CREDIT UNION ONE OF OKLAHOMA

405.557.0167 / 800.522.8462
www.CreditUnionOne.org

# Home Mortgage Loans - Fixed Rate, Adjustable or Balloon, Which One Is Right For You?

By: Carrie Reeder

When you're shopping for a new home—especially for the first time—all the terms and expressions may be confusing and difficult to understand. Adjustable rate, fixed rate, balloon payment - how do you decide which is the right type of home mortgage for you if you're not even sure what each of them are?

The name of the mortgage type usually has to do with how you'll pay for your loan - how the interest on the loan is being determined by the bank. The three major types of mortgages are fixed rate, adjustable rate and balloon payment. Each has advantages and disadvantages.

## Fixed Rate Mortgage

With a fixed rate mortgage, you have a set interest rate for the entire life of the loan. The interest rate that you pay for your loan won't change - which means that you'll pay the same monthly payment for the entire length of the loan. This protects you from unexpected rises in interest rates that would increase your monthly payment. At the same time, should the interest rates drop, you will have the option of refinancing at a lower interest rate. Because the protections are largely on the side of the buyer with a fixed rate mortgage, interest rates on them are generally slightly higher than they would be on other types of mortgages.

A fixed rate mortgage is the safest type. Because the payments are predictable, it's usually considered the most desirable type of mortgage. Always choose a fixed rate mortgage if interest rates are rising.

## Adjustable Rate Mortgage

When you choose an adjustable rate mortgage, your monthly payment and interest rate will fluctuate with the current market interest rate. If the interest rate goes up, so will your monthly payment. If it drops, your monthly loan payment will as well. The adjustable rate is tied to an index, which is determined by the lender. Other terms of the mortgage are also determined by the lender. These include how often the interest rate is adjusted - anywhere from every 3-6 months to once a year, how much the interest rate can increase or decrease on any adjustment date, and whether there is a 'cap' on how high the interest rate can rise.

Often, adjustable rate mortgages are advertised with extremely low interest rates, which will be in effect for a short period of time. When the introductory period is over, the mortgage rate will rise to its normal amount.

Choose an adjustable rate mortgage when you have secure income that is likely to increase along with the economy. It's a good mortgage when interest rates are stable, or if the signs suggest that they're about to fall.

**Balloon Mortgages**

A balloon mortgage is often a last resort for home buyers who can't qualify for more traditional loans. The balloon mortgage has a fixed interest rate and monthly payments for a specific amount of time. At the end of that time, the entire loan comes due - hence the name 'balloon'. In practical terms, a balloon rate will give you a fixed monthly payment for several months. After that, you'll essentially have an adjustable rate mortgage.

Choose a balloon mortgage loan for substantially lower initial rates, or if your credit limits the other types of mortgage that you can apply of qualify for.

Now that you understand your options for mortgage loans, don’t forget to shop around! The interest rates and fees can vary wildly from lender to lender, so make sure that you get the best deal that you can!

About the author: To see a list of recommended mortgage loan companies online, visit this page: http://www.abcloanguide.com/mortgageloans.shtml - Carrie Reeder is the owner of ABC Loan Guide, an informational website with articles and more about various types of loans.

Article Source: www.isnare.com