Mortgages at a Glance

Below is a brief synopsis of the types — and the pros and cons — of some of today's most popular mortgage loans.

TYPE	DEFINITION	ADVANTAGES	DRAWBACKS	COMMENTS
30-YEAR FIXED-RATE	A long-term loan in which principal and interest are amortized over 30 years; both interest rate and amount of monthly payment remain unchanged for life of the loan.	Considerable tax benefits, especially in early years. Payments never rise, regardless of inflation.	Slow equity build-up.	The most common mortgage in the U.S., a particularly good investment when rates are low.
15-YEAR FIXED-RATE	As above, but payback period is 15 years.	Usually lower interest rate than 30-year. Faster equity build-up. Less interest paid out over life of loan.	Higher monthly payments; less tax-deductible interest.	Good option for buyers whose income will rise and/or when rates are expected to drop.
ARM (Adjustable Rate Mortgage)	A mortgage whose rate changes over time according to terms specified by the lender, usually according to short-term Treasury Bill rates.	Low initial interest rate, sometimes below market. Payments may decrease over time.	Payments may increase over time. Risky if rates rise significantly.	Good option for buyers whose income will rise and/or when rates are expected to drop.
FHA/VA MORTGAGE	Government-insured or guaranteed mortgages that can make purchase more affordable than conventional loans.	Little or no down payment required. Marginally better rate than conventional 30-year mortgages.	Lower limits on the maximum that can be borrowed. VA requires current or past military service record.	Good option for first-time buyers with little funds to invest in a down payment.
GPM (Graduated Payment Mortgage)	A fixed-rate mortgage offering low initial monthly payments that increase by a predetermined amount, then level off after about five years.	More affordable payments for first few years. Unlike ARMs, buyer knows up front how much payments will rise in the future.	Slower equity build-up. Buyer's income may not rise in proportion to payments.	Another good choice for buyers who expect income to rise after home is purchased.
Balloon Mortgage	A short-term (3-5 year) loan, usually at a fixed rate. Paid back in equal, monthly payments and a final "balloon" payment for the remaining balance.	Lower monthly payments. Full tax benefits.	Little or no equity build-up. Monthly payments are often interest only. Balloon payment usually requires refinancing or selling the house.	Designed for buyers who plan on moving within a few years and/or are confident in the short-term appreciation of a property.

Are there any mortgages especially designed for first-time buyers?

70 Today, first-time buyers enjoy a number of mortgage options that make purchasing a home more affordable by minimizing down payments and keeping monthly payments as low as possible during the early years of the loan.

Most ARMs feature an interest rate that is below market for the first year and may only rise gradually after that.

VA- and FHA-insured loans call for extremely low down payments (zero to five percent of the purchase price) and often offer a below-market interest rate. Similarly favorable terms can be arranged with the help of private mortgage insurance or PMI.

Finally, first-timers who can find a cooperative seller or third-party investor can look into such non-traditional financing methods as a lease/buy arrangement. Check the "Mortgages at a Glance" table above for the unique benefits and requirements of several major mortgage alternatives.