

# Your 5-minute guide to home loans

*These 18 tips can help cut the stress of taking out a mortgage -- and get you into a house you can afford.*

By MSN

What's the best way to pay for the biggest purchase you'll likely ever make?

You can be sure of two things: Many lenders will offer far more money than you can truly afford to repay, and the fine print can have life-changing consequences.

First, visit with a professional, who considers your income and debts, even your credit, before figuring out the maximum amount you should borrow. It may not be as much as some banks will lend you, but it should be within your means to repay.

Once you've got an idea of how much you can afford to borrow:

Get preapproved for a mortgage. Unlike "prequalifying," preapproval means you have a loan lined up, which makes your offer more attractive to sellers. You don't have to accept a loan from a company that preapproves it.

If you suspect interest rates are going to rise before you close, pay to lock your rate in place.

Consider buying discount points to reduce your interest rate only if you plan to be in the house long enough to recoup that money and then some.

If you're a first-time homebuyer or are low-income, look for financing through your local or state board of housing. The federal Department of Veterans Affairs offers help for military personnel and veterans.

Dozens of mortgage products are available. **You** have to decide which one best fits your spending plans.

Consider these:

**30-year fixed rate.** Compared with an adjustable-rate mortgage, or ARM, you'll pay a slightly higher interest rate but have the comfort of knowing it won't change over the life of the loan.

Consider a **15-year mortgage** to save thousands in interest if you can afford a higher monthly payment.

**ARM.** Sometimes known as "hybrid" loans, ARMs offer a low fixed rate of interest at the beginning of the loan, followed by rate adjustments that are tied to an index. For instance, a 5/1 loan has a fixed rate in the first five years and a rate that's adjusted every year after that. These mortgages may work well for people who plan to move or refinance their homes with a fixed-rate mortgage before the interest begins to ratchet up.

**Option ARM.** You can pay the full interest and principal due each month or just the interest, or make a partial interest payment. The third option is particularly hazardous because the unpaid interest will be added to the principal you owe.

**Interest only.** You pay only interest for the first five years or so and both interest and principal in the remaining 25 years. Another version is the interest-only fixed-rate mortgage. Like ARMs, you'll end up with substantially higher monthly payments unless you sell or refinance your home. If your income can support only the interest payment, rather than principal and interest, you should not be buying a home.

With so many types of mortgages to choose from, it's essential to understand the terms of the loan before you sign:

Will the interest on your ARM be adjusted every year, every six months or every month?

Is there a cap on the interest? Does the cap apply to the first adjustment or only to subsequent adjustments? Is there a cap on your payments, which could cause your obligation to soar?

Watch out for prepayment penalties and balloon payments.

Private mortgage insurance, known as PMI, can cost hundreds of dollars a month.

You can avoid having to buy private mortgage insurance (which protects the lender, not you) by putting down at least 20% on your home.

You could also take out what's known as a piggyback loan. Your primary loan would cover the first 80% of the value of your house. A piggyback loan is a second mortgage that would cover the remainder, usually at a much higher interest rate.

If you have to buy private mortgage insurance, ask to have it canceled when you've reduced your loan balance to 80% of your home's appraised value. Once

you've reduced your loan balance to 78%, the lender must cancel your PMI unless you're considered a credit risk.

If you already have a mortgage, you may be tempted to refinance when interest rates drop.

Don't make a decision based simply on the availability of lower rates. Would you actually pay less when you figure in the closing costs?

It pays to consult an honest professional regarding these issues. Please contact us for a no-obligation consultation.

[TO APPLY FOR A LOAN, CLICK HERE](#)

Fill out form and fax to our office: 760-231-9964