



## **Fixed Versus Adjustable Rate Mortgages**

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### **Which One Should You Choose?**

Choosing between a fixed rate loan and an adjustable rate loan is one of the most perplexing choices anyone can make. With a fixed rate loan, you know exactly where you stand today, and where you'll stand any number of years from today. The fixed rate is easy to understand, and it holds no surprises for you. The adjustable rate loan may look more attractive because it will generally have a lower starting interest rate. And, of course, there's always the hope that interest rates may go down. In deed, in recent years, they have gone down.

### **How To Decide**

One of the simplest rules of thumb in making the choice is to determine as best you can, how long you expect to be living in the dwelling, with the mortgage. If the base rate on the adjustable loan is 2 to 3 percentage points lower than the fixed rate that might be otherwise be available to you, and if you are reasonably certain that you will be in the house no longer than three to five years, then the adjustable rate loan will probably be better for you. On the other hand, if you expect to be in the house for five to seven years or longer, the fixed rate loan will probably be better for you. It won't necessarily be cheaper over the long run, but it will be more stable, and that stability is very important for you in the overall management of your finances. Put another way, over the long pull, you may end up having paid somewhat more in interest but you will have gained considerable peace of mind over the long term. And that is certainly worth considering.

### **One More Perk**

Another feature of the adjustable rate loan should be noted: commonly, adjustable rate loans are assumable by a creditworthy buyer. In other words, having an assumable loan might make it easier for you to sell your home in the future; if the buyer wants to take on your existing assumable loan.

### **How They Sweeten The Pot**

Many lenders offer added attractions to their adjustable rate plans, and new ones are occasionally introduced. There are special plans for first-time buyers. There are plans that allow very low down payments, with outside parties (such as an employer) being permitted to contribute part of the down payment. There are plans that start out as adjustable rate loans which carry an option to switch at some later time to a fixed rate loan. And there are plans that start off at a fixed rate but can be converted to an adjustable rate at some agreed upon future time.