

# the simple facts

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a guide to mortgages



providing **truth** in lending.

The type of mortgage you choose should be based on your financial situation today, your best estimate of what it will be in the future, how long you plan to own the home or “stay in” the mortgage and your comfort level with assuming the risk of potential increases in required payments.

The Simple Facts™ was created by the Mortgage Bankers Association — not any single lender — to help you easily identify the pros and cons of each type of mortgage and choose the one best for you.

Inside you will find brief descriptions of different types of mortgages, reasons some people choose each particular mortgage and why others avoid them, and a set of questions everyone should ask their lender before making their final loan choice. You should use it along with other information on interest rates, lender fees and closing costs.

There are two basic categories of mortgages: fixed-rate mortgages and adjustable rate mortgages (ARM). Within each category, there are variations.

However, in nearly all mortgages, two factors are at play: how predictable the payments are and how low, or affordable, they are — at least initially.

Borrowers choose fixed-rate mortgages because the principal and interest payments are steady and predictable. But in so doing, they give up an initial principal and interest payment that is usually lower. They may also give up the opportunity to get a lower rate without refinancing if interest rates fall.

Borrowers choose adjustable rate mortgages because the initial principal and interest payments are usually lower. A lower initial payment can make the home more affordable at first, but the borrower must also be willing to accept the risk of — and be confident in their ability to afford — a potentially higher principal and interest payment when the rate adjusts upward. The adjustment date varies, but is specified in the mortgage documents. Depending on the loan, it can occur even within the first year and sometimes results in significantly higher principal and interest payments. With some mortgages, there’s even the possibility of an increasing loan balance.

Why do different types of mortgages offered at the same time have different rates? Mortgage interest rates vary based on who (borrower or lender) assumes more of the risk of interest rate hikes and for how long. Adjustable rate mortgages usually offer lower initial rates because the borrower assumes a greater share of the risk of interest rate increases. A fixed-rate mortgage usually has a higher initial interest rate because the lender assumes more of the risk of interest rate increases over the life of the mortgage.

### fixed vs. adjustable in a nutshell

Mortgages with payment adjustments usually result in lower payments at first but expose you to the risk of possibly significant payment increases if interest rates go up. Mortgages with predictable, fixed payments could cost you more over the life of the mortgage, and require refinancing (and its costs) to take advantage of falling interest rates.

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**fixed-rate mortgage** Offers predictable, fixed payments over the life of the mortgage, regardless of how interest rates change in the marketplace.

## reasons to choose a fixed-rate mortgage

The principal and interest portion of your mortgage payment doesn't change — easier budgeting and financial planning.

## reasons not to choose a fixed-rate mortgage

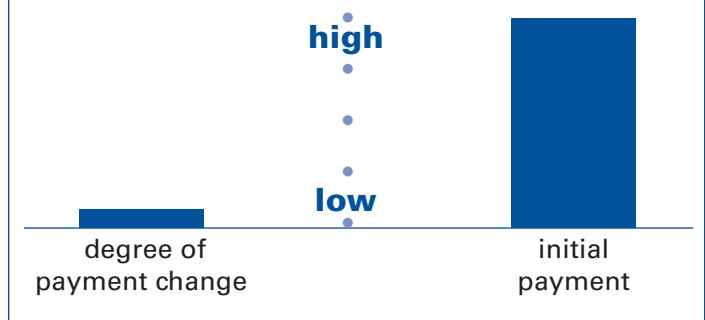
Principal and interest payments are usually higher than most adjustable rate mortgages. To take advantage of an interest rate decrease, you would have to refinance and incur the costs of that refinance.

## people who choose a fixed-rate mortgage

Those more comfortable with the safety and security of steady and predictable principal and interest payments that do not increase if interest rates rise.

Those planning to keep their home and mortgage for several years.

features of a typical fixed-rate mortgage



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**adjustable rate mortgage (ARM)** Usually offers a lower initial interest rate and lower principal and interest payments than most fixed-rate mortgages. However, payments will adjust up and down based on a specific interest rate index (such as the U.S. Treasury Bill rate) plus an additional amount, called a margin. These adjustments occur at times specified in the loan documents and can result in significant payment increases. Rate caps at each adjustment and over the life of the mortgage may offer some protection against these increases.

## reasons to choose an ARM

Lower initial principal and interest payments.  
If rates drop, payments may become lower without refinancing.

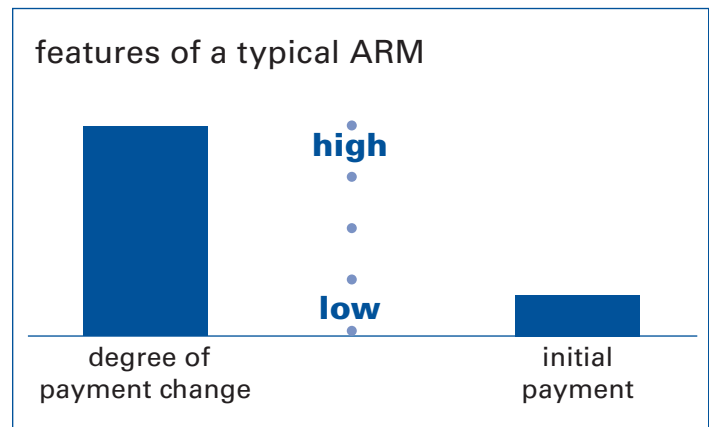
## reasons not to choose an ARM

If rates increase, principal and interest payments increase.

## people who choose an ARM

Those who are confident they can continue to make payments even if principal and interest amounts increase significantly.

Those who believe rates will remain low or even decrease and want to easily take advantage of lower principal and interest payments.



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**hybrid ARM** Offers the predictability of a fixed rate mortgage but with a lower rate, and therefore lower payments, for an initial, specified period. The mortgage then operates as an ARM, with interest rate and payments adjusting up and down based on a specific interest rate index, plus an additional amount called a margin. Depending on the specific terms of your mortgage, adjustments after the fixed period may result in significant principal and interest payment increases.

## reasons to choose a hybrid ARM

Lower initial principal and interest payments that are fixed for a specified period.

## reasons not to choose a hybrid ARM

Principal and interest payments are likely to increase, possibly by a significant amount, after the initial fixed period.

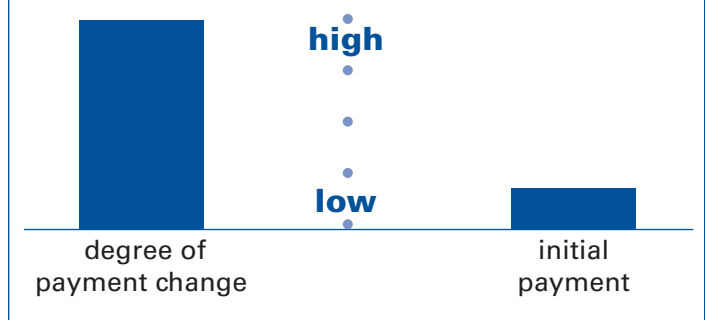
## people who choose a hybrid ARM

Those who want a predictable, lower payment for a specific period of time.

Those who plan to refinance or move before the rate adjustment at the end of the fixed period.

Those confident that if they stay in the home after the fixed-rate period ends, they can afford significantly higher monthly payments.

features of a typical hybrid ARM



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**payment option (option ARM) mortgage** Borrowers can choose the type of payment made each month for a period or periods spelled out in the loan document. During that time, there are typically four options: a payment of interest and principal that pays off the mortgage over a specified term (often 30 years); a payment of interest and principal that pays off the mortgage in a shorter period (often 15 years); an interest-only payment that covers the interest but doesn't reduce the principal; or a minimum payment that does not cover interest due and increases the principal (an occurrence known as *negative amortization*). Option ARMs include periodic "recasts" or recalculations of the payments required to pay off the loan. This will affect the payment options available and the amount of the required principal and interest payments. Borrowers regularly making minimum payments risk an unscheduled "re-cast" and substantial payment increases.

## reasons to choose this mortgage

Borrowers can choose the amount of their mortgage payment based on their own current financial situation, such as cash flow, or on external economic factors, such as dramatic changes in interest rates.

## reasons not to choose this mortgage

Paying only minimum payments will increase the amount that is owed, sometimes to the point where the borrower owes more than the home is worth. Loan "recasts" can result in significant payment increases.

## people who choose this mortgage

Those who want payment flexibility. This often includes people with an income that varies from month to month. Common examples are commissioned salespeople who may receive their income in a few large and unpredictable disbursements over the course of a year, as opposed to a steady monthly or bi-weekly paycheck.

Those able to make large payments that reduce principal when they have extra cash on hand.

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**payment shock** “Payment shock” is a term used by some to describe significant increases in the payment required, which can lead to severe borrower hardship. Remember, the greater a mortgage’s potential for increases in payment amounts, the higher your risk of “payment shock.” Asking many of the questions on the next page can help keep you from experiencing “payment shock.”

### **loans requiring little or no documentation**

Some lenders offer “low doc” or “no doc” loans that do not require you to supply a great deal of information about your finances. Using other information to qualify borrowers, these loans may cost more in terms of rates or fees. Your lender should tell you about any higher costs. If your wage and income information is readily available, consider supplying that information rather than paying more for this type of mortgage.

### **loans with prepayment penalties or fees**

Prepayment penalties or fees are an additional lump sum required if the mortgage is paid off either through refinance or home sale before a specified date. Find out if your mortgage has one. If it does, know the amount of the penalty and the date the penalty ends. Ask if you are receiving a benefit, such as a lower rate, in exchange for the prepayment fee. If you plan to stay in the home throughout the prepayment penalty period, the savings may be significant. However, if you are planning to sell or refinance during the prepayment penalty period, make sure the benefit offered outweighs the fee.

### **loans allowing interest-only payments**

An interest-only option can be a feature of any type of mortgage; however, it is typically available only for a limited time, after which payments may go up, sometimes significantly. While offering lower payments, paying only the interest does not reduce the principal due.

**loans with balloon payments** A mortgage with a balloon payment requires that the borrower pay all of the remaining principal on the loan in a relatively short time, often within five years of taking the mortgage. Agreeing to a balloon can get you a lower interest rate and monthly payment. However, as you can imagine, very few people can pay off their mortgage all at once. For this reason, borrowers usually refinance before the balloon payment is due. You should be told if your mortgage has such a payment, but be sure to ask. If you do choose a loan with a balloon payment, you must be completely sure of your ability to refinance or otherwise pay off the balance. Remember, falling real estate prices and increasing rates can affect that ability.

### **responsibility for paying taxes, insurance and other costs**

A homeowner’s responsibilities include more than the payment of interest and principal. They also include the payment of property taxes and homeowner’s insurance, and sometimes private mortgage insurance (PMI), condominium and association fees, payments on a second mortgage and other expenses. Many lenders require that you include some of these costs in your mortgage payment. The money goes into an escrow account and is paid out when due. If you do not cover these costs as part of your payment, they are still your responsibility under the terms of your mortgage. You should budget accordingly.

### **note on the effect of falling housing prices**

While over the long-term homes historically increase in value, there are ups and downs in the real estate market. These variations can have an impact on some borrowers, especially those planning to move or refinance prior to an anticipated rise in rates and, therefore, mortgage payments. A fall in home prices or a rise in interest rates may make it much more difficult for those borrowers to sell or refinance without losing money.

## questions to ask your lender

### about any type of mortgage

Can my interest rate and monthly principal and interest payment go up over time?

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Can my loan balance go up, even if I make minimum payments on time?

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Will my mortgage payment include insurance, taxes and other charges?

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Will I have to pay a prepayment fee if I pay off the loan in full ahead of schedule?

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If so, how much is the fee?  
For how long is it in effect?

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If I agree to a prepayment fee, what do I get in return?

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Can I make extra payments to reduce principal?

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Does this loan have a balloon payment?

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If so, how much? When is it due?

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Will the lender be obligated to refinance my balloon payment mortgage?

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Will I have to pay an additional fee if a payment is late?

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If I choose to provide the lender with less documentation of my income or assets, will I pay a higher rate or additional costs?

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If so, how much?

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### about ARMs

How much higher can my payments go when the mortgage first adjusts?  
(Assuming today's interest rate, but remember, the rate will likely be different when your fixed period ends.)

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After the first adjustment, exactly when, and how often, does my rate and payment amount adjust?

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What's the most my payment can increase?

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### about a payment option ARM

How many times can I choose to make only the minimum payment without forcing a recalculation of my loan and higher payments?

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### about a mortgage allowing interest-only payments

How long can I make interest-only payments?

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Can I also pay down principal?

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## **WHO WE ARE.**

radius financial group inc. is an innovative full service residential and commercial mortgage banker. We offer a wide range of loan programs and services to meet the unique needs of our customers.

## **WHY ARE WE DIFFERENT.**

We consistently produce quantifiable results because:

- We engage and collaborate with our clients in generating solutions rather than dictating to them.
- We measure our success by how much we positively impact our client's life.
- We constantly help our clients develop new ways to look at the equity in their homes and financing options that may open the doors to other financial opportunities.

## **WHAT WE DO.**

radius offers a wide variety of residential mortgage programs and services that enable us to custom build a loan suited to the borrowers individual needs and circumstances. Here are few examples of how we have been able to make a positive impact on the people we work with:

- "We loved staying in our favorite Bed & Breakfast so much, we bought it! Thanks radius."
- "Our bridge loan was the perfect solution to buying our new dream home."
- "Our Home Equity Line enabled us to adopt and welcome a new addition to the family. A baby girl!"

## **SPECIALIZED LOAN PROGRAMS**

- Government Loans
- Down Payment Assistance
- Rehab Loans
- Bridge Loans
- Jumbo Loans
- Interest Only
- Home Equity Lines of Credit
- First-time Homebuyer Loans
- Jumbo Loans
- Super Jumbos
- On-Site Approvals
- Open House Assistance

## **PROVIDING SERVICE IN**

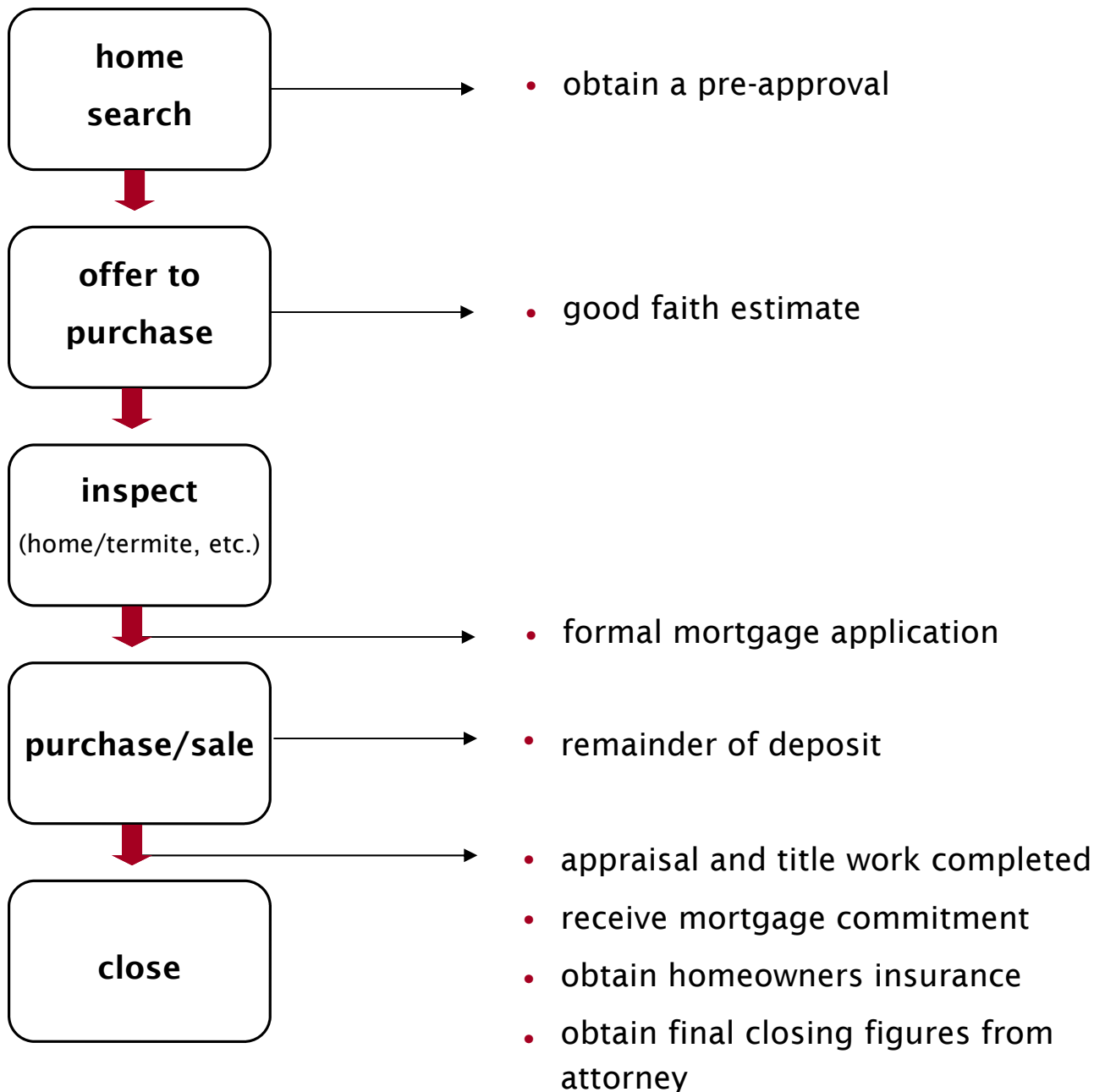
Massachusetts, Maine, New Hampshire, Rhode Island, Connecticut and Florida.

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## radius financial group inc.'s Home buyer time line.

Our loan officers will be with you from the beginning of your home buying experience to the end to ease you through the process.





Visit Us On The Web!

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