Mortgage Basics

Not many people can buy a home without a mortgage. When it comes to financing your new home, there are a number of options available to fit a wide range of financial needs. Below you can read about some of the most popular today. You can also learn lots of other valuable facts about mortgages.

How Much Can You Afford?
You can save yourself a good bit of time by figuring out up front how much mortgage you can afford. As a general rule, a lender will want your monthly mortgage payment to total no more than 29% of your monthly gross income.

Getting Pre-qualified or Pre-approved
It's important to know how much home you can afford, especially for first-time home buyers. That means that prospective buyers should consider getting pre-qualified or pre-approved before they begin house hunting. What's the difference between pre-qualification and pre-approval?

Pre-qualification. The mortgage lender reviews your income, assets, and liabilities to determine an appropriate loan amount. With pre-qualification prior to beginning the home search, you'll narrow your search to those properties in your price range. This service is often provided free by mortgage lenders.

Pre-approval. The mortgage lender reviews your credit and commits to a specific loan amount. Although you'll usually have to pay some basic fee for this service, the process will likely lead to increased buying power by making you ready to make an offer.

Types of Mortgages
Some of the most common mortgages available today include fixed rate, adjustable rate, and balloon.

Fixed-rate mortgage. One of the most common mortgages is the fixed rate. It lets a homeowner know exactly what the payments will be during the length of the loan, often 30 years, but sometimes 25, 20, or 15. The fixed-rate is a good choice when interest rates are low and if you expect to live in the house for at least several years. Because the interest rate never changes, the monthly principal and interest payment never changes either.

Adjustable-rate mortgage. The adjustable-rate mortgage (ARM) is geared to homeowners who want to start with relatively low monthly payments. ARMs come with interest rates that fluctuate over the life of the loan. They begin with a relatively low interest rate, then the interest rate is readjusted at agreed upon intervals, typically increasing no more than a maximum of 2% in any one year and 6% over the length of the loan.

Balloon mortgage. This type of mortgage may be a good choice for home buyers who don't expect to own their home past the maturity date of the balloon note -- five or seven years. Monthly mortgage payments are based on a 30-year schedule, but the entire mortgage balance becomes due at the end of the five or seven year term. If you decide to stay, however, you may be able to reset your interest rate for the remainder of the mortgage period.

Where to Get a Mortgage?
You can get a mortgage from many different sources, like mortgage banking companies, commercial banks, community banks, credit unions, and other financial institutions. Mortgage brokers may be a source of information about where to get a mortgage.

Shop around for the best mortgage rates. Even a fraction of a percent can make a big difference in your mortgage payment. Remember, your credit history and score also affect mortgage rates. Be sure to review you credit history with all three credit reporting agencies before applying for a mortgage. Correcting inaccuracies in your credit history can improve your credit and increase your chances at qualifying for a lower rate.