April 14, 2011 - If you're purchasing a new home or refinancing your existing one, you've got some mortgage-related decisions to consider. And since your mortgage may well be the biggest financial transaction you ever make -- and one that can affect your long-term financial goals, such as retirement -- you'll want to weigh your options carefully.

What types of choices might you face? Here are some of the most important ones:

Fixed or adjustable? With a fixed-rate mortgage, your payment will remain the same throughout the life of your loan. However, if interest rates drop significantly below your mortgage rate, you may then be paying too much for your loan and will have to go through the time, effort and expense of refinancing. With an adjustable-rate mortgage (ARM), your initial rate is likely quite low, so you can afford a bigger mortgage. This could be an advantage if you know your income will be rising or you are confident you'll sell your house within the next five years. However, your ARM payment and interest rate can rise substantially, even with caps in place, and these adjustments can affect your cash flow. So, before taking out an ARM, make sure you understand the terms involved and how they will affect you down the road.

15-year or 30-year? These aren't the only mortgage lengths available, but they are among the most common. The advantage of a 15-year mortgage is that you'll pay it off quicker and, in the process, potentially save thousands of dollars in interest. The disadvantage, of course, is that you'll likely need to come up with much bigger monthly payments than if you took out a 30-year mortgage. And since your mortgage payments will be lower with a 30-year loan, you'll have more money available each month to invest for the future.

Over time, these extra investments can really add up. Suppose, for example, that you invested $100 a month to a tax-deferred vehicle, such as a traditional IRA, that earned a hypothetical 7% average annual return. After 30 years, you'd end up with a little more than $117,000,before you started paying taxes on withdrawals. But if your 30-year mortgage freed up enough cash for you to contribute $300 a month to that same IRA, earning that same 7% average annual return, you'd accumulate more than $350,000 after 30 years, before taxes . That's a big difference -- and the extra money could perk up your retirement lifestyle considerably. Keep in mind, of course, that these examples don't reflect the performance of any available investments. Also, you will have to pay taxes when you start taking withdrawals from a traditional IRA, and any withdrawals you make before you turn age 59 might be subject to a 10% penalty.

Larger or smaller down payment? The bigger your down payment, the smaller your monthly payments, and the more you may have available to invest each month. But if you go with a smaller down payment, you most likely will initially have more money available for other purposes, such as paying down debt or purchasing investments. You'll have to compare the alternatives carefully.

In fact, you'll have to compare the options for each question we've looked at because mortgage issues have an emotional component as well as a financial one, and only you can make the decisions that fit your situation. So think about your choices today, as they can have a big impact on your life tomorrow.

This article was written by Edward Jones for use by your local Edward Jones Financial Advisor.