FULLY AMORTIZING MORTGAGES

Mortgages can be very complicated to understand. We're here to help you make sense of the most common types of mortgage products that exist!

There are two major varieties of fully amortizing mortgages: fixed rate mortgages and adjustable rate mortgages (or ARMs). When a mortgage is fully amortizing, it means that at the end of your loan period, you are 100% done paying off your mortgage.

	Fixed Rate Mortgage	Adjustable Rate
What is it?	In a fixed rate mortgage, your interest rate is the same for the entire length of the loan, so you know exactly what your monthly payments will be each month.	In an adjustable rate mortgage (ARM), your interest rate is fixed for an initial period and then changes on a fixed period after that.
What's an example?	30-year fixed rate mortgage	7/1 adjustable rate mortgage
What's the interest rate?	The interest rate is based on the current market interest rate at the time you get the mortgage. The interest rate never changes. During your pre-approval process, the lender will tell you the interest rate for which you are approved. Many factors, such as credit, go into determining your interest rate.	The initial interest rate on ARM is typically lower than the interest rate on a fixed-rate mortgage. After the fixed period, the interest rate can change up or down based on the current market interest rate. For example, in a 7/1 ARM, the 7 represents the fact that your interest rate is fixed for the first 7 years. The 1 represents that after the initial period your interest rate changes every year thereafter. There are also caps on how much interest can increase or decrease from period to period, as well as a maximum interest rate you will ever pay.
What's the benefit?	You have stability in your budget since you know exactly what your payments will be each month.	Your initial interest rate is lower. Over the life of a mortgage, homeowners may actually pay less overall interest using an ARM than a fixed rate mortgage. ARMs can be a good fit for the homebuyers who aren't looking to stay in their home for 30 years, and who can handle the risk of their monthly payment changing.

Your loan officer will be your most helpful resource in understanding what mortgage products will be best for you.