Mortgage Choices At A Glance

Benefits, Drawbacks, Risks and Uses

Loan Type / Term	Fixed Rate Mortgage 30 years	Fixed Rate Mortgage 15 years / Fixed Rate Mortgage 20 years	Hybrid ARM	Traditional ARM	Balloon Mortgage
Rate Changes	Never; fully fixed for entire term	Never; fully fixed for entire term	Usually after fixed period of 3, 5, 7 or 10 years, then annual change typical	Fully variable, typically changing at one-year intervals; some have shorter change intervals	Never; fully fixed for entire term
Benefits	Low, stable payment; usually easiest qualification	Stable payments; builds equity faster; lower total interest costs than 30-year term	Lower rates than fully fixed-rate mortgage; can sometimes borrow larger loan amount for same income	Can have lowest interest rates, but qualification may not depend upon today's interest rate	Often has lower interest rate / monthly payment over balloon period than fixed rate; similar to hybrid ARM
Drawbacks /Risks	Can have highest total interest cost over time; user may "buy" more rate stability than actually needed, increasing cost	Requires higher income to qualify; less affordable monthly payment; funds commited to payment cannot be used elsewhere	Stable payment for a number of years, then unpredictable; rates can jump by as much as 6 percentage points at first adjustment	Payments fluctuate at each rate change; unpredictable, rates can change as much as 2 percentage points at each adjustment	Loan fully due and payable when balloon period ends; must be paid off or refinanced in unknown market conditions
Alternative Strategy	Consider Hybrid ARM with appropriate fixed period	Consider 30-year term and prepaying loan to preserve cash-flow flexibility	Consider Fixed rate mortgage or longest possible fixed period, if loan hold period not known	Consider Hybrid ARM to ameliorate rate and payment risks for a given period	Consider Hybrid ARM to ensure continued loan availability
These may be useful for...	Purchasing a home; first-time homebuyers; refinancing to improve cash flow/lower payment	Refinancing to lower total interest cost; retiring mortgage more quickly; building or rebuilding equity more quickly	Purchasing or refinancing when time horizon is seven years or shorter, and where borrower can handle increase in monthly payments	Purchasing or refinancing when interest rates are near top of cycle, and are likely to fall, or sale or refinance is anticipated within three years	Purchasing or refinancing when time horizon is three years or longer and home will be sold prior to end of balloon period
Consider if...	Buying or refinancing a home and planning on owning for longer than 10 years	Buying second home; refinancing to build equity; paying off mortgage before life event (retirement, etc)	Buying a home and expect to move before fixed period ends, or know income will rise to offset payment risk, even in worst-case scenario	Buying or refinancing when income can handle frequent payment changes and worst-case scenario for rates over a four-year period	Buying a home and expect to move before balloon period ends, or have resources to pay off mortgage if refinance not available
When Shopping, Ask About...	"Full cost" vs. "No cost" refinances, prepaying loan to shorten term if desired	If 20-year term makes payment too high, whether 25-year term is available	Interest rate caps, for first & subsequent adjustments, worst-case scenario	A history of the Index the loan is keyed off, margin and caps	Whether or not there is any built-in refinancing option when the balloon period ends