

## Your Mortgage: Are You in It for the Short Term or Long Haul?

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Link to outline:

A mortgage is not a one-size-fits-all endeavor. Borrowers have varying needs and financial pictures, and home loans come with differing terms to meet these constraints. Mortgages can vary in terms of repayment length as well as whether interest rates remain stable or fluctuate. Read on to learn more about the different types of mortgages that are available and to gain a better understanding of what choice is right for you.

### Understanding long-term mortgages

- A conventional 30-year mortgage is canted toward borrowers who are [prepared to make a long-term commitment](#) on a property, whether it is a primary residence, a vacation home, or a rental property. Additionally, for borrowers who are refinancing their current mortgages, a conventional loan can be a real money-saver depending on how interest rates are looking at the time. Most 40-year mortgages are [conventional fixed-rate loans](#), and while the low monthly payments may appear attractive at first, that advantage should be considered against the fact that the lengthened repayment period translates to slower accumulation of equity as well as paying more interest over time.
- Benefits of a conventional 30-year mortgage include:
  - Not having to worry about private mortgage insurance if you are able to make a 20% or greater down payment – even those who can't put down 20% initially can have their mortgage insurance removed upon reaching 20% in equity
  - Having the ability to apply funds to various types of properties
  - Choosing between fixed or adjustable rates depending on future plans
  - It's possible to qualify for a conventional loan with as little as 3% down, though this will incur the need for private mortgage insurance
- Disadvantages of a conventional 30-year mortgage include:
  - Interest rates that are typically higher than shorter-term options
  - The potential for paying more interest over time given the longer life of the loan

### Understanding short-term mortgages

- Short-term mortgages typically come with repayment periods of 5, 10, and 15 years. Borrowers can choose from fixed-rate loans, where the interest rate stays stable throughout the life of the mortgage, or adjustable-rate loans, which fluctuate with the market.
- Benefits of short-term mortgages include:
  - A [lower interest rate](#) than longer mortgages, since lenders often see short-term loans as [less risky](#) instruments
  - Lower total interest cost since the loan is paid off more quickly
  - A quicker means of building equity in your home
- Disadvantages of short-term mortgages include:
  - A higher monthly payment given that you have a shorter repayment period – this is the flip side of paying less in interest over the life of the loan

- The possibility of qualifying for a lower amount since your debt-to-income ratio will be higher given a larger monthly payment
- Less extra cash each month

### What to consider when deciding on a mortgage loan term

- A few things to keep in mind when comparing loan terms:
  - If you're risk-averse, a 30-year fixed mortgage is your best bet [as it holds no surprises](#)
  - If you're more comfortable with the unknown – and prepared to deal with increased costs should interest rates rise – a shorter adjustable-rate mortgage may fit the bill
  - Generally speaking, the longer the loan term, the lower the monthly payments – but the more interest you'll pay over the life of the mortgage
  - Conversely, shorter loan terms hold higher monthly payments but a lighter interest load as the debt is paid down more quickly
- If savings is a major consideration when you're making a decision on a mortgage loan term, know that a shorter-term loan will save you more money in the long run for two reasons:
  - Lower interest rates because lenders consider shorter-term loans less risky
  - Less interest paid over the life of the loan
- The length of time you plan to keep your home is a major factor in your decision amongst the mortgage-loan options out there – here's a few things to consider:
  - The longer you plan on living in your home, the more a 30-year [fixed](#) loan makes sense – particularly if you see yourself there [a decade or longer](#)
  - However, if you plan a shorter stay in your home and wish to build equity quickly, a shorter-term loan is more likely what you're seeking as you'll also pay less interest over the life of the loan
  - Whichever route you choose, remember the [28/36 rule](#): monthly housing payments such as mortgage, insurance, and taxes should not exceed 28% of your monthly gross income and ideally should be less than that, while your debt-to-income ratio, which compares the amount of money you owe to your income, should not exceed 36% and ideally should be far less than that

### What kind of mortgage loan is right for you?

- When choosing a mortgage, you are essentially [selecting between](#) the relative safety of a more conventional loan or the risk of an adjustable-rate loan – but that is far from the only element to consider, so let's break it down:
  - First-time homebuyers can choose amongst a number of [grants and programs](#) aimed at helping them meet their homeownership goals, including:
    - [FHA loans](#), which require a FICO score of at least 580 with a 3.5% down payment, debt-to-income ratio of less than 43%, steady income and proof of employment
    - [USDA loans](#), which offer rural and suburban borrowers zero-down-payment mortgages that are backed by the government

- [VA loans](#), which assist service members, veterans, and eligible surviving spouses with their homebuying goals through no-down-payment loans partially backed by the government
  - [Fannie Mae and Freddie Mac](#), which were created by Congress to offer liquidity, stability, and affordability by purchasing mortgages from lenders and either holding in their portfolios or bundling them into mortgage-backed securities; meanwhile, lenders use the cash raised to offer additional mortgages.
- Established homebuyers should be prepared to ask themselves the following [questions](#):
  - What loan will cost me the least over time?
  - How does my income affect my eligibility for a variety of mortgage products?
  - How does my credit score affect my eligibility for mortgages?
  - What loan product has the lowest monthly payment?
  - What loan product requires the least amount of upfront cash?
- Refinancers need to [do the following](#) in order to get the best possible rates:
  - Get their credit in great shape by paying bills on time, paying off chunks of debt, reducing debt-to-income ratio, not opening additional lines of credit, and obtaining their [free credit reports](#) from the three major bureaus – Equifax, Experian, and TransUnion
  - Considering a shorter loan term such as a 15- or 20-year mortgage to avoid dragging out repayment
  - Start local before widening the net:
    - First try your current lender
    - Then research lenders in your immediate area, including smaller banks and credit unions
    - Move on to large lenders, including online banks
- Retirees are well advised to keep a [few things in mind](#) when considering mortgages:
  - Your income will be assessed through a method called asset depletion, where the value of all financial assets is totaled minus the cost of down payment, with 70% of the resulting figure divided by the number of months in the loan term to arrive at theoretical monthly income
  - Low debt-to-income ratio – no more than 40% of monthly earnings – is desired
  - Credit score is still a large factor, as is occupancy status – primary homes get better rates than second homes

## Conclusion

Your personal circumstances will dictate what you need from – and can handle in – a mortgage loan. Make sure to check in with yourself and your family to understand your personal financial picture before beginning the research and application process.