

# Mortgage Options

Completion of a mortgage application is the easy part of working with a lender! The lending industry offers a wide variety of mortgage products. Discuss the types below along with the questions on the back with your lender. Together, you can choose your optimal mortgage product.



## Fixed Rate Mortgage

These loans offer a fixed interest rate for the entire loan term. Borrowers have the advantage of a consistent interest rate and predictable payment. The only increase in payment is related to escrows and occurs if taxes or insurance premiums increase.

## Adjustable Rate Mortgage (ARM) also called a Convertible Loan

This loan begins with a lower- than- market interest rate. The rate will adjust based on one of several current interest rate indices, usually after 2, 3, 5, or 7 years. The specific adjustment period and index depend on the loan. The advantage to the borrower is the lower initial payment while the disadvantage lies in the uncertainty of future interest rates which may rise or fall. Borrowers may be unable to afford the higher payments. Rate caps exist for each adjustment and the total adjustment.

## 2-Step Mortgage also called a Hybrid

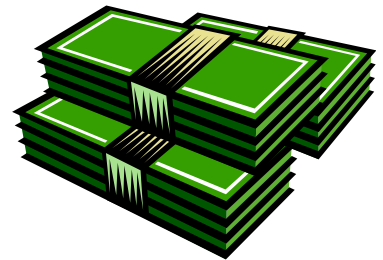
These loans have characteristics of both fixed rates and ARMS. Like the ARM, it offers a low initial interest rate that adjusts at the step. After adjustment, the interest rate remains fixed. A 2/28 or a 3/27 offers an initial lower payment for the first 2 or 3 years respectively and then adjusts to a higher, fixed interest rate for the remainder of the term. A cap exists on how high that rate may rise for all hybrids; usually this is 6 percent.

## Step Rate Mortgage

This mortgage offers a lower interest rate for a set number of years. Then it adjusts every 6 months or each year until one final adjustment. The step period lasts several years. The interest rates and payments are predictable.

## Interest only Mortgage

This loan offers initial payments that cover interest only for a period. At some point, the principle payments are required. The disadvantage lies in the lack of equity growth and principle diminishment.



## Balloon Mortgage

These are short-term, fixed-interest rate loans that begin with a set interest rate and payment and end with a single large payment on the remaining principal. Usually this is at the end of 5, 7 or 10 years. The advantage lies in lower initial payments but it can be difficult to save or pay for the final balloon payment. Most owners sell before the balloon is due or refinance the balloon amount at the current rate.

**For more information, contact Consumer Credit Counseling Service.  
Call us at (605) 330-2700 or (888) 258-2227(CCCS), or check out our  
Web site at [www.lsssd.org](http://www.lsssd.org).**

The following questions will help you to explore your future finances and plans. Discuss them with your family and with your lender.

1. How long will I stay in the area before we move? Do we have a plan to upgrade or relocate?
2. Do we plan to pay off my mortgage to own my home, or are we comfortable making monthly house payments with no plan to own?
3. Are we most comfortable with a predictable, consistent payment each month?
4. How quickly do we expect our income to increase in the coming years? How much?
5. Could we live with the uncertainty of a fluctuating interest rate?
6. If we choose a mortgage with low initial payments, will we be disciplined enough to put away the money that we save during the low payment period?
7. Would we be comfortable selling our home if the mortgage that we choose results in payments that we eventually could not afford?
8. Would we move and pay off the mortgage prior to any adjustment if my mortgage contains one?
9. Would we be willing to pay a penalty if we plan to pay our mortgage off early?
10. If we chose a balloon mortgage, would we pay the mortgage off or would we move prior to full payment? If we pay, would we save the money or do we already have money? If we're saving, do we have a plan in place?



**Do you have more questions on buying a home? Attend our free seminar, Homebuyer Express, to get your questions answered. Lutheran Social Services offers Homebuyer Express monthly. Register today at (605) 330-2700 or (888)-258-2227.**