Loans for Foreign Nationals – What types of programs exist?

1. Adjustable Rate Mortgage (ARM) – Variable Rate Mortgage

The selection is huge: One can differentiate between 1 yr ARMs, 3 yr ARMs, 5 yr ARMs, 7 yr ARMs, 10 yr ARMs. They all have one thing in common: The interest rate is set for a specific time period at the beginning of the term. The fixed interest rates, analogous to the above mentioned models, are 1, 3, 5, 7, or 10 years. Thereafter, the interest rate can change, depending on market trends – according to the respective index of the underlying model (for example 1 yr LIBOR/ 1 yr T-Bill). The index is publicly listed; the margin fixed by contract i.e. a potential interest adjustment after the first commitment period is not subject to the whim of the American bank, but instead is closely tied to the market. Example: With a 3 yr ARM the interest rates can be adjusted for the first time after three years. In order for you as the borrower to be protected from a surprising interest rate increase during a given market development, the ARM provides a maximum interest rate – referred to as "Caps", for example a 2/5 cap. This means that the interest rate can adjust for the first time after three years, however only by two percent per year and a maximum of 5 percent over the entire period. As an example, if your initial interest rate is 4%, then in your 37th month your payment can increase to a maximum of 6% and the highest your rate can ever become over the lifetime of the loan is 9%. Naturally, if markets go down, your interest rate will decrease accordingly.

2. Fixed Rate – Fixed Rate Mortgage

Fixed rate loans are available for durations of 15 and 30 years with equal interest rates. The advantage of a fixed interest rate is obvious: The borrower has a guaranteed fixed interest for the full term of the loan and knows what the monthly payments are to be expected. However, the borrower should be aware of a potential disadvantage: If the interest rates are reduced during the repayment of a fixed interest rate loan, there is no chance to change the rate unless the loan is refinanced.

3. Balloon

A balloon provides a short term (usually 2-5, in some cases even 10 years). The amortization will then be structured over 20, 25, or 30 years. Almost all balloons have a fixed interest. The total outstanding loan amount is due at the conclusion of the term.

