Mortgage Loans

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The vast majority of homes are purchased with mortgage loans. When you borrow money on a home, you are committing yourself to two financial documents. The note is a personal obligation to repay the loan on a timely basis. The mortgage pledges the home as security in case you fail to live up to your obligation. You, as the borrower, give a mortgage to the lender to secure the loan. Therefore, you are referred to as the mortgagor, and the lender is the mortgagee – the receiver of the mortgage. This document sets out the obligations you are expected to meet and defines your rights and those of the lender.

{bot_wrgoogle}All mortgage loans have an interest rate and a term. The interest rate is applied to the amount of money you borrowed and have not yet paid back the principal. Therefore, the principal balance is reduced with each payment. This means that the interest payment is also reduced, as time passes.

Definitions of a few key terms are provided below to help you better understand mortgage financing.

Fixed rate loans have the same interest rate applied over the entire term. The combined monthly payment for principal and interest is unchanged.

Adjustable rate mortgages provide for adjustments to the interest rate at specified intervals. When the rate is adjusted, the principal and interest payment may change.

Refinancing is the process of replacing the current financing with a new loan or set of loans.

An escrow account is required by most lenders. The account provides funds to pay for hazard insurance and property taxes. The borrower makes a deposit in the account with each monthly payment. Since insurance premiums and taxes may vary, the monthly payment may change over time even for fixed rated loans.

A loan commitment indicates the lender’s intention to provide a loan with specified terms.

WHERE YOU GO TO GET A MORTGAGE LOAN

Today being able to gather information on a number of lenders and loan products and choose from among them is well established in the market place. The internet allows individuals to compare the terms of a broad array of loans. For those who need more guidance, there are real and virtual mortgage brokers and bankers to help explain the options.

The modern mortgage market appears to develop new products wherever there is sufficient demand. When many homeowners refinanced their mortgages as interest rates were falling, lenders began offering loans with no discount points. These loans were very popular because they reduced the cost of refinancing. Now, no-point mortgages dominate the market for purchases as well as refinancing. For self-employed borrowers and others who have trouble providing the kind of information required for loan approval, or for those who need to obtain approved financing quickly, there are loans that require little or no documentation. There are also loans for borrowers who make low down payments, but who want to avoid the requisite mortgage insurance.

Just because it is easy to get a particular loan that does not mean that you should accept the offer. The variety of loans available includes some that are clearly not appropriate for your situation. Only by knowing how mortgage loans work and the way they can be tailored to different situations can you be sure to choose the financing that works best for you.

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