

# Shopping for a Mortgage

By ALEX MASON | Green Shoot Media

Buying a piece of property may be the biggest investment of your life, so it makes good sense to shop wisely when it comes time for your home financing.

Mortgages are structured to meet and exceed most financial arrangements and can be tailor-made to suit your purpose and intent for keeping the property. Whether you wish to remain in the home for decades or need funding for a home designated for short-term use, there's a mortgage plan that will help you accomplish your goals and meet your monthly budget.

## FIXED-RATE MORTGAGES

The life of the loan is important to establish your monthly payment according to interest rates and how much you can afford in payments. Shorter-term loans will have a higher monthly payment — for example, a loan with a 15-year payoff as opposed to a 30- or 40-year fixed rate.

Securing a fixed-rate long-term loan enables the borrower to guard against fluctuating interest rates and surprise price hikes for the life of the loan, a choice that is ideal for borrowers who plan to remain in the property for many years.

The fixed-rate mortgage remains intact according to its contractual elements and provides peace of mind to the borrower with a stable monthly payment over decades.

## ARM LOANS

The adjustable-rate mortgage, or ARM loan, is set with the current interest rate dictated by the borrower's credit



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Knowing the jargon of the mortgage industry can help you get a great deal on your home loan.

score. This type of loan may be designated for a two-, five- or seven-year period and may be set with a very low rate. Although the monthly payment is lower at first, the ARM has a date when the loan will adjust and therefore be subject to the current interest rate at that moment.

In an economy where nothing is certain, an ARM mortgage loan makes good sense for a home buyer who does not intend to remain in the property for a great length of time. If the property was purchased due to a job transfer or temporary residence, or if it was purchased as an investment, then an ARM is a practical loan.

However, if the borrower is entertain-

ing the idea of staying put in the property, the ARM loan can be risky. Although a borrower may refinance the property and change the structure of the loan from an ARM to a fixed mortgage payment, be aware that refinancing can be costly and the home may not always meet the conditions for a successful mortgage restructuring.

You may need sufficient equity in the property to refinance, and the home must appraise at a certain value.

## FHA FUNDING

First-time borrowers and those who need financial assistance to get into a property may apply for FHA lending services. The FHA is a guarantor over a conventional loan to secure funding if the buyer defaults. This type of funding will cover 96.5 percent of the total loan balance and requires a minimal down payment of less than 4 percent.

In addition, home buying applicants with challenged credit are encouraged to apply, and special discounts and incentives are made available for public service employees with variable guidelines for each state. The Federal Housing Administration is committed to making home buying dreams come true, so be sure to check with the loan officer from your bank or private brokerage firm to start paperwork on FHA documents.

FHA loans are fast and easy to secure and carry minimal applicant restrictions, making this type of mortgage option a popular choice for new buyers.

## GET THE FACTS

Before you sign on the dotted line, it is crucial that you understand your loan

## REAL ESTATE 101

### Housing Counseling

U.S. Department of Housing and Urban Development housing counseling agencies throughout the country provide free or low-cost advice on buying or renting a home, default, foreclosure avoidance, credit issues and reverse mortgages. Visit <http://www.hud.gov/offices/hsg/sfh/hcc/hcs.cfm> to find an agency, or call 800-569-4287.

documents one page at a time. Real estate paperwork is extensive and confusing to even the most seasoned contract reader, and once you sign the document before a notary, you are fully responsible by law to fulfill the terms and agreements.

Your loan officer should be present at the time of signature and explain in detail what every loan document page means. Make yourself vocal with plenty of questions, and if something is vague and ambiguous, that's the time to put on the brakes.

Once your loan documents are signed and submitted, it is nearly impossible to contest anything in court should your terms and conditions turn out to be an unwelcome surprise. So use discretion and perform your due diligence to ensure you have signed a square deal.

*Alex Mason is a former real estate agent and mortgage broker living in Los Angeles.*

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## HOMESWISE GLOSSARY

**Amortization schedule:** a schedule that shows the amount of principal and interest due at regular intervals and the unpaid principal balance of the mortgage after each payment is made.

**Arrearage:** the amount past due on a mortgage, excluding any amounts that become due through acceleration.

**SOURCE:** U.S. Department of Housing and Urban Development

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