
Lend an Ear and Let's Talk About Home Loan Options



DWELLING ON DWELLINGS:

By **Brad Boisvert**

Has it ever been easier to get money to buy a house ... and yet more confounding? Television commercials want you to believe that lenders will compete for your business. You can't surf the Internet without being assaulted with pop-up windows hawking low-interest mortgages. And online search engines promise to find you just the right loan for your needs.

Surely, today's homebuyers have more financing options than ever before. The good news is that you can tailor financing to fit your needs. The bad news is that being confronted with an alphabet soup of options can be confusing.

So what loan is right for you? That depends on several factors. For example, what is your current economic situation, your realistic financial outlook, and how long you plan to stay in your new home?

If you plan to live in your new home for a very long time, you'll probably be most interested in a **fixed-rate mortgage**.

Perhaps the easiest type of loan to budget for, fixed-rate loans carry the same interest rate throughout the life of the loan. Changes in property taxes and insurance escrow notwithstanding, your monthly payments will remain the same month to month, year to year.

Adjustable-rate mortgages, on the other hand, vary according to market indexes. For example, some rates are tied to factors such as T-bills or the Prime Rate. Often, the

actual rate you are first charged is lower than the current fixed-rate options. But beware, the rate can change every year. It may go up. It may even go down. To protect homeowners from dramatic surges in interest rates, most adjustable-rate plans cap increases at 2 percent each year. That may sound honky-dory when you're mooning over and signing for your dream house. But consider this, for a \$200,000 mortgage, the difference between a 6 percent rate and an 8 percent rate is nearly \$270 a month. If your interest rate increases the limit, could you handle the extra monthly burden? With such uncertainty about the future, adjustable-rate mortgages are more suited for homebuyers who plan to re-sell in only a few years.

Some lenders may offer loans that feature both a fixed rate and an adjustable rate. These **hybrid loans** may start with a fixed rate for a set period of time -- usually seven to 10 years -- and then convert to an adjustable rate. The advantage of hybrid loans is that homebuyers can generally get a lower interest rate than traditional fixed-rate mortgage. The big disadvantage is that after the expiration of the fixed-rate term, the interest rate can go up as much as 6 percentage points.

Or it may go down. Clearly adjustable-rate mortgages are attractive to optimistic thinkers, who always assume things will be better down the road.

The most optimistic thinkers may consider **balloon mortgages**. Balloon mortgages are short-term loans that have lower than normal interest rates but a very large final payment due at the end of the loan.

A **graduated payment mortgage** is another "optimistic" option, which have payments that start out low and gradually

increases -- presumably -- as the homeowner's financial situation improves.

These are just a few examples of "conventional loans" offer by private lenders. As a homebuyer, you may be eligible for a slew of "unconventional" government loans.

For example the Federal Housing Administration (**FHA**) administers various mortgage programs that offer plan with low-to-no down payments. Strict economic and salary guidelines apply. **VA loans** are guaranteed by the U.S. Department of Veterans Affairs and are available to veterans, veteran spouses, and certain government employees. The Rural Housing Service (**RHS**) guarantees loans for rural residents with minimal closing costs and no down payment.

Outside the government, other unconventional loans may include **seller-assisted mortgages**, in which the seller underwrites all or part of the loan. Of course, terms can vary dramatically from one seller to another.

Ask your real estate agent and various lenders about all the options available to you. Contact at least three lenders and compare plans. In economic times such as these, it's important to do your homework and borrow wisely. Now more than ever, you want to make sure you find funding that you can live with. According to the Mortgage Bankers Association of America, a record level of U.S. mortgage holders lost their homes to foreclosure in the third quarter of 2002.

Yet, lower interest rates and new-fangled programs remain nigh on irresistible.

Whatever you do, choose a plan that you can repay!

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