

Mortgage Basics

Many people dream of owning their own home, but the high cost of homes generally requires a home mortgage to make this become a reality.

Fixed Rate Mortgages

There are two main mortgage types: fixed-rate and [adjustable rate mortgages or ARMs](#). Fixed rate loans mean you pay the same interest rate for the entire life of the loan. Most fixed rate mortgage loans are for 30 years, although you can also get them for 15 or 20 years.

Shorter loans such as 15 or 20 year mortgages usually have lower interest rates, typically one-half or one-quarter of a percent lower than a 30 year loan, but the **total monthly payment** will probably still be higher than that of a longer term loan, because you have to make bigger payments in order to pay the loan off in the shorter time frame. You will **pay less overall** with a short-term loan, however, than if you'd borrowed the same amount with a longer loan. Depending on your situation, carefully consider a shorter loan. While a longer loan will generally give you a lower monthly payment, if you can afford the higher payment, you may save a lot of money in the long run and build equity much faster. For example, let's compare the payments and total interest paid for a \$150,000 mortgage over 15 years and over 30 years. A fifteen-year loan may be at 6.1% with a payment of \$1,274 per month and you will pay a total of \$79,303 in interest. A thirty-year loan at 6.64% will have a payment of \$962 per month and you will pay a total of \$196,304 in interest. In this example, the difference in monthly payments is only \$312 but the difference in total interest paid is \$117,001.

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