Understand Mortgage System before Going for a Loan

The method of using a real or personal property as collateral for the payment of debt is called mortgage. Mortgage is the standard method by which an individual or businesses can buy a residential or commercial real estate delaying the necessity to pay the full amount instantly.

The main participants in mortgage are, the lender or the mortgagee, usually a bank, Insurer or a financial institution, which has the legal right to the debt and the debtor or the mortgagor who owes the obligation. Typically, the debtor must fulfill the conditions of the mortgage or he runs into the risk of foreclosure. Debtors can be homeowners, landlords or business who purchase through loan.

The other participants are lawyer or a mortgage broker or a financial advisor. Arranging mortgage is the basic process in which the individuals or corporations are allowed to acquire properties sometimes with the help of mortgage online services, which may also aid in comparing rates between lending companies.

Mortgage is of two types, namely mortgage by demise and mortgage by legal charge. In the first type, until the loan is repaid in full, the creditor becomes the owner of the mortgaged property upon the condition that the property will be returned when the full repayment of the loan has been made. In some countries this type of mortgage has become practically obsolete. In the second type, even though the debtor is the legal owner of the property, the creditor has the right to take possession of the property, foreclose or sell it if the debtor does not keep up making regular payments without default. At times the lender may foreclose on the mortgaged property if the loan is not paid and the property may then be sold.

There are two types of mortgage instruments the mortgage deed or mortgage and the deed of trust. The mortgage deed creates a lien on the title and foreclosure of that lien requires a judicial proceeding. The deed of trust creates a lien on the title and not on the title transfer. Here it can be foreclosed by a non-judicial sale. The foreclosure can be much faster for a deed of trust than for a mortgage deal and since the foreclosure does not need any actions by the court, the transaction costs are also less.

Home mortgage loans are of two categories fixed rate mortgages and variable interest rate mortgages. With fixed rate, as the name suggests, the payment remains the same till the loan is paid in spite of variations in the market rate of interest. In variable rate, the interest on mortgage will be changing as per the rate prevailing in the market now and then and hence the total amount to be repaid will be on this basis. The second type is suitable for poor credit.

The services of a broker who has connections with banks and other lenders may be utilized in finding a fair mortgage deal. When there is a need to switch over from fixed rate interest to variable rate or lower interest rate, mortgage refinancing can be done. The best mortgage is the one that enables easy payment of the monthly installments with a low interest rate.

About the Author

The web guide http://www.fundsleader.info discusses the key features of mortgage and refinancing in a comprehensive manner. Also check out http://www.financialdeals.info for a better understanding of how refinancing works for various types of home loans.

Source: http://www.tntarticles.com