

Choosing the Mortgage Option For You

*Understanding the Most Common Mortgage Options
and Making an Informed Choice*



Choosing the Mortgage Option for You



If you are financially ready to purchase a home and take on the responsibilities of homeownership, you'll need to understand the different mortgage products available to you. Take the time to learn all about the components of a mortgage and about the most common types of mortgages.

Common Mortgage Products

There are many types of mortgages available to you. It's important that you shop around to find the mortgage that's right for you. Some of the most common mortgages available today include (but are not limited to) the following:

Fixed-Rate Mortgage

Fixed-rate mortgages are the most common mortgage products available. Because your interest rate never changes, the monthly principal and interest payment remains the same for the entire term of the loan — whether it's a 15-year, 20-year, or 30-year mortgage — allowing for more predictability in your monthly housing costs. Fixed-rate mortgages are the most stable type of mortgage.

Adjustable-Rate Mortgage

Adjustable-rate mortgages (ARMs) may start with a lower interest rate, making your initial monthly payments lower. However, unlike a fixed-rate mortgage, your interest rate will adjust periodically, based on an index that reflects changing market interest rates. Bear in mind that if the interest rate adjusts upward, so will your monthly payments.

Balloon/Reset Mortgage

At the end of the balloon/reset mortgage (typically five to seven years), you will be expected to pay the entire remaining balance in a lump sum, or you may be able to refinance into another mortgage. If your loan has a reset option, you may set your interest rate at the current market rate (which could be higher than your original rate) for the remainder of the loan. If you consider this mortgage product, be sure you understand all of the conditions.

Government Programs

The Federal Housing Administration (FHA), U.S. Department of Veterans Affairs (VA) and the Rural Housing Service (RHS) also offer mortgage products for borrowers that meet certain requirements.

- **FHA Loans.** The FHA, part of the U.S. Department of Housing and Urban Development (HUD), insures a home loan, so your lender can offer you a loan package that may include lower down payments.
- **VA Loans.** The VA guarantees VA loans to make housing affordable to eligible U.S. veterans. You can apply for a VA loan with any mortgage lender that participates in the VA home loan program.
- **RHS Loans.** RHS loans are primarily used to help low-income individuals purchase homes in rural areas. Funds can be used to build, repair, renovate, or relocate a home, or to purchase and prepare sites.

Freddie Mac Relief Refinance MortgagesSM

Freddie Mac's Relief Refinance Mortgages provide eligible homeowners who are making timely mortgage payments with expanded access to refinancing opportunities. This includes those homeowners who have not been able to take advantage of current low interest rates because they have little or no equity in their home. Please contact your lender for additional information and eligibility requirements.

Components of a Mortgage Payment

The following costs are generally reflected in your mortgage payment:

- **Principal.** The principal is the amount of money borrowed to buy your house.
- **Interest.** Interest is the cost you pay to borrow money from the lender, usually expressed as a percentage of the amount borrowed.
- **Taxes.** Your lender will typically include 1/12th of the estimated annual real estate taxes on the home you purchased. They will put this 1/12th in an escrow account each time you make a payment so they can pay your taxes when they're due.
- **Homeowner's Insurance.** Your payment will also include 1/12th of the annual homeowner's insurance premium. Your lender will put this money into an escrow account and pay your homeowner's insurance on your behalf when it is due to your insurance company.
- **Mortgage Insurance.** If your down payment is less than 20 percent, your lender will require private or government mortgage insurance. Just like your taxes and homeowner's insurance, 1/12th of the annual premium will be included in your monthly payment and placed into an escrow account.

- **Homeowner's Association Fees/Condominium Fees.** Most neighborhoods, and all condominiums, have a homeowner's association (HOA) that maintains common areas, manages trash and snow removal, and helps enforce regulations set forth by the neighborhood or condominium developer. If you have a HOA, you'll need to pay a regular fee to the association to help cover expenses.
- **Escrow.** The escrow is money or documents held by a neutral third party prior to closing. It can also be an account held by the lender (or servicer) into which a homeowner pays money for taxes and insurance.

Shop Around for the Best Option

There are many types of mortgages available to you. It's important that you shop around to find the mortgage that's right for you. The mortgage rate and length, or term, as well as points you will be charged are all factors in deciding which mortgage to choose. Keep in mind that the lowest mortgage rate may not always be the best choice. Rates are important, but also consider the overall cost of the loan. Contact your lender today to find out what mortgage product is best for you.

For More Information

- The Freddie Mac CreditSmart® curriculum is a consumer guide to better credit, money management, and responsible homeownership. Visit **FreddieMac.com/creditsmart** to download consumer resources, available in five languages.
- "About Homeownership" is the Freddie Mac online guide to the homebuying process and successful homeownership. Visit **FreddieMac.com/homeownership**.
- Avoid scam artists! Learn about common scams in your area, and get advice before you enter into your next loan agreement. Find out more about common fraud schemes at **FreddieMac.com/avoidfraud**.
- To find a HUD-approved housing counseling agency near you, visit **www.hud.gov** or call 800-569-4287.
- Your Step-by-Step Mortgage Guide helps homebuyers navigate the entire mortgage process from mortgage loan application to closing. Visit **FreddieMac.com/homeownership/pdf/step-by-step_mortgage_guide.pdf** to download this easy-to-use resource.

Source

Content adapted from Freddie Mac's award-winning CreditSmart, a multilingual financial education curriculum designed to help consumers build and maintain better credit, make sound financial decisions, and understand the steps to sustainable homeownership.

