REAL ESTATE VIEWS©

By Gloria Kurz, REALTOR®

MORTGAGES: SOMETHING FOR EVERYBODY

In today's world, there are a variety of mortgage products available to meet the needs of almost any buyer, including buyers with less than perfect credit histories. However, there is one common theme with mortgages. The amount of the loan requested determines whether your mortgage is considered "conforming" or "jumbo". This is an important distinction as jumbo loans normally have interest rates that are _ (.25) to 3/8 (.375) percentage points higher than conforming loans.

A conforming loan is a loan that is under the maximum amount established on an annual basis by Federal National Mortgage Association ("FNMA" pronounced "Fannie Mae") and the Federal Home Loan Mortgage Corporation ("FHLMC" pronounced "Freddie Mac") while a jumbo exceeds that level. In 2004, a mortgage loan must be no more than $333,700 to be considered a conforming loan. Anything above that will be considered a jumbo loan.

There are five types of mortgages that we see on a regular basis. These are:

1. Conventional 15 year or 30 year fixed rate mortgages. These mortgages have their payments fixed for the life of the mortgage so the payment is the same every

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month. Over time, the relationship between the amount of the payment that is credited to principal repayment versus interest will change and a higher principal repayment will be realized. If your lender requires you to escrow real estate taxes with your mortgage payment or you elect to have them escrowed, you will see an increase in your monthly payment if your real estate taxes increase.

2. Adjustable Rate Mortgages (ARMS). These mortgages are fixed for a certain time period and then adjust based on a specified index. The most common period for an adjustable mortgage is one year, which means that the interest rate will change every 12 months.

3. Hybrid Mortgages. These mortgages are fixed for a specific period of time and then convert to a one year adjustable rate mortgage. For example, a 3/1 loan is fixed for three years before it changes to a one year ARM; a 5/1 loan is fixed for five years before it changes; a 7/1 loan is fixed for seven years and a 10/1 loan is fixed for ten years before it changes to a one year ARM. As a rule of thumb, the shorter the fixed period, the better the rate.

4. Construction Loans. These loans are used specifically for the purpose of constructing a home. Like "regular" mortgages, the interest is deductible. You should confirm the tax rules on deductibility with your accountant or tax attorney.

5. Land Loans. These loans are used to acquire residential vacant land. The interest on them is not deductible.

We also see a number of specialty "niche" products designed to meet the individual needs of certain buyers such as first time buyers, individuals with credit issues; individuals requiring loans exceeding a million dollars.

Your best source of information about mortgages is your Bank representative or a mortgage company. It is always advisable to "comparison shop" so when you make a decision, you are comfortable with it. Some local resources (in alphabetical order) are: Noah Anacleto at New England Pacific Mortgage (847-4747); Mark Carnevale at Bank of Newport (846-3400); Bill Huggins at First Horizon Home Loans (401-574-0999); Gina Mead at Washington Trust (348-1406); Bill Murphy at Washington Mutual (423-2993); and, Eric Sayre at Home Star Mortgage 783-5599).