8 Types of Mortgages

(source: https://www.nerdwallet.com/blog/mortgages/all-the-types-of-mortgages-explained-in-a-flash/)

Many types of mortgage loans exist, and they are designed to appeal to a wide range of borrowers' needs. Here are the most common 8 types. Each type of mortgage is listed below with its advantages and the kind of borrower it's best for.

1. 30-year fixed-rate mortgage

The 30-year fixed-rate mortgage is a home loan with an interest rate that's set for the entire 30-year term.

- Most popular home loan; see the pros and cons of the 30-year fixed-rate mortgage.
- Your interest rate never changes; see the basics of fixed-rate mortgages.
- Lower monthly payment than with shorter-term loans.
- Best for: Home buyers who want the lower monthly payment that comes from stretching out repayment over a long time. The fixed rate makes the payment predictable. A 30-year fixed offers flexibility to repay the loan faster by adding to monthly payments.

2. 15-year fixed-rate mortgage

The 15-year fixed-rate mortgage has an interest rate that remains the same over its 15-year term.

- Often used for refinancing; see the pros and cons of the 15-year fixed-rate mortgage.
- Interest rate is set for the life of the loan.
- Lower interest rate than with longer-term loans.
- Higher monthly payment than with 30-year loans, with less total interest paid.
- Best for: Refinancers and home buyers who want to build equity and pay off the loan faster. Payments are predictable because the interest rate doesn't change. Because the borrower pays interest for fewer years, total interest payments are less.

3. Adjustable-rate mortgage

An adjustable-rate mortgage is a home loan with an initial rate that's fixed for a specified period, then adjusts periodically. For example, a 5/1 ARM has an interest rate that is set for the first five years and then adjusts annually. See the pros and cons of adjustable-rate mortgages.

- Initial "teaser rate" is lower than on most other loans, giving comparatively lower monthly payments at first.
- Initial rates can often be locked for one, five, seven or 10 years.
- Best for: Home buyers who don't plan on having the mortgage for a long time, or who believe interest rates will be lower in the future.

4. FHA mortgage

An FHA mortgage is a home loan insured by the Federal Housing Administration. FHA loans are backed by the government and designed to help borrowers of more modest means buy a home. See how FHA loans differ from conventional mortgages.

- Allows down payments as low as 3.5%.
- Credit scores as low as 500 can qualify. Learn more about the credit score needed to buy a house.
- Mortgage insurance premium payments are required.
- Best for: Borrowers with lower credit scores and a down payment less than 20%.

5. VA mortgage

VA loans are mortgages backed by the Department of Veterans Affairs and are available to military service members and veterans. See how VA loans work and who qualifies.

- No down payment required.
- Upfront VA funding fee required. See this year’s VA funding fee chart.
- No mortgage insurance.
- Best for: Military-qualified borrowers who appreciate a low interest rate and no down payment minimum.

6. USDA mortgage

USDA home loans are mortgages backed or issued by the U.S. Department of Agriculture. See more about USDA loans and eligibility requirements.

- No down payment is required on most properties.
- Home improvement loans and grants are also available.
- Income limits and property value caps apply.
- Best for: Income-qualified buyers in rural and some suburban areas who want a low or zero down payment.

7. Jumbo mortgage

Jumbo home loans are mortgages above a certain dollar amount. Jumbo loan limits vary by county and are adjusted periodically. See this year’s loan limits.

- Can have fixed or adjustable rates.
- Often require a credit score of 700 or higher.
- Usually require a down payment of 10% or more.
- Best for: Buyers of expensive homes and owners who want to refinance jumbo-size mortgages.

8. Interest-only mortgage

An interest-only mortgage requires payments only on the lender's interest charge. The loan balance, or principal, is not reduced during the interest-only payment period.

- Can be appropriate for borrowers who are disciplined enough to make periodic principal payments.
- Useful to home buyers who don't expect to remain in a house for the long term.
- Borrowers will have to show lenders substantial assets or a proven ability to pay.
- Best for: Borrowers with high monthly cash flow, a rising income, large cash savings or an income that varies from month to month. Also for those who receive large annual bonuses they can use to pay down the principal balance.