Lesson 1: **Exploring Homeownership**

Choosing the Right Mortgage

You can choose among various mortgage options, but make sure your selection suits your family's circumstances. You may need to consult with your housing counselor to make this determination. Typically, the following includes the most common options:

• **Subprime Loans:** A Subprime loan is a type of mortgage with less stringent lending and underwriting terms and condition. They are usually offered to borrowers who have poor or limited credit histories and are not eligible for other loan products. Due to the increased credit risk, subprime loans carry higher interest rates than conventional mortgages, which are also referred to as prime loans.

• **Balloon Mortgages**: Balloon mortgages are loans that require a payment in full at the end of a set period. Usually, the term is five, seven, or ten years. You would make regular monthly payments based on a 30-year term. At the end of the balloon period, you would need to pay your principal balance to the lender.

• **Two-Step Loans**: These loans are basically a combination of fixed-rate and adjustable-rate mortgages. Two-step loans normally start at a below-market rate and are fixed for a period of time (usually five to seven years) after which, the interest rate adjusts according to current market rates.

• **Graduated Payment Mortgages**: Graduated payment mortgages (GPM), are loans that begin at a rate that is well below the market rate. The payments increase at a predetermined rate, usually over the course of the first seven years, and then level off for the remaining term.

• **Biweekly Mortgages**: These mortgages provide a built-in prepayment feature. If this is the kind of loan you select, you will pay half of your monthly mortgage payment every two weeks. As a result, you will make 13 monthly payments per year. By taking this route, you can pay a 30-year mortgage in 20 years.

• **Assumable Mortgage**: An assumable mortgage is one that can be transferred to a qualifying buyer under the same terms and conditions stated in the seller's mortgage. It is like picking up where someone else left off. This can save money for the buyer if the seller's interest rate is lower than the current market rate. Also, the closing costs are less with an assumable mortgage. However, the buyer may have to take a second mortgage for the balance of the seller's equity. This arrangement is very advantageous where the TDHE or non-profit housing organization offers down payment assistance. An assumption can work quite well when the seller agrees to a lease option for a short period of time, thereby allowing the buyer to acquire the additional cash needed to pay the balance of the seller's equity.

• **Buydown Loans**: Buydown mortgages are loans that have lower interest rates for the first two to three years only. A mortgage buydown involves paying an up-front charge to obtain a lower rate on a new mortgage. You may want to buy down your mortgage rate if you expect your earnings to go up but want a lower payment right now.

• **Contract for Deed**, **Land Contract**, or **Seller Take-Back**: The seller provides all or part of the financing and the buyer makes monthly payments to the seller. There is no transfer of title until the borrower pays the loan in full. This type of financing is often used when the property does not meet a lender's standards or when a buyer cannot qualify for a loan. To avoid being victimized, it is essential for a buyer to have an attorney review all the documents.

• **Wrap Around**: This is generally a contract for deed in which the seller keeps the original mortgage. The buyer makes payments to the seller, who forwards a portion to the lender holding the original mortgage. This can be very complicated and risky, especially when there are two or more buyers involved. To avoid being victimized, it is essential for a buyer to have an attorney review all the documents.

• **Chattel Mortgage**: This is a mortgage loan to an individual for movable personal property. It consists of two parts: the chattel and the mortgage. For example, the chattel is a mobile home – the asset the loan is financing.

It is up to you to do your homework before you make a decision about a mortgage