

Two Kinds Of 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. The decision to go with a particular mortgage loans depends on your present situation and the amount of risk that you are willing to take. 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. Since fixed rate mortgages have a predetermined interest rate throughout the entire course of the loan, you will know exactly how much you have to pay every month. Hence your monthly principal and interest payment will remain unchanged for the duration 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.

A distinct drawback of fixed rate mortgages is that the interest rates associated with them are generally higher than with adjustable rate mortgages. Generally speaking, the longer your mortgage loans terms are, the higher the differences in costs will be with fixed rate mortgages compared to adjustable rate mortgages. 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. Interest rates on adjustable rate mortgages fluctuate based on general interest rates (otherwise known as an index). Many adjustable rate mortgages are considered hybrid mortgages and have a fixed introductory period of 1, 3, 5 or 7 years during which time the interest rate does not change. But other type of ARM's can reset at much more frequent intervals. 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. Bear in mind however that payments for adjustable rate mortgages may rise along with the rest of your interest rates. Many ARM's however impose limits on how high interest rates can increase during an adjustment period.

Choosing the right mortgage loan for you So how do you decide which mortgage loans are right for you? 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.

About the Author

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