

Is a Variable Rate Home Mortgage Right for You?

Now that interest rates are hitting record lows, applying for a home mortgage may be an excellent idea. If this is your first time buying a home, the different types of [home mortgage](#) on the market might be confusing. Here is a guide to the two most common types of home mortgage, fixed rate and adjustable rate mortgages.

The interest rate and monthly payment amount for fixed rate mortgages do not change over the course of the loan. Whatever the rate when you close the loan, that is the rate you will have until you sell the property, refinance, or pay off the home mortgage completely. You pay a premium for the certainty of a fixed payment since lenders usually charge slightly higher interest rates for a fixed rate home mortgage.

On the other hand, the interest rate for adjustable rate mortgages rises and falls with the prime rate. When the prime rate is high, your mortgage interest rate increases; when the prime rate is low, your mortgage rate drops. Your monthly payments rise and fall accordingly. Because banks have less risk with adjustable rate mortgages, they set the interest rate on this type of mortgage lower than they do for fixed rate loans. They also offer an introductory period, usually three to seven years, during which the interest rate on your home mortgage is locked at an attractively low rate.

Which type of loan is best for you? Do not immediately be tempted by the lower interest rates of adjustable rate mortgages. The length of time you plan to live in your house is a factor. So is the possibility of interest rates rising or falling during your ownership. If interest rates are at a record high when you buy your house, taking out an adjustable rate mortgage is a sensible idea, since your rate is likely to improve. Adjustable rate mortgages are also good for people who plan to resell their house during the introductory period. However, if interest rates are low and you plan to stay in your house for many years, then a fixed rate loan may be your best choice. It gives you the chance to "lock in" a low interest rate that will stay with you no matter how high rates rise in the future.

Take into account not only your own finances, but the current economic climate, when deciding what kind of home mortgage is right for you. Both kinds of home mortgage can offer you an excellent deal in the right economy.

About the Author

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