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Finding a Mortgage That Is Right for You

GLEN CARBON, Illinois—Buying a home can be one of the most important and exciting decisions you make in your lifetime. Oftentimes, however, this decision is paired with the daunting task of choosing a loan that is right for you from a pool of options. Although it is useful to have choices, learning the basics of home loans and understanding which mortgage fits your budget can be the key to securing your satisfaction with your new investment.

“One of the keys to success is securing an affordable home loan with fair terms and reasonable costs,” said Pat Walker, Chairman of the Board of the Greater Gateway Association of REALTORS®. “Homebuyers need to do their homework first to learn about the different types of loans on the market and to select the one that is in their best interest. They need to check their credit status and work with their REALTOR® and a reputable lender to determine how much house they can afford,” she added.

For most consumers, the traditional mortgage is a good option. These mortgages are usually insured by private mortgage insurance companies and tend to have low down payments. Private mortgage insurance adds a small cost to your financing but allows you to buy a house with a lower down payment. The lower the down payment, the higher the mortgage insurance will be. Mortgage insurance helps the lender recover some of the losses incurred in case you stop making payments on the loan.

The adjustable-rate mortgage (ARM) generally has a lower initial interest rate, but the rate changes along with mortgage payments throughout the life of the loan. This mortgage option works well for buyers who only plan on being in a home for a short period of time or those who are financially stable enough to handle sudden payment increases. The most common ARMs fix the initial rate for three, five, or seven years.

As the rates on traditional mortgages continue to fluctuate, some homebuyers are turning to specialty mortgages to “stretch” their income in order to qualify for a larger loan. Like ARMs, specialty mortgages begin with a low introductory interest rate, but monthly payments greatly increase toward the future of the loan. Common types of specialty mortgages include interest-only, negative amortization, option payment ARMs, and 40-year mortgages.

“It is in a consumer’s best interest to learn all they can about specialty loans since there is a greater risk that they won’t be able to afford the mortgage payment in the future,” added Walker. The Illinois Association of REALTORS® provides mortgage resources for consumers and potential homebuyers that can be obtained at www.illinoisrealtor.org or through your REALTOR®.