

The Differences Between Fixed Rate And Variable Rate Mortgage Loans

While there are many different types of mortgage loans available at present, they can generally be grouped into two kinds: fixed rate mortgages and adjustable rate mortgages. Deciding which type of mortgage loan to apply for will depend on your particular set of circumstances and how much risk you are willing to incur. In this article, we will cover the benefits and drawbacks of both mortgage loans, and give you some hints on choosing the best mortgage loan for your needs.

Fixed Rate Mortgages

Fixed rate mortgages are generally better options if security and stability are your primary concerns. Fixed rate mortgage loans provide a clear picture of how much you can expect to pay each month because the interest rate is fixed for the duration of the loan. Therefore, you will be paying the same monthly principal and interest rates during the entire period of the mortgage. While some adjustable rate mortgages have an introductory period during which the interest rate is fixed, a true fixed rate mortgage has one interest rate for the entire term of the mortgage loan.

One disadvantage of fixed rate mortgage loans is that they typically have a higher interest rate than an adjustable rate mortgage. In general, the longer the term of your mortgage loan, the larger the premium between a fixed and adjustable rate mortgage. If you intend to live in the home for a long time and you anticipate an increase in interest rates in the future, the increased expense that you pay today can result in considerable savings in the future.

Adjustable rate mortgages (ARMs) Adjustable rate mortgages attend to provide a homeowner with a lower initial interest rate but more uncertainty about interest rate and payment changes in the future. With adjustable rate mortgages, the interest rates are dependent on general interest rates or what is known as an index. There are many adjustable rate mortgages that can be considered hybrid mortgages, in that they offer a fixed interest rates for a period of 1, 3, 5, or 7 years. Many other types of ARMs typically have shorter interest rate adjustment periods however. If a homeowner knows that they will only stay in their home for a few years, then a hybrid adjustable rate mortgage loan may meet their needs. Its always important to keep in mind, however, that payments on adjustable rate mortgages could increase when the interest rate resets. Most ARMs have a limit on how high the interest rate can rise during any one adjustment period.

Choosing the right mortgage loan for you How do you make a decision on which types of mortgage loans to go for? As we said earlier, it all depends on the risk that you are willing to take as well as your particular circumstances. If you want the peace of mind that comes from knowing exactly how much you will have to pay every month, fixed rate mortgages present the safer alternative. Adjustable rate mortgages may be more affordable at the beginning, but there are more risks involved. No matter which loan you are considering, its important to compare loan types and shop around for the best mortgage loan for you. References [Home equity loan](#) [Refinance home loan](#) [Mortgage rate](#) [Mortgage refinancing " title="Refinance rates">Mortgage](#)

About the Author

Related to the topic of [refinance](#), preview getsmart.com.

Source: <http://biglearn.net>