

## **AFFORDABLE 40 YEAR MORTGAGE**

### **Is a 40-Year Mortgage Right For You?**

If one of these situations describes you, a 40 year mortgage is a good fit:

- Are you looking to purchase a home and affordable mortgage payments are an issue?
- Do you have monthly debt with high interest rates that you would like to pay down?
- Would you like to optimize your investment strategy?

### **Introducing the 40-year Mortgage**

The 40-year mortgage is ideal for borrowers who face affordability issues and believe homeownership is beyond their reach. First-time homebuyers or those living in high-cost areas seeking manageable monthly payments may find this amortization term attractive. By increasing the standard loan term from 30 years to 40 years, borrowers obtain lower mortgage payments because the amortization period is longer.

### **Lower Monthly Mortgage Payments Increase Your Purchasing Power**

Savvy savers who are disciplined use the 40-year loan as an investment strategy to build equity in their portfolio and pay off higher-cost debt. This is accomplished by refinancing their mortgage into a 40-year loan that reduces their monthly debt and adds to their savings which contributes more money to their portfolios.

### **How the 40-year Mortgage Works**

With this mortgage, your repayment schedule is calculated over a 40-year period (480 payments). As a result, your monthly payment will be less than what it would be with a standard 30-year (360 payments) fixed rate mortgage or an adjustable rate mortgage (ARM). The following example illustrates the difference in payments for a fixed rate and ARM rate:

	<b>40-year Fixed rate</b>	<b>30-year Fixed rate</b>
Loan Amount	\$417,000	\$417,000
Interest Rate	6.750%	6.500%
Monthly Payment	\$2,516.00	\$2,635.72

You will save \$119.72 each month with the 40-year fixed rate term compared to the 30-year fixed rate term.

	<b>5/1 ARM with 40 year term</b>	<b>5/1 ARM with 30 year term</b>
Loan Amount	\$417,000	\$417,000
Interest Rate	6.500%	6.375%
Monthly Payment	\$2,441.35	\$2,601.54

You will save \$160.19 each month with the 5/1 ARM with 40-year term compared to the 5/1 ARM with the 30-year term.

### **Disadvantage**

The down side of a 40-year mortgage is you will pay more total interest over the life of a 40-year loan versus a 30-year loan, assuming you keep the loan for the entire period and do not refinance as well as building equity more slowly. However, most mortgages are paid off early, when the borrower refinances the loan or sells the home. Hardly anyone is going to make payments on the same mortgage for 40 years. Also historical data proves that as time goes on, borrowers' salaries increase enough that they can prepay their loans or refinance into shorter-term mortgages to lessen their interest costs.

### **Advantage**

Experts say the 40-year loans can work well for first-time home buyers or other people who need all the help they can get purchasing a home or refinancing to pay off higher interest debts to manage their finances. No matter how the 40-year loan is structured, the benefits to you remain the same; lower monthly payments than a 30-year loan. This allows to you purchase a higher priced home or refinance to lower your monthly payments to invest in your portfolio.

It's quite an exciting concept. Study the options PTFCU is offering and then choose what is best for you! For questions, information or to apply for a 40-year mortgage call 626-431-2420 or 626-431-2414.