Which Mortgage Rate Option is Right for You?

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Article published on November 29th 2011 | Finance

One of the biggest decisions that you will have to make when applying for a mortgage is whether to choose an adjustable-rate mortgage or a fixed-rate mortgage. Adjustable-rate or ARM loans make sense in many situations and are poor options in others. Fixed-rate loans are practical choices for many people, especially when interest rates are exceptionally low. You should not even consider applying for a home loan without having a basic understanding of the pluses and minuses of these two primary options. Read below to learn more about fixed-rate and ARM loans.

What is an ARM Loan?

People are often drawn to ARM loans because they have exceptionally low initial costs. As the name implies, an adjustable-rate mortgage has an interest rate that fluctuates over time. As interest rates rise and fall, your monthly payment will too. This can work in your favor if rates dip, but it can backfire if they go up a lot. This isn't a good option for people who want consistent monthly mortgage payments. In many ways, you are taking a gamble when you choose an ARM loan. Due to the low initial costs, however, it is often the only viable option for borrowers who have limited funds.

What is a Fixed-Rate Loan?

It is easy to figure out what a fixed-rate mortgage loan is. It is a loan in which the interest rate is locked in for the entire length of the loan. That means that you can count on having the same monthly mortgage payment no matter what happens. If you can snag one of these loans when rates are low, it can be a very good option. If you take on a fixed-rate loan and interest rates drop, however, you will have to refinance in order to take advantage of them.

Which One is Right for You?

There are a few quick and easy ways to determine whether you're better off with a fixed-rate loan or an ARM. If you are only going to be in your new home for a few years, an ARM loan is probably the best option. That's because these loans come with low rates in the beginning, so your costs will be very low. By the time the first adjustment hits, you will have already moved. You should always go for a fixed-rate mortgage loan when rates are at record lows. In that case, choosing a fixed-rate loan is easy.

Watch Out for These Pitfalls

One thing to keep in mind is that fixed-rate loans tend to be more expensive than ARM loans. If you need to get into a house now and can't afford a fixed-rate loan, you will have to go with an ARM. ARM loans come with a lot of flexibility, at least for lenders, which means that it's easy to get in over your head. Unless you are willing to learn the various nuances of adjustable-rate loans, you should avoid them. Do not agree to anything unless you understand every aspect of the situation.

The interest rate that goes along with your mortgage has a profound impact on the amount that you will be paying every month. It is important to have a clear understanding of what is involved with ARM and fixed-rate mortgage loans. While the initial low cost of an adjustable-rate mortgage may catch your eye, its unpredictability may not be right for you. By the same token, a fixed-rate loan might not make sense if interest rates aren't very competitive. Take plenty of time and do plenty of research before you commit yourself to either type of loan because you will be dealing with the

ramifications for a long time.

Article Source:
http://www.articleside.com/finance-articles/which-mortgage-rate-option-is-right-for-you.htm - Article Side

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Article Keywords:
rate

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