Mortgage

- For the vast majority of Americans, a house is likely to be their biggest investment. **Mortgages are low interest, long-term secured loans.**
- **The typical mortgage works like this:** you are looking to buy a house, so you secure a $100,000 mortgage and pay a down payment of 20% which brings the total cost of the home to $120,000. This loan will likely last for 30 years at the current interest rate of 3.92%. With this loan, you will pay $473 a month which adds up to $170,213 after 30 years, but since a mortgage is secured by your house, if at any time you become delinquent and the bank forecloses, they have the right to kick you out and sell your house. Mortgage rates are highly influenced by the market and have averaged 6.25% over the last 30 years. The Fed has worked to keep these rates low in order to allow the economy to keep its momentum, with the current rates around 3.75%. This is well below the average and should be leading to a rise in home sales and home refinances, but due to rising home costs, sales are down 2% from last year, home investments have declined for the last six straight quarters, and new home sales continue to decline. Just like any market, the housing market is cyclical.
- There are many different types of mortgages, but here are the main ones:
    - The typical and often safest choice for the average consumer is the **30-year fixed rate loan**, but you can also take out a 20-year or 15-year fixed rate mortgage which has become more popular in recent years.
    - An **adjustable-rate mortgage (ARM)**, also known as a variable rate mortgage, is a loan with an interest rate that fluctuates with the market which means right now you would have a relatively low rate but if rates return to their historical average you would go from around 3.75% to 6.25% would could mean a difference of tens of thousands of dollars. This type of loan is also available as a hybrid that starts off with a fixed rate and then changes to an adjustable rate.
    - A **balloon mortgage** is a short term mortgage, usually around ten years that has a very low monthly payment but that the end of the term the entire amount of the loan is due. Balloon mortgages are useful for people who buy houses to fix them up and then sell them immediately but are extremely risky for the average consumer.
    - There are some types of special case mortgages for certain situations like **reverse mortgages** or **government-backed mortgages**.
        - Reverse mortgages allow seniors to take the equity in their homes (value of your home minus the amount owed) and receive payments or a line of credit to pay for retirement. In this case, the homeowners do not need to make payments, but when they pass away the house has a lien from the bank that will need to be resolved by their relatives.

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- For certain cases, the government can back a mortgage which means if the borrower defaults then the government will cover the amount owed to the lender. These loans can be acquired by serving as a US Veteran, being a first time home buyer, or for homeowners with bad credit who plan on using the home as their primary residence.

- On top of the many different types of mortgages, there are also second mortgages which are known as a home equity loan or home equity line of credit (HELOC). These allow you to receive cash for the amount of equity built up in your home.