



# Mortgages: Fixed-Rate vs Adjustable-Rate

There are many different types of mortgage loans, each of which has risks and benefits depending on your financial situation. Many consumers focus on the loan option with the lowest monthly payment, but this may end up costing you more over the lifetime of the loan. Both fixed-rate and adjustable-rate mortgages have multiple options for borrowers, but it is important to know which mortgage type is right for you. Here are the main differences between fixed and adjustable-rate mortgages.

A **fixed-rate mortgage** is a home loan with an interest rate that remains the same over the lifetime of the loan. There are many kinds of fixed-rate mortgages available, and it is important to consider your individual situation when deciding what loan is right for you.

Factors to consider with a fixed-rate mortgage:

- How much of a down payment you can afford
- Your credit qualifications
- Whether you qualify for federal home loans due to military service or the location of the property

An **adjustable-rate or variable-rate mortgage** is a home loan with an interest rate that changes over the lifetime of the loan. There are many kinds of adjustable-rate mortgages available, each with their own risks and benefits depending on your situation.

Factors to consider with an adjustable-rate mortgage:

- How much of a down payment you can afford
- Your credit qualifications
- Whether you qualify for federal home loans due to military service or the location of the property
- Your ability to afford higher monthly payments if interest rates go up
- Your ability to pay down the loan amount in addition to interest
- What your credit qualifications might be when refinancing
- How long you plan to own the home – even if you plan to sell soon, plans can change and you should make sure you can afford rising interest rates or a larger than average final payment, known as a **balloon payment**.



If you are thinking about getting a mortgage to purchase a home but are not sure which type is right for you, consider these questions:

- **Is my income enough to cover higher monthly payments if interest rates go up?** Tip: Don't just ask for the lowest monthly payment without understanding the terms of the loan and whether it's possible for your monthly payments to increase.
- **How much of a down payment can I afford to make?**
- **Will I be taking on other sizeable debts, such as a loan for a car or school tuition, in the near future?**
- **How long do I plan to own this home?** Tip: Changing interest rates could significantly impact the amount you owe over the lifetime of your loan depending on the type of mortgage you choose.
- **Do I plan to refinance the loan at any time? When?**
- **Do I plan to make any additional payments or pay the loan off early?** Tip: Some adjustable-rate mortgages have a prepayment penalty.
- **Am I a military veteran, on active military duty, or a surviving spouse of someone in the armed forces who may be eligible for a VA backed loan?**



### About DIFS

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