

Mortgage Essentials

Basic Loan Types

As you probably remember from your first round of home financing, mortgages come in a variety of types and sizes to meet a wide range of needs. Here's an overview of the most common types of mortgage programs that you can use as a reference.

Mortgage Type	Key Features	Customer Benefits	Homebuyer Profile
30-Year Fixed Rate	Interest rate remains the same for the life of the loan.	Provides protection against rising interest payments. Predictable payments make budgeting for the future easy.	Especially attractive in a low interest rate environment and ideal if you plan to stay in your new home for at least 7 years.
15-Year Fixed Rate	Same as 30-year, but with slightly lower interest rates.	Principal is paid off sooner, saving substantial money in interest payments.	Investment-minded homebuyers who can or wish to make higher mortgage payments can build equity faster.
Adjustable Rate (1-Year ARM) For further ARM information, see the index , margin and rate cap glossary entries at the end of this workbook.	Interest rate (and monthly payments) can rise or fall as a result of annual rate adjustment, which occurs throughout the term of the loan in response to a changing economy.	Initial interest rate and monthly payment are lower than that of a fixed rate mortgage.	May be a good choice in a higher interest rate environment if you need a lower rate to qualify for financing or if you want to save some money in the first year.
Intermediate ARM	Offers a fixed interest rate for a designated period (3, 5, 7 or 10 years) then adjusts annually. Often referred to as 3/1, 5/1, 7/1, and 10/1 ARMs.	Initial interest rate and monthly payment are lower than that of a fixed rate, so payments are more manageable during the introductory period. Rate is usually higher than the 1-year ARM, but payments are dependable for a longer period.	Can be a practical financial-planning tool for forward-thinking homebuyers who intend to move or refinance in 3, 5, 7 or 10 years.
Convertible ARM	Offers an option to convert your loan to a fixed rate mortgage after a certain period of time (for example, anytime after the first through the fifth year).	Advantage of a lower initial interest rate with an opportunity to change to a fixed rate when you can better afford it.	Good choice for homebuyers who need a lower qualifying rate today, but who may want to switch to a fixed rate in the future without refinancing.
Balloon Loan	Offers fixed payments for a period of time (usually 5 to 7 years), followed by one balloon payment of the remaining loan balance.	Interest rate is lower than that of a fixed rate loan.	Popular choice of homebuyers who are certain they will move or refinance in 5 to 7 years.
Renovation Loan	Finances the purchase of a home and provides the additional funds to improve or renovate it.	Amount of money that can be borrowed is based on the future value of the home after improvement.	Perfect for the homebuyer looking to purchase a "fixer-upper" or a house that requires remodeling to accommodate family needs.
New Construction Loan	Offers two types of programs: one that finances the purchase of a newly constructed home and one that finances the actual construction plus the purchase of the finished home.	Loans for new construction offer options such as an extended rate lock or bridge loan .	Homebuyers purchasing a newly constructed home from a builder, or building their own home.