UNDERSTANDING YOUR **MORTGAGE**

LOAN TYPES

Conventional Loans

This type of mortgage is customarily offered by a bank, savings and loan association, or other financial institution, and does not have government underwriting and insurance. There are often stricter criteria for qualification, such as a larger down payment or higher credit score.

- **Conforming Loans:** These loans meet standards outlined by Fannie Mae and Freddie Mac intended to help ensure the borrower's ability to repay. Criteria may include a 20% down payment or private mortgage insurance, proof of income, and an unbiased appraisal of the home being purchased.
- **Fannie Mae and Freddie Mac:** Government-sponsored businesses that buy mortgages from banks and other lenders, giving them a quick influx of revenue so they can afford to issue more mortgages and maintain a lower interest rate.
- **Jumbo Loans:** Loans that exceed the price limits set by Fannie Mae and Freddie Mac.

Government-Insured Loans

With a government-insured loan, the federal government covers any losses the lender incurs on defaulted loans.

- **Federal Housing Administration (FHA) Loans:** Available to all types of borrowers, an FHA loan can be obtained through an FHA-approved mortgage lender and allows down payments starting at 3.5% of purchase price.
- **Veterans Affairs (VA) Loans:** Available to military service members and their families, this loan does not require a down payment and will cover 100% of purchase price.
- **United States Depart of Agriculture (USDA) Loans:** A loan available to borrowers who meet income requirements and are buying in an eligible, rural geographic location.

INTEREST RATES

Fixed Rate Mortgage:

Has the same interest rate for the life of the loan. Monthly payments will be the same amount each month for the entire loan term.

Adjustable Rate Mortgage:

The interest rate will adjust (usually annually) over the course of the loan.

Hybrid Adjustable Rate Mortgage:

Has a fixed interest rate for a certain time-period (e.g. 5 years) before switching to an adjustable interest rate for the remainder of the loan repayment term.

ADDITIONAL MORTGAGE COSTS

Mortgage Points:

Fees paid to the lender at closing in exchange for a lower interest rate, which can lower your monthly payment. A point typically costs 1% of your mortgage loan amount and is essentially prepaid interest.

Private Mortgage Insurance (PMI):

Protects your lender in the case of a default. Typically required by lenders if the initial down payment is less than 20% of the home's value.

Escrow Account:

Most mortgage lenders add property taxes and homeowner's insurance to the borrower's monthly payment. This money goes into an escrow account (also called an impound account), which is a type of savings account from which the lender pays the taxes and insurance, ensuring they are received on time. This protects the lender from tax liens as well as uninsured damages that the borrower can't repay.

- **Property Taxes:** Taxes paid annually to the local government. Most mortgage lenders will collect property taxes monthly alongside your mortgage payment and submit them on your behalf.
- **Homeowner Insurance:** Insurance that protects the lender and homeowner from losses due to fire, hail, lightning, and other threats that may damage or devalue a home.

Have questions? Contact us for answers.

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