

Choosing a Home Loan

Selecting the right mortgage loan 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 meets your home buying needs, and which loan term offers the ideal 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 do not change, 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 three to ten years), and is typically lower than for a fixed-rate mortgage. After that, the rate adjusts annually or semi-annually depending on the product and based on a market index, but it can't go above a predetermined adjustment cap.
 - Because of the lower initial rate, some 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. There are 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 potentially reducing loan interest.

Other Considerations

Besides 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” set by Fannie Mae and Freddie Mac. 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 providing 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 provide many of the same features as FHA loans.
- Whether the loan has flexible qualifying guidelines, which may be able to accommodate borrowers with credit challenges, excessive debt, or previous bankruptcy, foreclosure or tax delinquency.

To learn more about your home buying options, call the NEA Home Financing Program at 1-866-327-6385 and speak with a Home Mortgage Consultant.

Remember, the benefits of the NEA Home Financing Program are extended to parents and adult children of NEA members.

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