

Home Ownership

Worksheet A—Choose a Mortgage Loan

Banks and other lending institutions offer a wide variety of mortgage loans that can be tailored to the financial situations of most people who want to buy a house. Several of the more common types of mortgage loans are described below.

- Conventional fixed-rate mortgages charge the same rate of interest over the term of the loan. They typically require a substantial down payment of 20 percent or more of the home's purchase price and have terms that can last from 15 to 30 years.
- Adjustable-rate mortgages charge an interest rate that initially is lower than that charged on a conventional fixed-rate mortgage. This rate, however, will be adjusted as prevailing interest rates change. They also require a substantial down payment and have terms that last from 15 to 30 years.
- Federal Housing Authority (FHA) mortgages are available to first-time homeowners at fixed interest rates that are normally similar to those charged on conventional fixed-rate mortgages. Because these loans are insured by the government, they require smaller down payments that can be as small as 5 percent of the purchase price. They typically have terms of 30 years.
- Graduated payment mortgages require smaller payments when they are first taken out and then higher payments at later times. Their interest rates typically are slightly higher than conventional fixed-rate mortgages. They require relatively smaller down payments that can range from 10 to 20 percent. Their terms typically are for 30 years.

Directions: Choose a mortgage loan that would be appropriate for each of the following individuals.

1. Alex and Meredith recently graduated from college and have both taken teaching jobs. Although they do not earn much income now, they expect to earn more in the future.
2. Vera and Jose both have good jobs and are able to make a substantial down payment. Interest rates are currently relatively low.
3. Yoshido and Kim have little money to put down on a home although they both have jobs. They have never owned a home before.
4. Carlos and Juana are worried about the high interest rates that are currently being charged for loans. They can make a substantial down payment but don't want to pay high rates for many years.