

## Choosing a Mortgage That Meets Your Specific Needs

By **Jim Smith**  
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There is such a proliferation of “products” in the mortgage business, that it’s little wonder that the number of mortgage brokers has exploded. These people don’t represent one particular bank or mortgage lender. Instead, they have relationships with multiple lenders and can help you shop for the mortgage product that best fits your specific needs.

A first consideration when shopping for a mortgage is how long you expect to remain in that particular home. If there’s a chance you might sell that home within five years, your broker will suggest a five-year (or even a three-year) adjustable rate mortgage, or “ARM.”

Let me use myself as an example. Earlier this year I refinanced my Golden home using my favorite mortgage broker, Jean Rowe of Clarion Mortgage Capital. She could have gotten me a 30-year fixed mortgage just under 6%, but since I don’t expect to be living there more than five more years, I got a 3-year ARM at 3.75%. The reason I went for a 3-year ARM instead of a 5-year ARM was that it would take two years of increased rates after year 3 before I would lose money over getting a 5-year ARM or a 30-year fixed-rate mortgage; meanwhile I enjoy an incredibly low interest rate.

The reasoning goes as follows: The maximum increase (or “cap”) for year four is 2%, so my interest rate might rise to 5.75%. In year five, it could go up another 2% to 7.75%. However, even if I kept the mortgage for five years and even if the maximum increase kicked in for those years, my average interest rate over the 5 years

calculates to only 4.95%. This makes more sense that getting, say, a 5-year ARM at 4.95%, because if I sell my house during those first years, I have saved a significant amount of money at the 3.75% rate.



Now, my example was a refinance. What if you are buying a home and can’t afford a 20% down payment? Normally, lenders require mortgage insurance (PMI) when you borrow more than 80% of the purchase price. One solution which gets around this problem is an “80-10-10” scenario, in which you put down 10 percent, finance 80 percent, and have a second mortgage for the remaining 10%. Thus, your first mortgage is at the lowest possible interest rate, and you pay a higher interest rate only for the second mortgage — basically a home equity loan. The interest on both loans is tax-deductible, but mortgage insurance is not.

FHA loans can get you into a home with only 3% down, but are limited to \$261,609.

There are also many programs nowadays that can get you into a home with zero money down. One of the most popular is the Nehemiah program, where you are literally “gifted” with up to 6% of the purchase price as a down payment. I just sold my listing at 710 1st Street in Golden using precisely this scenario.

In the limited space of this column, I couldn’t begin to do justice to the wide variety of lending options that are available. But my friend Jean Rowe or I would be glad to discuss the ones that are perfect for you if you give us a call. My phone number is below. Jean’s is 303-601-4035.

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