Advantages and Disadvantages of Mortgage Programs

Years you plan to stay in the house	Recommended program
1-3	3/1 ARM, 1 year ARM or 6 month ARM
3-5	5/1 ARM
5-7	7/1 ARM
7-10	10/1 ARM, 30 year fixed or 15 year fixed
10+	30 year fixed or 15 year fixed

Loan Programs	Advantages	Disadvantages
Fixed Rate Mortgages		
40 year fixed 30 year fixed 20 year fixed 15 year fixed 10 year fixed	• Monthly payments are fixed over the life of the loan. Interest rate does not change • Protected if rates go up • Can refinance if rates go down	• Higher interest rate than ARM program* • Higher mortgage payments • Rate does not drop if interest rates improve
Adjustable Rate Mortgages		
10/1 ARM – 10y. fixed period 7/1 ARM – 7y. fixed period 5/1 ARM – 5y. fixed period 3/1 ARM – 3y. fixed period 1 year ARM 6 month ARM 1 month ARM	• Lower initial monthly payment than fixed rate programs* • Lower payment over a shorter period of time • Rates and payments may go down if rates improve • May qualify for higher loan amounts	• More risk • Payments may change over time • Potential for high payments if rates go up
Interest Only (I/O) Option Programs		
30, 40 year fixed programs 3/1, 5/1, 7/1, 10/1 ARMs	• Lower initial monthly payment during the I/O period • More flexibility • Two payment options are available up to 15 years: fully	• Payments will be higher at the end of the initial I/O period • Higher interest rate than the same program without I/O option

	amortized (principal and interest) or interest-only.	
High Loan-to-Value (LTV) Programs		
	• Lower down payment • LTV can be up to 97%	• May be subject to income and property value limitations • May be subject to PMI (private mortgage insurance) • Higher rates • Higher payments
Stated Income Programs		
Not available on today’s market	• Don’t need to verify income	• Higher rates • Higher payments • Higher down payment • Subject to Loan-to-Value limitations
No point, No fee Programs		
	• Hidden closing costs • Less money required to close	• Higher rates • Higher payments
Imperfect Credit Programs		
	• Potential for reestablishing credit if you pay your mortgage on time. • When used for debt consolidation, you may be able to reduce your monthly debt payment	• Higher rates • Terms may not be as favorable • Harder to get long term fixed loans • Loans may have prepayment penalties
Home Equity Line of Credit		
1st position up to 75% LTV 2nd position up to 80% CLTV	• You only borrow what you need • Pay interest only on what you borrow • Flexible access to funds	• Rates can change. The maximum interest rate is normally high. • Payments can change • Harder to refinance your first

	• Interest may be tax deductible	mortgage
Home Equity Fixed Loan		
2nd position up to 80% CLTV	• Fixed payments • Interest may be tax deductible	• Higher interest rates than on 1^{st} mortgages • Harder to refinance your first mortgage