FIXED-RATE *vs.* ADJUSTABLE-RATE *Mortgages*

FIXED-RATE

- This type of mortgage offers consistent monthly payments and interest rates, usually in term lengths of 30, 20, or 15 years.
- The rate may be higher at the beginning of a loan than with an adjustable-rate mortgage, but the rate will remain the same throughout the length of the loan, even if interest rates rise.

ADJUSTABLE-RATE

- An adjustable-rate mortgage (ARM) is a type of mortgage where the interested is fixed for a specified amount of time. The most common are 5/1, 7/1, and 10/1, where the interest rate is fixed for five, seven, or 10 years, respectively.
- ARMs may start with a lower interest rate than a fixed-rate mortgage, but the rate will adjust up or down depending on the index once the fixed-rate period has ended.

Important ARM Terms:

Index- The measure of interest rates. As an index increases, rates can increase and cause higher monthly payments.

Interest Rate Cap- This limits the amount the interest rate can adjust either up or down from on adjustment period to the next.

Lifetime Cap- Limits the interest rate increase over the life of the loan and protects the borrower against a large increase.

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