

Mortgages at a Glance

Mortgages used to be simple. You made a down payment on the house of your dreams and borrowed the balance at a fixed rate of interest, promising to pay it back in regular monthly payments over a period of years.

Today you must make a choice. Do you want the traditional 30-year fixed rate mortgage with its guarantee of unchanging monthly payments?

Perhaps a 15-year loan would be better? Or would you prefer an adjustable rate mortgage with monthly payments that can rise and fall in accordance with an index reflecting economic conditions?

Below is a brief synopsis along with the pros and cons of some of today's most popular mortgage loans:

TYPE	DEFINITION	ADVANTAGES	DRAWBACKS	COMMENTS
30-YEAR FIXED RATE	A long-term loan in which principal and interest are amortized over 30 years; interest rate remains unchanged for life of the loan	<ul style="list-style-type: none"> - Considerable tax benefits, especially in the early years. - Interest rate never rises, regardless of inflation. 	<ul style="list-style-type: none"> - Slow equity build-up. - Higher costs of loan pay back due to length of mortgage. 	The most common mortgage in the U.S.; a particularly good investment when rates are low. Lower monthly payments due to the amortization time.
15-YEAR FIXED RATE	As above, but pay back period is 15 years.	<ul style="list-style-type: none"> - Usually lower interest rate than 30-year. - Faster equity build-up. - Less interest paid out over life of loan. 	<ul style="list-style-type: none"> - Higher monthly payments. - Less tax-deductible interest. 	An excellent option for middle-aged and older buyers or homeowners who want to have no house payments.
ARM (Adjustable Rate Mortgage)	A mortgage whose rate changes over time according to terms specified by the lender usually according to short-term Treasury Bill rates.	<ul style="list-style-type: none"> - Low initial interest rate, sometimes below market. - Payments may decrease over time. 	<ul style="list-style-type: none"> - Payments may increase over time. - Risky if rates rise significantly. 	Good option for buyers whose income will rise and/or when rates are expected to drop.
FHA/VA MORTGAGE LOANS	Government-insured or guaranteed mortgages that can make purchase more affordable than conventional loans.	<ul style="list-style-type: none"> - Little or no down payment required. Marginally better rate than conventional 30-year mortgages. 	<ul style="list-style-type: none"> - Lower limits on the maximum that can be borrowed. - VA requires current or past military experience. 	Good option for first-time buyers with little or no money to invest in a down payment. 100% of funds needed can come from a gift.