Types of Mortgages Langley

Types Of Mortgages - Helping Consumers Choose The Right Deal

Open Mortgages
An open mortgage is an ideal choice for those who wish to make big payments on their mortgage or who want to pay off their whole mortgage without incurring any penalty. Open mortgages provide maximum flexibility. The homeowners who select this particular alternative are willing to accept some interest rate variation in a trade off for the flexibility of paying off the whole mortgage prior to completing the term.

Nearly all regular mortgages will let homeowners make lump sum payments of up to 20% of the entire mortgage once a year with no penalties. These are normally referred to as "privilege payments" in the business. That payment is directly applied to paying down the principal of the amount borrowed. Thus, to be able to make extra payments on your mortgage, you do not necessarily have to choose the open mortgage option with its higher interest rates.

Closed Mortgages
Closed mortgages are different compared to an open mortgage in that the borrower is locked into a commitment over a certain time period at a pre-set rate of interest. Usually a buyer who selects a closed mortgage would be required to pay a penalty to the lender if the loan is paid in full prior to the end of the closed term.

The interest rate on a closed mortgage would not fluctuate over the course of the mortgage deal. Furthermore, in this particular type of mortgage, the duration of the term will not change; thus, payment amounts are predictable. The principal amount left owing at the end of the term is also predictable.

Closed mortgages will usually be offered at lower interest rates than open mortgages. The majority of closed mortgages would let the landowners make a payment once a year as much as 20 percent of the entire mortgage without penalty. This payment is applied directly toward paying down the principal of the owing amount.

Convertible Mortgages
A convertible mortgage agreement is the type that will allow for the borrower to make changes in the type of mortgage during the life of the term. For instance, if a homeowner wants to begin with an open mortgage and then lock into a closed mortgage, then a convertible mortgage is the right option. This way they are offered the lower rates of an open mortgage and still maintain the alternative of changing to a closed term.

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