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The Truth About Mortgages

When most people think of a home mortgage, they think of the hundred thousand dollar loan that is taken out to finance the home.

While the loan has something to do with the home mortgage, technically, the mortgage is a legal contract stating the lender can have your home if you do not repay the loan.

This is worth bearing in mind.

Two major theories exist for how lenders handle home mortgage.

The theory followed depends on the state.

In one theory, deemed the title theory, the lender holds your title until the home mortgage loan is completely repaid.

If you can't make payments, the lender has the ability to sell the title to get the money back for the loan. With the second theory, the lien theory, the lender has a lien on your property. In the event that you default on the mortgage, the lender can foreclose on the lien and sell the property.

The home mortgage payment you pay each month is made up of four components. The principle is the amount of money you are financing from the lender.

Interest is a percentage of the amount of money you borrowed charged by the lender as the price for lending the loan to you. Property taxes are put into a third party account until it is time to pay them. Your monthly mortgage payment includes part of the property tax. Finally, insurance is included in your home mortgage.

Repaying your home mortgage loan is done over a period of time. In general, each monthly payment you make decreases the principal of the loan. Your monthly payments are also going toward interest.

For the first few years of paying your home mortgage loan, you will notice that the amount of your payments that go toward interest is significantly higher than that of the principal payments.

There are two basic types of home mortgages: fixed rate and adjustable rate. With a fixed rate mortgage, the interest rate for the loan will never change.

Therefore, your monthly payments will basically remain the same for the life of the loan. Should the payments change, it is due to property tax and insurance payments that might be included in the payment. An adjustable rate mortgage has an interest rate that changed based on market rates and economic trends.

Initially, the interest rate of an adjustable rate mortgage is lower than that of a fixed rate mortgage, but the rate can rise over the fixed rate after a period of time.

Balloon home mortgages are another type of mortgage that has a low initial interest rate. The rate last between five and seven years. After this period of time, a balloon payment in the amount of the entire balance of the loan is due. This is a good mortgage for those who are planning to sell their home, refinance it, or pay it off before the final payment is due.

Since there are varying types of home mortgage loans, it is in your best interest to shop around among different lenders and the mortgage types they offer to find the right mortgage for you.

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http://www.articlesbase.com/real-estate-articles/the-truth-about-mortgages-83091.html

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