Financing your Purchase

What is the difference between Fixed Rate and Variable Rate Mortgages?

When one purchases a conventional mortgage it is set at an interest rate that remain the same, or "fixed" throughout the term of the mortgage. The term negotiated is usually 15 or 30 years, but some mortgage companies are now offering 7, 10, 25 and 40 year loans.

The Variable Rate mortgage, often referred to as an Adjustable Rate Mortgage or ARM, links the interest rate to the Federal Reserve Prime Rate or another common index. The interest rate on these loans is usually lower than a conventional fixed rate loan but changes when the index changes. When purchasing such a loan, the consumer risks the chance that the interest rate could go quite high. Purchasers should investigate these loans thoroughly. Some loans have a "cap" on how high the rate can go each year or over the term. Others do not. The consumer should also ask how often the rate can change and what is the limit per year.

What is a Balloon Loan?

This mortgage begins as a fixed rate mortgage but after an agreed upon time frame the note becomes due in full. These loans are often used when owner financing is used in the purchase. The owner will "hold the note" for a number of years, usually between 3 and 7, then the purchaser will either refinance with a conventional lender or pay off the loan.

What is a Veterans Administration Loan?

Some financial institutions work with the Veterans Administration (VA) to fund loans. The financial institution writes and funds the loan and the VA guarantees it. The VA does not provide any loan. American Armed Forces Veterans can qualify for these loans that offer low or no down payment and attractive interest rates. Some sellers will not accept this loan as payment due to increased cost to the seller. Check with an institution about qualifications and terms.

FEES that institutions charge can vary widely. Be sure to check with several institutions before signing any mortgage agreement and

compare their “truth in lending” documents. It is possible that added fees can make a lower interest rate loan more expensive. For instance, some lenders charge “points” and application fees. Points refer to the added cost of securing an interest rate. One point is equal to 1% of the loan value. For instance, if a lender charges one point on a $100,000 loan, you would pay $1,000 at closing to buy that loan. Try to avoid points whenever possible.