

Comparing Types of Home Mortgages

Buyers can choose from a broad array of home mortgages. Even first time buyers can find a mortgage tailored to their needs. To select the right home mortgage for you, you need to know what types of loans are available. This guide outlines the most common types available to you today.

The interest rate on an adjustable rate mortgage (ARM) lowers and rises in tandem with fluctuations in the state of the economy. If the prime interest rate rises, your home mortgages interest rate rises too. This allows you to take advantage of periods of low interest, but also exposes you to the risk that the prime interest rate will rise sharply, hiking your interest rate and payments with it. Because the risk of rising or falling prime interest rates rests on you, not on the bank, banks offer lower introductory interest rates on adjustable rate mortgage loans than on fixed rate mortgages.

The interest rate on a fixed rate [home mortgage](#) is set, or fixed, for the term of the loan. This cushions you from the shock of skyrocketing interest rates, but also prevents you from taking advantage of falling interest rates. Banks expect that at some point the prime interest rate will rise higher than your fixed rate mortgages interest rate and the bank will be forced to pay the shortfall out of its own pocket. To cover for this eventuality, banks set the interest for fixed rate mortgage loans higher than that for adjustable rate mortgages.

A convertible home mortgage loan initially has an adjustable rate, but can be converted to a fixed rate during a certain period of the loans term. This is a good choice of loan if interest rates are currently high, but you foresee a drop in rates. You can enjoy the comparatively low interest rate of an adjustable rate home mortgage, then lock in an attractively low fixed rate for the rest of the life of the loan.

A balloon home mortgage opens with an introductory period during which your interest rate is not only fixed, it is almost as low as the interest rate for an adjustable rate mortgage loan, rather than being high like a normal fixed rate loan. However, when the introductory period ends, you owe the total unpaid balance of the loan. Balloon loans are ideal for real estate investors who plan to resell the property before the end of the introductory period, or for homeowners who plan to refinance within the next few years. Try this "[title="Get more info about Refinance">Home mortgage -- Refinance home loan -- Mortgage refinancing -- Refinance mortgage -- Mortgage rate --](#)

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