

Good Things and Bad Things About ARM Loans

Just like the saying "Every rose has its thorns", every mortgage has its risks and benefits. The type of mortgage you obtain will depend upon your individual situation and what you think you "really" need. The purpose of a specific mortgage loan type needs to be considered here since the decision for one mortgage loan over another is based on its true purpose. So, do not go and choose a loan that you think you want, simply because it means that you will have to pay less in monthly payments, or because the interest rate on one particular loan seems lower.

While it is important to research each loan and make sure that you are getting the best deal possible, keep in mind that the right loan for you will not necessarily be the cheapest loan at the time. Especially when choosing ARM loans, as they are known to fluctuate.

Pros of an ARM Loan

As mentioned earlier, whether an ARM loan (Adjustable rate mortgage) is the right option for you depends a lot on your circumstances. Often people choosing an ARM loan are attracted by the option of paying interest payments only, rather than full payments. If you are a property developer, or an investor who flips properties, the ARM loan can be the perfect loan to allow the freedom needed to make regular payments that will cover the interest on the loan, for a few months, while renovations are taking place on a home, in order to make a profit.

If you intend on only having a property for a short time, and do not want to shell out extra cash to fund the loan, by all means seek an ARM loan. Because in this case, at the end of the day the amount that is gained once the home is gone, has no bearing on the amount in mortgage repayments that are made.

Cons of an ARM Loan

If you are a low-income earner, or have a tight budget, it is likely that an ARM loan will seem very attractive to you. The interest rates are lower than those of a fixed rate mortgage, not to mention that you are given all sorts of incentives to choose an ARM loan. For example, short term interest rates that are fixed to a small amount over a short period of time, or even the option to pay a minimum amount each month that will cover the interest only on the loan.

While these offers seem inviting, by simply paying the interest only on your loan you will be digging yourself into further debt, and not paying anything long term on your loan. Not to mention that with an interest rate that can fluctuate at anytime you run the risk of ending up paying larger interest and a mortgage payment after the honeymoon period is over, due to increased interest rates.

An ARM can be a very dangerous option for those who are on a tight budget, or plan to keep their home long term. A family home loan is best taken out as a fixed mortgage rate loan. This option will provide much more stability. If a person is intent on taking out an ARM loan, they should consider the risks involved and choose a capped rate ARM loan instead, that way if your interest rates do soar through the roof you will at least have the protection of a limit that your mortgage payment can increase to.

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About the Author

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