

Risks and Rewards of Specialty Types of Mortgage Loans



Specialty types of mortgage loans may be tempting to look into if you find a home that you fall in love with but can't afford. A specialty mortgage may allow you to qualify for a larger loan. Before you choose one of these mortgages, make sure you understand the risks and how they work.

These types of mortgages are much less common and more difficult to obtain since the mortgage industry has gone through the sub-prime mortgage crisis. That doesn't mean they will be gone forever so it is still worthwhile learning about them.

Common Specialty Types of Mortgage Loans Are:

- 1) Loans that begin with a low interest rate or monthly payment, but increase in the future.
- 2) Loans that have lower standards for proof of income or credit worthiness. These loans will typically have higher fees and/or a higher interest rate.
- 3) Loans that provide financing above 100% of the appraised value of the home.

Specialty Mortgages Can:

- 1) Create a situation where the balance of your mortgage increases every month.
- 2) Require substantial monthly payment increases in the future.
- 3) Create a situation where you cannot afford the home in the future.

Common Specialty Types of Mortgage Loans:

- 1) 40-year mortgages. This stretches the repayment of the mortgage out over a longer period of time. This may allow you to qualify for a larger home because the monthly payments will be smaller than a 30-year mortgage. The bad part is that you will be paying a lot more interest over the life of the loan.
- 2) Interest-only mortgages. Every month you are only paying the interest on the loan. This again allows you to have a lower monthly payment. The bad part is that eventually the loan is either going to reamortize and you will have to make principal and interest payments over a shortened period of time to pay off the entire mortgage or the entire balance is due in a lump sum payment in the future.

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- 3) Negative amortization loans. These types of mortgage loans seem crazy to me. Your monthly payment is lower than the monthly interest. This causes your mortgage balance to increase every month.
- 4) Option payment Adjustable Rate Mortgages (ARM). Again this type of mortgage seems wild to me. You have the ability to make different monthly payments. Even payments less than the monthly interest. If you aren't extremely responsible with your finances I think this type of mortgage could get you in trouble.

Questions to Consider:

- 1) How much could my payment increase?
- 2) How soon could my monthly payment increase?
- 3) Will my monthly payment increase before I plan to move?
- 4) Will I be making more money before my monthly payment increases?
- 5) Will I be able to afford my home when the monthly payments increase?
- 6) Are there any penalties if I decide to refinance or sell the home?
- 7) Will my mortgage balance increase or decrease each month?
- 8) Am I buying more house than I can realistically afford?

Conclusion

When considering the types of mortgage loans available, please make sure you are aware of the risks and the rewards. It is easy to become blinded by the shiny new home that you want to buy that is just out of your price range. If you don't understand something ask lots of questions. I know it sounds old fashioned, but also read your loan docs before you sign them.

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Thank you for your time reading this information. I would love any feedback you may have. You can reach me by [contacting your Peoria Arizona Realtor](#).

Hopefully I will be talking to you soon.

Sincerely,

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