

Choosing a Home Loan

Editor's Note: Given the tumultuous nature of the current housing market, it is extremely important for NEA members to gather all the facts before making a home loan decision.

Selecting the mortgage that is right for you is central to the home buying process. That's why it's so important to understand your options. You'll need to consider two things at the outset: which loan type best meets your home buying needs, and which loan term offers the most advantageous repayment schedule.

Loan Types

Most home loans fall into one of two general categories: fixed-rate and adjustable-rate mortgages (ARMs).

- **Fixed-rate mortgages** have interest rates that stay the same for the entire life of the loan.
 - You will have predictable monthly payments throughout the life of the loan.
 - You'll be protected from rising rates, so your principal and interest payments can never increase, no matter how high interest rates rise.
- **Adjustable-rate mortgages** have interest rates that adjust periodically based on market conditions.
 - The initial rate is fixed for an introductory period (usually one to ten years), and is typically lower than the rate for a fixed-rate mortgage. After that, the rate adjusts annually or semi-annually based on a market index, but it can't go above a predetermined adjustment cap.
 - Because of the lower initial rate, qualified borrowers may be eligible for a larger loan amount with an ARM than with a fixed-rate mortgage.

Loan Terms

The "term" of a loan is the period of time you will spend repaying it. The most common loan term is 30 years, but other options are also available. A 40-year term is available for buyers who want lower monthly payments than those available from a 30-year term. There are also 20-, 15- and 10-year mortgages for those who want to repay their loans faster.

Whether you're better off with a longer-term loan or a shorter-term loan depends on a number of factors, most notably your monthly income and your long-term financial goals. Comparing two fixed-rate loans with different terms:

- The **longer-term** loan will offer lower monthly payments. This may be a good option if you're on a tight budget or would prefer to direct your monthly cash flow toward other investments or expenses.
- The **shorter-term** loan will mean higher monthly payments, but you'll be repaying the loan faster and saving money on interest.

Other Considerations

Besides the nature of the interest rate and the loan term, other important features of a mortgage loan include:

- Whether the loan amount is above or below what is known as the “conforming loan limit,” which for 2007 is set at \$417,000 for single-family homes (\$625,500 in Alaska and Hawaii). Mortgages larger than this amount are termed “jumbo loans” and require higher rates than similar conforming loans.
- Whether the loan can be insured or guaranteed by a government agency, such as the FHA or VA.
 - FHA loans are backed by the Federal Housing Administration, and are designed to assist low-to-moderate income homebuyers by offering low-down-payment requirements and flexible qualifying guidelines.
 - VA loans are backed by the Department of Veterans Affairs (formerly the Veterans Administration), and are available to qualified veterans and active-duty military personnel and their spouses. They offer many of the same features as FHA loans.

The **NEA Home Financing Program**[®] offers a wide variety of product options to meet your unique home buying needs. Our home mortgage consultants can help you find the right combination of loan features to support your financial goals. Call today: **1-800-632-4968**

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