

WHICH LOAN PROGRAM IS RIGHT FOR ME - SIMPLIFIED

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1. DETERMINE HOW LONG YOU INTEND TO KEEP THIS MORTGAGE

Ask yourself questions such as:

- Will my kids go to school in this neighborhood?
- Will this house need a remodel?
- Will we outgrow this house?
- Will my next career step take me to a different city?

Once you do your best to see your future you will be better equipped to make the right loan choice.

If this home/mortgage will only be in your financial future for less than 10 years than you will want to consider fixed period ARMs as a viable mortgage option. Fixed period or Hybrid ARMs have a fixed interest rate for a designated number of years. For example, the rate on a 10/1 ARM is fixed for 10 years and then will adjust once a year for the remaining 20 years of the loan term. A 5/1 ARM has an interest rate fixed for five years and then will adjust once a year for the remaining 25 years of the loan term.

NOW THE BIG QUESTION, IS WHY WOULD YOU TAKE AN ARM?

The answer is because ARMs are better loans for the bank. They shift the interest rate risk to off of their shoulders and on to yours. As a result they want to entice you to take this loan by offering a lower rate than traditional fixed rate mortgages. Why? Think about this...would a bank want to hold your 4% 30 year fixed rate mortgage when interest rates have risen to the 6% range... NO. They want you on that ARM so that when rates go up to 6%...they are getting paid 6% not 4%.

Conversely if you intend to be in this mortgage or home longer than 10 years then a fixed rate mortgage would make more sense for you.

When it comes to fixed rate mortgages you will want to review the different terms available. You can pick terms from 30, 25, 20, 15, and 10 years. The shorter the term the higher the payment BUT the lower the interest you will pay over the life of the loan. Even if you don't intend on taking a lower term loan I always recommend that you compare the interest owed on the different terms.



You will be surprised at how much it will cost you to borrow money for a longer period of time.

2. UNDERSTAND THE DIFFERENCE BETWEEN AN AMORTIZING LOAN AND AN INTEREST ONLY LOAN

Amortizing loans integrate principle and interest into your mortgage payment so you will gradually payoff your loan over the term of the loan. Amortizing loans have higher payments than interest only loans. Interest only loans are exactly that. Typically interest only loans allow you to make simple interest payments for a set amount of years. This results in much lower payment amount than an amortizing loan with the same rate. You must also consider the risks of interest only loans since you will not be paying down the balance of the loan. The biggest payment risk factor comes from a concept known as recasting. This occurs after the interest only period of your loan is up – that's right, interest only payment does not last forever. At some point the bank wants its money back. For example, typical interest only loans have 10 year interest only periods and 30 year terms. This means that after 10 years the bank will take away the interest only option and then amortize the remaining balance over 20 years. This will result in a significant increase in payment. A good general rule of thumb is to make sure you will be refinancing or selling out of your interest only mortgage before it recasts.

3. MAKE THE CHOICE

If you are not going to be in the home for more than 10 years consider a HYBRID ARM.

If you want to maximize your cash flow consider an Interest only hybrid ARM.

If you want total rate security and the future is unclear consider a fixed rate mortgage.

At ARBOR we take pride in assisting you with this decision and providing you the information necessary to compare your options and make an educated decision. Even if there is some unforeseen event that happens, there are many options that are available down the road

to help you manage your mortgage. This is where the value of working with and long term mortgage advisor comes into the play. The more we know and the more integrated we are into your financial plan...the more we can help when the time comes.

I hope you found this article useful. For additional questions please don't hesitate to call me anytime.



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