Deciding what type of home loan is best for your needs might be the most trying part of the home-buying process. Your decision involves seven components.

1. LOAN AMOUNT

The amount that you qualify to borrow depends on your income, expenses, down payment, and current mortgage rates. Most importantly, it should be an amount that you're comfortable borrowing.

2. MORTGAGE FEATURES

There are several types of home loans. Fixed rate mortgages, or FRMs, come with rates that do not change. You make equal payments for the life of the loan. Adjustable rate mortgages, or ARMs, come with rates that move up and down as financial markets change - in general, ARM rates drop when the economy dips and increase when the economy heats up.

Hybrid ARMs combine the features of both fixed and adjustable rate mortgages. They come with a rate that's fixed for an introductory period - typically three, five, seven or ten years - and then they convert to ARMs and begin adjusting at regular intervals. Typically, the longer a mortgage term is fixed, the higher the interest rate, and the shorter the fixed period, the lower the interest rate.

Then, there are features like interest-only payments, which lower your payment in the first few years of your loan, buy-downs like the 3-2-1, which are fixed loans with rates discounted by three percent in year one, two percent in year two, and one percent in year three. Other specialized loans include energy-efficient mortgages (EEMs), rural housing loans, manufactured home financing and FHA rehabilitation loans.

3. MORTGAGE RATE

Interest rates are the most visible part of any mortgage advertisement, but finding the best deal isn't as simple as looking for the lowest posted rate. A loan with a lower rate but higher closing costs may end up being more expensive. When shopping for a mortgage, you'll want to compare the upfront costs as well as the rates, using a Good Faith Estimate (GFE) and looking at the annual percentage rate, or APR.

Lenders may offer you the chance to pay discount points to lower the interest rate of your mortgage. One point is equal to one percent of the loan amount. For a $150,000 loan, each point costs $1,500. Should you pay points? That depends on how long you plan to keep your home -- the longer you plan to stay, the more you may benefit by paying points.

4. MONTHLY PAYMENT

Your monthly payment should be one that you can comfortably make, given your own unique set of circumstances. In general, lower payments involve some tradeoffs. For example, to get a lower rate, you have to pay more fees, choose a loan with a shorter fixed period, or add riskier features like interest-only payments or prepayment penalties.

Higher payments have their upside and downside as well - 15-year mortgages, for example, come with higher payments, but you can be mortgage-free in only 15 years and you'll pay much less interest. Choosing not to buy your rate down means you keep more money in your wallet and pay lower closing costs.

Lenders use ratios and formulas to qualify you for a home loan, but there are some things that only you know and decisions that only you can make. Any of the following can increase or decrease what you can comfortably spend on a home:

Starting a family ▪ College tuition ▪ Retirement
Paying off a big debt ▪ Saving for a trip around the world
Starting a business

5. TERM

The mortgage term is the number of years it takes to pay it off. Most people know about 15 and 30-year loans, but you can find mortgages with five, 10, 20, 25, 40 and even 50 year terms as well. The shorter the term, the less interest you pay and the faster you gain home equity. Longer terms lower your monthly payment and may allow you to spend more on your home.

6. LOCKING

When you apply for a mortgage, lenders quote an interest rate at a specific cost. However, mortgages are traded in financial markets like stocks and bonds are - and that means rates go up and down all the time. If an increase in mortgage rates will derail a home purchase, it probably makes sense for you to lock in your rate right away. If you're more flexible, you might choose to "float" your rate, waiting for a better deal. Don't want to miss a drop in mortgage rates? Many lenders offer a "float down" option, for a fee. You can then lock your loan, but if rates are lower when your loan documents are drawn, you close at the lower rate.

7. CLOSING COSTS

Closing costs include lender fees and amounts paid to others, like title insurers, escrow companies and appraisers. There are likely to be prepaid expenses as well, such as property taxes and homeowners insurance. Mortgage lenders must issue a Good Faith Estimate disclosure within three business days once you apply for a mortgage. However, many lenders will generate a GFE when you ask them for a mortgage quote, as long as you provide enough information. Others prefer to give you a worksheet instead of a GFE. Keep in mind, however, that only a GFE obligates the lender to honor the terms disclosed. When you close on your home loan, the actual settlement charges are compared to the GFE and must not vary by more than allowed by provisions of the Real Estate Settlement Procedures Act.

Buying or refinancing a home doesn't have to be that confusing. According to research at HUD, simply shopping around for your loan and comparing a few mortgage quotes gets you a competitive deal and saves you money.