

Title:

Mortgage Loan Basics: Interest Only Loans, Pay Option ARM

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Summary:

To understand loans and mortgages we need to understand loan limits first. If your loan amount

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Article Body:

To understand loans and mortgages we need to understand loan limits first. If your loan amount

One-Family (single family homes) \$417,000

Two-Family(duplex) \$533,850

Three-Family (triplex) \$645,300

Four-Family(fourplex) \$801,950

FIXED Loans:

30 Year Fixed Mortgage Rates

This loan program is fixed for 30 years. Your interest rate will not change for 30 years. This

20 Year Fixed Mortgage Rates

Fixed for 20 years. Your payment will be higher than 30 year fixed loan because your loan term

15 Year Fixed Mortgage Rates

15 year fixed loan has a loan term of 15 years and will not change during this period. Your mo

ARM (Adjustable Rate Mortgage)

ARM Loans are fixed for a certain period of time, where after that period ARM loan becomes an

Each ARM Loan Program has these options:

1) Index: Most comon index-LIBOR

2) Margin: Is given to you by your lender, and it is the difference between the index rate and

For example 5/1 ARM. This loan is fixed for 5 years after which in 6th year it becomes an adju

Your index + margin = Fully Index rate . Your new note rate (interest rate) after 5th year.

What about the 6th year? What would your payment be?

Let's say that your loan officer told you that your margin is 2.5% with 1 year treasury index.

1 year treasury as of Oct.2005 is 4.18, and you know that your margin is 2.5%. Therefore you n

Index rate are move on monthly basis, therefore your payment may flunctuate each month. In mos

3) To protect consumers from high index rates, lenders implemented a CAPS.

An example of this is a 2/6 cap, which allows the interest rate on your ARM loan to go up or d

In some cases you will see 2/2/6, which means 2% adjustment with 2 year prepayment penalty and

4) With an arm you can have either a fixed rate or you can choose an Interest Only structure

1/1 ARM Mortgage Rates

1 year ARM (Adjustable Rate Mortgage) is fixed for 1 year and in 2nd year it becomes an adjustable

3/1 ARM Mortgage Rates

3 year ARM (Adjustable Rate Mortgage) is fixed for 3 years and in 4th year it becomes an adjustable

5/1 ARM Mortgage Rates

5 year ARM (Adjustable Rate Mortgage) is fixed for 5 years and in 6th year it becomes an adjustable

7/1 ARM Mortgage Rates

7 year ARM (Adjustable Rate Mortgage) is fixed for 7 years and in 8th year it becomes an adjustable

10/1 ARM Mortgage Rates

10 year ARM (Adjustable Rate Mortgage) is fixed for 10 years and in 11th year it becomes an adjustable

Interest Only Loans

For example, if a 30-year fixed-rate loan of \$100,000 at 8.5% is interest only, the payment is

Each loan payment consists of Interest and Principal. Here you will be paying an interest each

If a lender offers you an Interest only Loan these loans are tied to an index just like ARM loans

MTA Index: The MTA index generally fluctuates slightly more than the COFI, although its movements

- . 1 Month MTA ARM Mortgage Rates
- . 3 Month MTA ARM Mortgage Rates
- . 6 Month MTA ARM Mortgage Rates
- . 12 Month MTA ARM Mortgage Rates

COFI Index: This index rise (and fall) more slowly than rates in general, which is good for you

- . 1 Month COFI ARM Mortgage Rates
- . 3 Month COFI ARM Mortgage Rates

LIBOR Index: LIBOR is an international index, which follows the world economic condition. It is

- . 6 Month LIBOR ARM Mortgage Rates
- . 12 Month LIBOR ARM Mortgage Rates

Pay Option ARM Loan

Pay Option ARM in a new loan program allowing customers to choose from up to 4 different payment

Your initial start rate varies from 1.000% to anywhere around 4.000%. The initial start rate is

4 major choices are:

1) Minimum payment: For the first 12 months interest rate is calculated using the start rate and

Example:

Loan Amount: \$200,000.00
Initial Rate: 1.25%
Index: 3.326 (MTA as of October 2005)
Margin: 2.75%
Payment Cap: 7.5%

Fully Indexed Rate: 6.076% (index + margin)

Minimum Payment Changes:

Year 1 \$666.50 Minimum Payment
Year 2 \$716.49 = \$666.50 + 7.50%
Year 3 \$770.22 = \$716.49 + 7.50%
Year 4 \$827.99 = \$770.22 + 7.50%
Year 5 \$890.09 = \$827.99 + 7.50%

The Option ARM's 7.5% payment cap limits how much the payment can increase or decrease each year.

Because you are paying "minimum payment" this option will defer a payment of an interest which

Minimum Payment Adjustment Period: The minimum payment is usually set to 12 months, unless neg

Minimum Payment Cap: This is a limit on how much the minimum payment can change. Your payment

Recast (Recasting) or re-calculating your loan is a way of limiting negative amortization (neg

2) Interest Only Payment: With Interest Only you will avoid deferred interest, because you are

Your payment may change on monthly basis based on ARM index (LIBOR, COFI, MTA).

3) Fully Amortizing 30-Year Payment: It's calculated each month based on the prior month's int

4) Fully Amortizing 15-Year Payment: It is calculated from the first payment due date.

Negative Amortization Loan (Neg-Am Loan)

Negative amortization loans calculate two interest rates. The first is called the payment rate

A loan that allows negative amortization means the borrower is allowed to make a monthly mortg

Now, let's say that there's a provision in the loan documents that allow the borrower to make

So if you make the lowest allowable payment you are actually losing \$166.67 in equity. Th

Exotic Mortgage

You may have heard this term before. So what are they?

The latest and most exotic mortgages out there include:

1. The 40-Year Mortgage: This is similar to a 30-year fixed rate mortgage, except the payment
2. The Interest-Only Mortgage: With an interest-only mortgage, the lender allows the borrower
3. The Negative Amortization Mortgage: This interest-only type of mortgage allows a buyer to p
4. The Piggy Back Mortgage: This is actually two mortgages, one on top of the other. The first
5. 103s and 107s: You may not need to save for a down payment at all. You could borrow 3% or 7
6. Home Equity Line of Credit: These aren't just for those who own a home! They are commonly k

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