What’s an adjustable-rate mortgage (ARM) loan?

Also known as an ARM loan, an adjustable-rate mortgage loan is a loan that allows borrowers to take advantage of compressed rates. Peter Lorimer of PLG Estates explains the benefits and risks.

For example, let’s say a 30-year mortgage is at 4.5 percent. You might be able to get an adjustable-rate mortgage at 3.5 percent for seven years. So that means that you are going to pay 20 percent to 25 percent less on your mortgage payment than you would on a traditional 30-year loan.

However, after the seven years is up, you’re no longer locked into that rate, and the rate will adjust to the market. So if the market rate is higher, your payments will jump to meet that market rate. That’s what happened around 2008, and people began losing their homes.

With that said, ARM loans can be really good tools for people who are younger and trying to get into the property game.

If you know you’ll be in and out of the home in five years, it’s a good option.

But be careful with ARM loans.

My advice would be, especially when rates are low, always lock into a 30-year fixed rate mortgage. It’s a good old-fashioned mortgage that’ll never change.

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