MONTGOMERY COUNTY
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Navigating Today's Mortgage Maze

Buyers who are house-hunting today will likely be looking for a mortgage in the near future. With the mortgage industry in the midst of a transformation and the recent news reports about predatory lending, risky mortgages and property foreclosures, buyers may be a little worried about selecting the right mortgage.

Montgomery County Association of REALTORS® President Kathy Opperman, of CENTURY 21 Alliance, recommends that buyers shop just as carefully for a mortgage as they do for a car or any other big-ticket item they buy. "Selecting a quality lender and the right loan will help buyers ensure that they will flourish financially from their real estate investment," says Opperman.

Buyers are advised to fully understand the obligations of a mortgage they are considering because the fine print could lead to financial trouble down the road. Buyers should be careful if a mortgage has any of the following features:

- A "teaser rate" or "no interest" period that expires and leads to a big jump in their monthly payment.
- An option to pay less than the full interest due in any given month. Taking that option makes the amount owed go up instead of down, since the unpaid interest is added to the loan balance.
- An adjustable interest rate with very high or no limits on the amount the payment can go up.
- A payment that doesn't include an amount for paying property taxes and homeowners insurance. This means borrowers may be hit with big bills they didn't expect.

There are several types of mortgages that are built around these potentially-risky features.

2/28 and 3/27 mortgages. A 2/28 or 3/27 adjustable rate mortgage gives the borrower a fixed payment for the initial two- or three-year period before mortgage payments increase. After the initial "teaser rate" period, mortgage payments typically adjust up every six months.

Interest-Only Mortgages. An interest-only mortgage lets borrowers pay only the interest on the loan for the first 5 or 10 years and nothing to pay off the loan amount (principal). After the interest-only period, the mortgage requires much higher payments covering both interest and principal that must be repaid over the remaining years of the loan.

Payment Option Adjustable Rate Mortgages. Payment option mortgages let the borrower decide how much to pay each month. Borrowers can even pay less than the interest, and add the unpaid interest to the total amount of principal they owe. Or they can pay just the interest or an amount sufficient to pay off the loan in 15 or 30 years. These mortgages can have an especially big payment shock.

Buyers who are considering any of these types of loans will want to read and completely understand the fine print as these types of loans are more prone to give borrowers "payment shock" down the road. "Borrowers should be realistic about their financial situation now and what it may be like in the future to ensure that they will be able to handle the payments for the life of their loan," Opperman recommends.

Regardless of what kind of mortgage is selected, buyers will want to consult their REALTOR® before signing the paperwork. "REALTORS® are experienced in finding responsible lenders and identifying fair and affordable loans," says Opperman. "Buyers rely on their expertise of a REALTORS® are more likely to understand their financing options and more easily navigate the mortgage maze."

Montgomery County Association of REALTORS®
3031A Walton Road, Suite 302, Plymouth Meeting, Pa 19462 • 610-260-9931 • info@mcarealtors.org • www.mcarealtors.org

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