



WHAT TYPES OF LOANS ARE AVAILABLE?

Silvertown Mortgage offers a wide range of mortgage products. Here is a basic primer of the most common types of mortgages.

CONVENTIONAL OR CONFORMING LOANS

Loans that meet the guidelines of Fannie Mae (Federal National Mortgage Association) and Freddie Mac (Federal Home Loan Mortgage Corporation) are called "conventional" loans. Fannie Mae and Freddie Mac are stockholder-owned private corporations that purchase loans complying with the guidelines from mortgage lending institutions, package the mortgages into securities and sell the securities to investors.

Fixed rate mortgage

This is the most common type of mortgage and is in 15, 20 and 30-year terms. On a fixed rate mortgage, the rate never changes over the life of the loan.

There is a plus and minus side to fixed rate mortgages: if rates go up, your rate remains the same; however, if rates go down, your rate still remains the same.

Notes:

- 30-year fixed rate mortgages offer the greatest tax advantage by having the greatest interest deduction. Also, it is a bit easier to qualify for this loan.
- 20-year fixed rate mortgages shorten your mortgage, so you will usually be able to obtain a lower interest rate.
- 15-year fixed rate mortgages also provide a quicker payoff and have lower rates, but remember: your monthly payment will be higher.

ARMS (Adjustable Rate Mortgages)

These loans begin with an initial fixed interest rate, but after the stated period of time, the interest rate "adjusts" to the changes in market conditions based on specific indexes. Many ARMs have caps on how much they can adjust, such as an annual maximum of 2% for any single adjustment and a lifetime cap of 6% over the initial rate. ARMs may go below the start rate, although this rarely occurs.

When an ARM adjusts, the rate is based on a pre-set index, a statistic that indicates the current or financial condition. The most commonly used indices are the US Treasury Bill Index, the LIBOR (London Inter-Bank Offered Rate) and the Cost of Funds Index (COFI). Each year after the initial set fixed period, the rate takes the index and adds to it a fixed margin (2.75% is a common example). The new rate is then calculated by adding the index and the margin to the rate (capped by the terms of the ARM).

Here's an example of an ARM:

A 5/1 ARM with 5/2/5 cap means:

The loan is fixed for the first 5 years, amortized over 30 years. After the 5th year, the loan will adjust 1 time each year for the additional 24 years, the life of the loan. The first adjustment, the rate can go to 5% over the start rate. Each year thereafter, it can only adjust by 2% per year. The maximum total adjustment over the life of the loan is 5% over the start rate.

An ARM that begins at 6.5% could adjust to 8.5% in the 5th year, 10.5% in the 6th year, but would never adjust to more than 12.5% over the life of the loan.

The initial interest rate of an ARM is usually lower than a fixed rate mortgage; however, remember there is uncertainty with an ARM. Although there is a cap stated in each ARM, the rates can go up dramatically. There are a variety of ARM loans available. Your loan officer may direct you to the most appropriate ARM depending on your situation.

Note:

- An ARM can be a good choice if you are certain that you will only remain in your home for a fixed period of time.

Balloon Note

A balloon mortgage is a short-term, fixed rate mortgage. This type of loan allows you to make smaller payments in the introductory period and then in five, seven or ten years, the total amount of the loan becomes due and payable in one lump sum. These loans are really very risky and are not suggested for the first-time home buyer.

NON-CONFORMING LOANS

Jumbo Loans

Loans above the maximum loan amount established by Fannie Mae and Freddie Mac are known as 'jumbo' loans. Because jumbo loans are bought and sold on a much smaller scale by investors, they often have a little higher interest rate than conforming loans, but the spread between the two varies with the economy.

New loan limits are announced every year. In the past, the rate was established on a national basis, now the rates are established on a county-to-county basis within each state. The current jumbo loan amount in Metro Atlanta (at the time of this writing) is \$417,000.

GOVERNMENT LOANS

FHA Loans

FHA loans are insured by the Federal Housing Administration, which is part of the U.S. Department of Housing and Urban Development (HUD), and open to all qualified buyers. There are, however, some limits to the amount of the FHA loans and certain stipulations as far as credit parameters. For example, you cannot show any late payments of government backed loans, such as student loans.

FHA loans have several advantages:

- FHA offers low down payments and options for down payment assistance.
- FHA offers the same rate to all qualified buyers. So, someone who qualifies with a 600 credit score will get the same rate as someone with a 700 credit score. With conventional loans, the rate actually increases for every 20 points you drop below 720.

VA Loans

VA loans are available only to eligible veterans of the U.S. military. VA loans offer low or no down payment options and are guaranteed by the U.S. Department of Veterans Affairs.

Rural Housing Service Loans

The Rural Housing Service (RHS) of the U.S. Dept. of Agriculture guarantees low interest rate loans to households with low to moderate income located in designated (by individual counties) rural areas or small towns.