

So You Want to Know About Buying a Home?

Buying your first home is a huge step, and probably the single biggest money decision you'll ever make. It also can be confusing because there are so many loan choices: fixed-rate, adjusted-rate and the alphabet song — VA, FHA and HUD. And, if you already have a mortgage, there's always the question of whether or when you should refinance.

In all cases, shop around, but here are some guidelines:

Conventional loans

[Conventional mortgage loans](#) are available through most financial institutions, including Northwest Bank of Rockford, and mortgage lenders. The most common variety is the 30-year fixed. You borrow money at a set interest rate, and pay it off over 30 years. You can go for a shorter loan term and get a lower rate, but your monthly payment would likely be higher.

An adjustable-rate loan differs from a fixed-rate loan in that its interest rate is, well, not fixed. Instead it is, after a time, subject to going up or down according to market conditions. If, for example, you see a loan advertised as "5/1," it means your initial interest rate will last for five years, then after that will be adjusted yearly. There is, at least, a limit on how much the interest can change each year.

If you expect to stay in your new home for 10 years or more, you might find a fixed-rate loan more comfortable than being subject to what could be volatile interest rates.

Government-affiliated loans and programs

The [Federal Housing Administration](#) (FHA) and its parent, the U.S. Department of Housing and Urban Development (HUD), have [programs to help](#) families buy their own homes. And the Veterans Administration (VA) helps servicemen and -women [do the same](#).

Generally speaking, government-backed loans are good options for homebuyers with limited assets, who can't afford a big down payment. The tradeoff is you'd have to pay what's called [private mortgage insurance](#).

What about refinancing your mortgage?

Refinancing a mortgage means restructuring your loan, with new terms and a new duration. Homeowners tend to do this because of interest rates: either rates are lower in general, or their creditworthiness has improved, meaning they might be able to negotiate a lower rate.

If you're thinking about refinancing, know that there are costs involved, including perhaps a penalty for settling your existing loan before the end of its term. Consider your situation and [know the options](#).

What to do next — or first, really

Before you can choose the right loan, you have to consider where you stand financially and determine [how much house you can afford](#). This means knowing:

- your debts
- your regular expenses

- your savings

And learn about all the other things that come with buying a home, like a down payment, property taxes, insurance and more. Financial institutions like Northwest Bank of Rockford have people who can go over things with you and answer your questions.

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