



3 Tips to Compare Adjustable Rate Mortgages for the Best Deal Possible - DLC

In recent times, adjustable rate mortgages have become more popular here in Canada, as well as with our neighbours down south in the United States. An adjustable rate mortgage can be a wonderful money-saving option. However, comparing multiple loans to each other can be a bit complicated to do.

While a traditional fixed-rate mortgage can easily be compared to another fixed-rate mortgage, the process becomes a bit trickier when you are dealing with multiple adjustable rate mortgages. Adjustable rate mortgages (ARMs) came in many forms and with many different options. The choice you have to make between ARM mortgage options can make for a very large difference in the quality, and cost, of the loan which you ultimately accept. So, it is important to be able to compare them to each other to make the best decision you possibly can. .

Most people have two basic issues when they try to compare two ARMs; the math to calculate the effective prime discount is not simple, and understanding what all of the various different options mean. No matter which lenders you are working with, there are three things you should first understand and keep in mind throughout the process. They are:

Understand Low Introductory “Teaser” Rates and Mortgage Costs.

The first thing you need to understand is how much a particular loan will cost you between the time you sign on the dotted line, and the time when the mortgage becomes open or renews.

To easily determine the cost of a mortgage until it becomes open or renews, you can multiply the introductory rate of the loan by the number of months it will be effective. Then multiply the interest rate of the loan after the introductory period by the number of months until the mortgage opens or renews. Add these two numbers together and divide by the total number of months the mortgage will be in effect before it opens or renews. This gives you a weighted average calculation and allows you to easily compare one ARM to another.

Understand Rate Discounts and Conversion Options.

Many people go into an adjustable rate mortgage assuming that they can easily convert to a closed term mortgage without any penalty, whenever they choose to. However, it is vitally important that you know exactly what the rate discount will be if you choose to convert. You may find that it costs you more than three month's worth of interest to switch lenders and forces you to stay with the lender you currently have. If this is the case, then you will not be able to change lenders until your mortgage becomes open or renews without significant cost.

Understand How Interest Rate Changes Will Affect Your Payments.

There are currently two popular options with ARMs. The first type of ARM has payments which adjust as the prime interest rate moves up and down. This means that your amount due each month is constantly changing with the prime rate. This can be a good deal if rates drop and you can stomach the constant change. However, if you need stability in your payments from month-to-month, then this is probably not the best option for you to choose.

The second type of ARM keeps the payments the same each month but changes the amount applied to principle and interest based on the prime rate. For example, when the prime rate goes up then your payment applies more to interest than to principle. This means it could ultimately take longer to pay off your mortgage because you are paying less on principle each month if the prime rate is high.

Adjustable rate mortgages can be great alternatives to traditional closed-term mortgages. However, when you are evaluating your choices in an adjustable rate mortgages it makes a lot of sense to take the time to learn about, and understand, introductory teaser rates, discounts and conversion rates, and how the prime rate will affect your mortgage payments and ultimate payoff time. Once you fully understand what ARMs are all about, and which options best suit your situation, then start shopping around for the best deal you can find. Happy shopping!

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