only available in certain non-urban geographic locations, but these sites can include small towns and villages close to larger cities. The type of mortgage that this program applies to is the thirty-year, fixed-rate kind.

USDA loans are designed to encourage rural land development and growth in rural areas. They were long thought of as just for farmers, but the program has been expanded in recent years to give more people looking to purchase or refinance in a rural area access to the incredible benefits offered by these loans.

USDA Guaranteed Rural Housing Loans
Applying for USDA Loans

We offer USDA Guaranteed Rural Housing Loans. These loans are designed to help families without adequate housing finance the purchase of a home in a rural area. Applicants may have incomes up to 115% of the area's median income and must be able to afford mortgage payments, including insurance and applicable taxes. Credit score is also considered in the application process.
The duration of a USDA Guaranteed Rural Housing Loan is 30 years, with an interest rate determined by the lender. No down payment is required, which sets these loans apart from more traditional home loans.

USDA Loan Eligibility

Program guidelines are very specific – but don't let that stop you from achieving your homeownership goals. Our experienced USDA financing professional will help you navigate through the USDA loan process and determine if you are eligible.

Basic qualifications include:

- The property being purchased must be in a rural area as defined by the USDA.
- The property must be owner-occupied. Investment or vacation properties are not eligible for USDA loans.
- You must meet the income restrictions for the county the property is located in. Each county has a maximum income limit defined by the USDA. This maximum income limit depends on the cost of living, median income and other economic characteristics of the county the property is located in.

SPECIALTY PROGRAMS

Community Program

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Professionals Program

Newly graduated? Yes! You can qualify for a combined loan amount of up to $1.5 million with a maximum combined loan to value of 95% and minimum credit score 740*

PROGRAM INCLUDES:

DOCTORS
DENTISTS
CPAS
VETERINARIANS
LAWYERS

USDA Loan Benefits

- 100% financing option, no down payment needed
- Great rates and down payment options
- Better terms than a FHA or conventional loan
- Flexible credit guidelines mean less than perfect credit may still qualify

The VA Mortgage:

Veterans are eligible for VA (Veterans Affairs) mortgage loans with zero down payments. Credit requirements are similar to those associated with FHA loans. VA loans are a special type of home mortgage reserved for active military members and veterans. VA loans allow eligible veterans and active military personnel to realize their home buying dreams and help existing VA homeowners with money-saving refinance options.

These home loans are guaranteed by the U.S. Department of Veterans Affairs and offered by participating approved lenders. The program is also available to the unmarried surviving spouse of a veteran who died on active duty or because of a service-related disability. Credit requirements are generous and flexible, and loan issuers are encouraged to approve applications.

VA Loans Benefits:

- No penalty fee if you pay the loan off early
- No private mortgage insurance requirements
- Less than perfect credit can apply
- VA may be able to provide some assistance if mortgage payment problems arise

Eligibility for the VA Loan

- Active-duty military
- Veterans
- Reservists and members of the National Guard
- Some surviving spouses of veterans

These eligibility requirements are unique to VA loans. In addition to past or present military service, standard home loan criteria like your credit score and income will also play a role in your eligibility.

Certificate of Eligibility

In order to apply for a VA-sponsored loan, you will need to obtain a Certificate of Eligibility (COE). Your COE verifies to lenders that you meet the requirements necessary to obtain a VA-sponsored loan. Applying for a COE is straightforward and can be done online, through the mail or through a lender. Active duty military personnel and current National Guard members or Reservists who have never been Federal active service will need to present a current statement of service in order to obtain a COE.

Veterans and current or former National Guard members and Reservists that have been activated for Federal active service will need to present a DD Form 214 confirming their past service.

The FHA 203k Loan:

This is a loan for home improvements, either in a house which is in the buying process or one that is already owned. There are no restrictions on the type of improvements that the money can be used for - upgrade the kitchen or bathroom, completely remodel the home, or even raze an existing structure and build a new one as long as some portion of the original foundation remains. Amounts of up to 96.5% of the value of the improved home are available.

The HomeReady® Mortgage:

Fannie Mae (Federal National Mortgage Association) offers an enhanced, affordable lending product, the HomeReady Mortgage, designed to meet the diverse family and financial situations of credit worthy applicants, with down payments as low as 3%. A real innovation is that income from any household member other than the actual buyer will be taken into account for eligibility. Also, family members who don't live on the property can be co-borrowers on the loan. This enables parents to assist their children in qualifying for a mortgage to purchase that first home. Rental payments from an apartment in the home may also help qualify an applicant.

What's Next?

Hopefully this guide has given you an idea of your options, as well as provided some insight as to what might be the right direction to go for your loan (and what direction not to go!).

Whether your situation is straightforward or complicated, our Loan Specialists are available to run a few scenarios for you so you have work with some solid numbers moving forward getting that loan! Let's talk.

Speak with us today. Call (800) 713-4047
or apply online at TheMortgageCo.com

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7343 S Alton Way, Suite 150 Centennial, CO 80112
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