

What mortgage program is right for me?

 Selecting a mortgage program is one of the most important steps in the mortgage process

- It is key to select a mortgage program that you are comfortable with and what type of mortgage program you choose also impacts what size mortgage you can afford

 There are three main types of mortgage programs

- Fixed Rate Mortgage
- Adjustable Rate Mortgage (ARM)
- Interest Only Mortgage

 The chart on the following page summarizes and discusses the main pros and cons for each type of mortgage program. As illustrated by the chart, each program is suitable for a specific type of borrower in a specific situation

- The most common type of mortgage program is a fixed rate mortgage because it involves the least amount of risk
 - This is because the monthly mortgage payment for a fixed rate mortgage can never increase and stays constant over the life of the mortgage
- The primary reason to select an adjustable rate mortgage (ARM) is because the interest rate and mortgage payment are lower than a fixed rate mortgage during the initial fixed rate period of the loan
 - Another reason to select an ARM is if you think interest rates are going to decline significantly in the future although ARMs also carry the risk that your mortgage payment will increase if interest rates rise in the future
- Interest only mortgages are the riskiest and least common type of loan program. The primary reason to select an interest only mortgage is because the mortgage payment during the initial interest only period of the loan is lower than the mortgage payment for a fixed rate mortgage or an ARM (because you are not paying principal). Additionally, you can typically qualify for a larger mortgage amount with an interest only mortgage
 - The downsides to an interest only mortgage are that your mortgage payment typically increases after the initial interest only period when you start paying both principal and interest plus your interest rate can increase in the future, which could also cause your mortgage payment to go up

 So what program is right for you? It all depends on your risk profile and financial goals

- If you are looking for certainty, then a fixed rate mortgage probably works best
- If you have a higher tolerance for risk and are looking for a lower monthly payment or larger mortgage amount, than an Adjustable Rate Mortgage or Interest Only Mortgage may be right for you
- Additionally, if you know you are going to sell your home before the adjustable rate period for an ARM or an Interest Only Mortgage, they could be the right program for you
 - That way you benefit from the lower monthly mortgage payment during the initial period of the mortgage but you are not exposed to a potential increase in interest rates and mortgage payment during the adjustable rate period
 - This approach is not without risk either, as there is no guarantee you could sell your property for more than you paid for it

 Review the chart on the following page to learn about each type of mortgage so you can choose the program that best meets your financial objectives

What mortgage program is right for me? (continued)

Mortgage Program Comparison			
	Fixed Rate Mortgage	Adjustable Rate Mortgage (ARM)	Interest Only Mortgage (IO ARM)
Summary	<ul style="list-style-type: none"> Interest rate and payment do not change over the life of the mortgage 	<ul style="list-style-type: none"> Fixed interest rate and payment for first 3, 5, 7 or 10 years (fixed rate period) Then interest rate and payment can change (adjustable rate period) 	<ul style="list-style-type: none"> Pay only interest at fixed interest rate for first 3, 5, 7 or 10 years (interest only period) Then pay both principal and interest plus interest rate and payment can change (adjustable rate period)
Pros	<ul style="list-style-type: none"> Certainty 	<ul style="list-style-type: none"> Lower interest rate and payment during fixed rate period Lower payment if rates go down 	<ul style="list-style-type: none"> Lower payment during interest only period Qualify for larger mortgage amount
Cons	<ul style="list-style-type: none"> Higher payment than ARM or Interest Only Locked into interest rate if you cannot refinance 	<ul style="list-style-type: none"> Uncertainty Potential increase in interest rate and payment 	<ul style="list-style-type: none"> Uncertainty Payment Increases when you starting paying principal Potential increase in interest rate
Risk Level	Lowest	Higher	Highest
Term	10-40 years 30 years most common	30 years	30 years
Amortizing Loan?	Yes	Yes	Only for part of term
Can interest rate increase?	No	Yes	Yes
Can interest rate decrease?	No	Yes	Yes
Lowest possible monthly payment			✓
Highest possible monthly payment			✓
Going to own property for short period of time		✓	✓
Going to own property for entire term of mortgage	✓		
Think interest rates will go up significantly	✓		
Think interest rates will go down significantly		✓	✓
Best for low interest rate environment	✓		
Best for high interest rate environment		✓	