Title:
Best Mortgage Rates and ARMs

Word Count:
516

Summary:
Comprehensive research is required before entering into an ARM.

Keywords:
mortgage rates, lowest mortgage rates, best mortgage rates

Article Body:
When you go to get a mortgage you may start hearing the term option ARM thrown around, and you may wonder what one is exactly. An option ARM usually has two primary characteristics: interest rates adjusting monthly and payments adjusting yearly. Traditionally, a borrower can choose the size of the payment that they are required to make. The way you choose is you can usually pick whether you want to pay interest only on your loan or, if you want to pay a minimum payment.

Option ARMs are usually seen as a good deal by a prospective home buyer because they have low payments in the first year of the loan repayment. Some buyers realize that with a lower payment in the initial years they can enter into larger loan than otherwise possible. A minimum payment in early loan years can result in excess cash flow for the borrower as well, if a house well within their budget is involved.

While option ARMs may have very low payments in their first few payment periods, it is important to understand that rates can and will rise rather quickly in a few circumstances. If you elect a low initial rate on the loan, the payments will begin to rise in subsequent payment periods to recoup the lenders principal and interest within the loan term. When you pay less in the beginning of the loan life, the payments will accelerate to compensate for low initial payments. Option ARMs work if you can secure higher income in future payment periods. However, if you don’t see expenses dropping or income rising in the future, you should be very careful when setting low rates in the beginning of the loan, because you can expect rates to rise in the future with a static income which may lead to default.

Deciding to enter into an option ARM mortgage should be a well researched decision. Paying very little in the beginning is not the best option for the majority of people. Making payments as large of possible in the first few years is generally advisable so payments don’t really start to jump in years after low payments. Always comparing rates from competing lenders is crucial to getting a reasonable rate for the risk that you manifest. Settling on mortgage rates is not a good idea- get multiple rates if possible. While you want a low rate, you don’t necessarily want a low rate to translate into the lowest possible payment in the beginning of your ARM, because payments will potentially increase.

Lending institutions generally derive the rate they charge you by adding interest onto some average lending rate. Understanding how to keep this additional cost reasonable is key to making an option ARM manageable. This additional cost to you is know as the margin, and this information is not necessarily going to be relayed or shared with you as it is how the lender makes their profit. The best way to ascertain a reasonable margin for your risk profile is to get quotes from several institutions so you have relative comparisons.