Types of Mortgages Richmond

Why It Is Important To Know The Various Kinds Of Mortgages

Open Mortgages
Open mortgages are great for individuals who would like to have the ability to make large payments on their mortgage or be able to pay off their entire mortgage without incurring penalties. These kinds of mortgages offer maximum flexibility. The landowners who pick this particular option are willing to accept some fluctuation in the interest rate in a trade off for the flexibility of paying off the complete mortgage prior to the term being complete.

Most standard mortgages would let homeowners make lump sum payments of up to 20 percent of the entire mortgage one time a year with no penalty being given. These are normally called "privilege payments" in the industry. That payment is directly applied to paying down the principal of the borrowed amount. Hence, in order to make additional payments on your mortgage, you do not necessarily need to pick the open mortgage alternative with its higher interest rates.

Closed Mortgages
A closed mortgage on the other hand is a commitment over a pre-determined period of time which has a pre-set interest rate. Normally a buyer who chooses a closed mortgage must pay the lender a penalty if the loan is completely paid before the end of the closed term.

During the term of a closed mortgage, the interest rate would not change over the duration of the term. Moreover, in this type of mortgage, the length of the term would not change; hence, payment amounts are predictable. The principal amount left owing at the end of the term is likewise predictable.

Normally, closed mortgages have less interest rates compared to open mortgages. The majority of closed mortgages would let the landowners make a payment one time a year up to 20 percent of the whole mortgage with no penalty. This payment is applied directly toward paying down the principal of the amount owed.

Convertible Mortgages
A convertible mortgage agreement is the type which would allow for the borrower to make changes in the type of mortgage over the life of the term. Like for example, if a homeowner would like to begin with an open mortgage and afterward lock into a closed mortgage, then a convertible mortgage is the proper alternative. This way they are offered the lower rates of an open mortgage and still maintain the choice of changing to a closed term.

Reverse Mortgages
The reverse mortgage allows older homeowners to convert their home equity into monthly cash payments, normally used for living expenses. With this kind of mortgage, a homeowner's equity is slowly drawn down by a series of monthly payments from the lender to the home owner or the borrower. At the end of the loan period or upon the homeowner's death, the loan balance is due. Usually, this amount is paid by the heirs who normally sell the property to be able to meet the outstanding obligation.