
Loan Types

Loan Program Advantages Disadvantages

Fixed Rate Mortgages

- 30 year fixed
- 15 year fixed

- Monthly payments are fixed over the life of the loan

- Interest rate does not change
- Protected if rates go up
- Can refinance if rates go down

- Higher interest rate
- Higher mortgage payments
- Rate does not drop if interest rates improve

Loan Program Advantages Disadvantages

Adjustable Rate Mortgages (ARM)

- 10/1 ARM
- 7/1 ARM
- 5/1 ARM
- 3/1 ARM
- 1 year ARM

- 6 month ARM
- 1 month ARM

- Lower initial monthly payment
- Rates and payments may go down if rates improve
- May qualify for higher loan amounts
- 30 year term, no balloon payment

- More risk
- Payments may change over time
- Potential for higher payments if rates increase

Loan Program Advantages Disadvantages

Balloon Mortgages

- 7 year
- 5 year

- Lower initial monthly payment
- Lower payment for a predetermined period of time
- Many balloon mortgages offer the option to convert to a new loan after the initial term

- Risk of rates being higher at the end of the initial fixed period
- Risk of foreclosure if you cannot make balloon payment, refinance, or exercise the conversion option
- Balloon payment requires you to sell or refinance after the term, as opposed to a 7/1 or 5/1 program with a 30 year term

Loan Program Advantages/Disadvantages

First Time Buyer Programs

- Lower down payment
- Easier to qualify
- Lower rates may be available

- May be subject to income and property value limitations
- Some government subsidized programs may generate a recapture tax if you sell the house too soon
- Education courses may be required to qualify for these loans

Loan Program Advantages/Disadvantages

Stated Income Programs

- Don't need to verify income
- Faster approval

- Good for borrowers who may not qualify with a full income documentation program

- Higher rates
- Higher down payment

Loan Program Advantages/Disadvantages

Interest Only Programs

- You have several payment options
 - Lower monthly payments
 - Qualify for a higher loan amount
 - Qualify at the interest only payment
 - Option to pay the full normal payment
 - Interest only payments for up to ten years
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- Higher rates
 - Principal loan balance will not decrease during the interest only payment period
 - Payment will be higher for the remaining term

Loan Program Advantages/Disadvantages

No point, No fee Programs

- No out-of-pocket loan costs at closing
- Closing costs are paid from the lender rebate
- Less money required to close
- Refinance without increasing your loan amount

- Higher rates
- Higher payments

- Some lenders may have a short payoff penalty which is usually charged to the loan broker, but may be passed on to you
- Some require a prepayment penalty for the first one to five years

Loan Program Advantages/Disadvantages

Imperfect Credit Programs

- Potential for reestablishing credit if you pay your mortgage on time
- When used for debt consolidation, you may be able to reduce your monthly debt payment

- Higher rates

- Terms may not be as favorable
- Harder to get long-term fixed loans
- Loans may have prepayment penalties

Loan Program Advantages/Disadvantages

Home Equity Line of Credit

- You only borrow what you need
- Pay interest only on what you borrow
- Flexible access to funds
- Interest may be tax deductible

- May be free of closing costs
- A good source for an emergency fund, if set up in advance
- Can be used for debt consolidation and lower payments
- Rates are usually lower than consumer loan or credit card rates

- Rates can change. The maximum interest rate can be relatively high
- Payments can change
- Harder to refinance your first mortgage

Loan Program Advantages/Disadvantages

Home Equity Fixed Loan

- Fixed payments
- Interest may be tax deductible
- Get cash out for any purpose

- Higher interest rates compared to first mortgage
- Harder to refinance your first mortgage
- Interest is paid on the entire loan amount, compared to an equity line of credit