Which is better, fixed rate mortgage or an adjustable rate mortgage?

  The most basic distinction between different mortgages depends on how the interest rate is charged. There are two types of mortgages, the first one is the **fixed rate mortgage** and the second is an **adjustable rate mortgage**. In case of a fixed rate mortgage, the rate of interest charged by the lender remains the same through out the period. The interest rate charged in case of fixed rate mortgage is unaffected by the **general interest rate** in the market. On the other hand, in case of rate adjustable mortgage, the interest rate is adjusted to account for the changes in the general interest rate. These adjustments are made periodically. In case the general interest rate rises there is a an upward correction in the rate of interest that is charged for the mortgage and in case there is a fall in the general interest rate, there is a downward correction made. Both these interest rate loans have their advantages and disadvantages, and it is impossible to say which one is better. This answer varies from person to person depending upon his personal choice and risk appetite.

  In case of fixed interest rate, you enjoy the advantage of stability. Here you know for sure that come what may, your monthly interest payment will not vary; this scheme is best for risk adverse people who like to plan things in advance. On the other hand in case of fixed rate mortgage, the lender will generally charge you higher than adjustable rate mortgage as the lender loses his chance to increase the rate in accordance with the market.

  Adjustable rate mortgage is for the adventurous type of investors; here the interest rate changes depending on the change of rate of the chosen index. It is best to go in for an adjustable rate mortgage if you are sure that the interest rates will fall in the years to come. But making such a prediction is quite not humanly possible and this loan scheme is thus quite risky. Generally, the lenders offer a very low starting rate which is also called a teaser. These rates lure the investors in to accepting the loan scheme and they end up paying higher interest rate as and when the rate of the underlying index increases. There is also a third type of mortgage scheme that is now available in the market. It is called the hybrid mortgage loan scheme. It incorporates the features of both the fixed rate ad the adjustable rate mortgage. Here, you can pay a fixed rate of interest for a certain number of years and then the rate is adjustable as per the prior decided plan.

About the Author

William King is the director of Dubai Property & UAE Property & Dubai Real Estate Portal**,** Pakistan Property & Pakistan Real Estate Properties Portal and Wholesale Canada - Canadian Wholesalers & Dropshippers Suppliers Directory**.** He has 18 years of experience in the marketing and trading industries and has been helping retailers and startups with their product sourcing, promotion, marketing and supply chain requirements.

Source: http://articles.seostudio.com.au