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Choices That Will Affect Your Loan

- Mortgage term. Mortgages are generally available at 15-, 20-, or 30-year terms. The longer the term, the lower the monthly payment if the same amount is borrowed. However, you pay more interest overall if you borrow for a longer term.

- Fixed or adjustable interest rates. A fixed rate allows you to lock in a low rate for as long as you hold the mortgage and is usually a good choice if interest rates are low. An adjustable-rate mortgage (ARM) is designed so that interest rates will rise as interest rates increase; however they usually offer a lower rate in the first years of the mortgage. ARMs also usually have a limit as to how much the interest rate can be increased and how frequently they can be raised. ARMs are a good choice when interest rates are high or when you expect your income to grow significantly in the coming years.

- Balloon mortgages. Balloon mortgages offer very low interest rates for a short period of time—often three to seven years. Payments usually cover only the interest, so the principal owed is not reduced. However, this type of loan may be a good choice if you think you will sell your home in a few years.

- Government-backed loans. Government-backed loans, sponsored by agencies such as the Federal Housing Administration (www.fha.gov) or the U.S. Department of Veterans Affairs (www.va.gov), offer special terms, including lower downpayments or reduced interest rates—to qualified buyers.

Slight variations in interest rates, loan amounts, and terms can significantly affect your monthly payment.