

# Understanding the Different Types of Mortgage Loans

A variety of mortgage loan options exist, including conventional, fixed-rate, adjustable-rate and government-backed loans. The loan that will best suit your needs depends on the type of mortgage applicant you are, whether you're a first-time home buyer or looking to downsize or refinance.



## CONVENTIONAL FIXED-RATE MORTGAGES

Conventional, fixed-rate mortgages are the most common type of mortgage. A fixed-rate mortgage has the same interest rate and principal/interest payment throughout the duration of the loan. The amount you pay per month may fluctuate due to changes in property tax and insurance rates, but for the most part, fixed-rate mortgages offer a very predictable monthly payment. Terms vary between 10 and 30 years. Generally, you can qualify for a conventional mortgage with a minimum FICO® credit score of 620 and a debt-to-income (DTI) ratio of up to 45%.

Pros of Conventional Mortgages	Cons of Conventional Mortgages	Homebuyers Who Might Benefit
<ul style="list-style-type: none"> <li>The overall borrowing cost after fees and interest tends to be lower than other loan types.</li> <li>Your down payment can be as little as 3% for qualifying loans.</li> </ul>	<ul style="list-style-type: none"> <li>Private mortgage insurance is required if the down payment is less than 20%.</li> <li>You'll have to meet qualifications that may require a higher minimum credit score of 620 and lower DTI.</li> <li>In order to take advantage of a drop in interest rate, a refinance would be necessary.</li> </ul>	<ul style="list-style-type: none"> <li>Borrowers who can pay at least 3% – 5% down and have a minimum credit score of 620.</li> <li>Borrowers with a DTI of 45% or less.</li> </ul>

## GOVERNMENT-BACKED MORTGAGES



Federal Housing Administration (FHA), Veterans Affairs (VA) and the United States Department of Agriculture (USDA) are government-backed, fixed-rate loans. Each government-backed loan has specific qualifying criteria along with unique benefits. You may be able to save on interest or down payment requirements, depending on your eligibility.

FHA Loans	VA Loans	USDA Loans
<ul style="list-style-type: none"> <li>Minimum 3.5% down payment. Minimum credit score of 580.</li> <li>Borrowers with a DTI of 55% or less.</li> </ul>	<ul style="list-style-type: none"> <li>Must meet service requirements in the Armed Forces or National Guard to qualify.</li> <li>0% down payment. Minimum credit score of 580.</li> <li>Borrowers with a DTI of 55% or less.</li> </ul>	<ul style="list-style-type: none"> <li>Must meet income requirements and buy a home in an eligible suburban or rural area.</li> <li>0% down payment. Minimum credit score of 620.</li> <li>Borrowers with a DTI of 41% or less.</li> </ul>



## ADJUSTABLE-RATE MORTGAGES (ARM)

The opposite of a fixed-rate mortgage is an adjustable-rate mortgage (ARM). ARMs are 30-year loans with interest rates that change depending on how market rates move.

An ARM has an introductory, fixed-rate period, typically 5, 7 or 10 years. If you sign on for a 5/1 ARM loan, for example, you'll have a fixed interest rate for the first 5 years. During this introductory period, you pay a fixed interest rate that's usually lower than 30-year fixed rates.

After your introductory period ends, your interest rate changes depending on market interest rates. Your lender will look at a predetermined index to calculate how rates are changing. Your interest rate will go up if the index's market rates go up. If they go down, your rate goes down.

ARMs include rate caps that dictate how much your interest rate can change in a given period and over the lifetime of your loan. Rate caps protect you from rapidly rising interest rates. For instance, interest rates might keep rising year after year, but when your loan hits its rate cap, your interest rate won't continue to climb. These rate caps also go in the opposite direction and limit the amount that your interest rate can go down.

Adjustable-rate loans can be a good choice if you plan to buy a starter home before moving to your forever home. You can often save money if you don't plan to live in your home throughout the loan's full term.

These can be especially beneficial if you plan on paying extra toward your loan early on. ARMs can give you some extra cash to put toward your principal. Paying extra on your loan early can save you thousands of dollars.

### Pros of Adjustable-Rate Mortgages

- They offer lower interest rates for the initial introductory period.
- The initial low monthly payments allow for a more flexible budget and the opportunity to build up savings.

### Cons of Adjustable-Rate Mortgages

- If the interest rate increases, it can dramatically increase your monthly payment once your introductory period is over.
- It's more difficult to predict your financial standing if interest rates and mortgage payments fluctuate.

### Homebuyers Who Might Benefit

- Those who want a lower introductory rate while purchasing a starter home.
- Those who don't expect to live in their home for the full term of the loan.