

Fixed Rate Vs. Adjustable Rate Mortgage: Which One Is Better?

Buying a home is one of the most important investment decisions a person makes in their life. It is not easy to collect a large sum of money, so a mortgage is the life saving option. Understanding the types of mortgages available is crucial for making an informed decision. This guide will compare **fixed-rate mortgages** and **adjustable-rate mortgages (ARMs)**, detailing their differences, advantages, and which one might be right for you.

What is a Fixed-Rate Mortgage?

A **fixed-rate mortgage** is a type of loan in which the **mortgage rate** stays the same for the entire duration of the loan. This stability means that your monthly payments will not change, making it easier to plan your budget.



How Does a Fixed-Rate Mortgage Work?

With a fixed-rate mortgage, you lock in a specific interest rate for a term, most commonly 5 years in Canada. For instance, if you borrow \$100,000 at a 4.74% interest rate for a 5-year term, your monthly payment might be around \$2,090.13. Monthly payments remain stable, but the portion allocated to principal and interest shifts: in the early years, more of your payment goes toward interest, while later payments focus more on reducing the principal.

Benefits of Fixed-Rate Mortgages

- 1. Predictable Payments:** One of the main advantages is the stability of monthly payments. You can easily budget for your mortgage since you know exactly what you'll pay each month.
- 2. Protection from Rising Rates:** If market interest rates increase, your payment stays the same. This protection can save you money over time, especially in a rising interest rate environment.
- 3. Simplicity:** Fixed-rate mortgages are straightforward. You understand the terms and conditions without worrying about fluctuating rates or complicated calculations.

Drawbacks of Fixed-Rate Mortgages

- 1. Higher Initial Interest Rates:** Fixed-rate mortgages usually start with higher interest rates compared to ARMs. If you take out a fixed-rate mortgage when rates are high, you might pay more than you would with an ARM initially.
- 2. Refinancing Costs:** If interest rates drop and you want to take advantage of lower rates, you'll need to refinance your mortgage. Refinancing can involve fees and a lengthy process.
- 3. Less Flexibility:** If interest rates fall significantly, you're stuck with your higher rate unless you refinance, which can be time-consuming and costly.

What is an Adjustable-Rate Mortgage (ARM)?

In Canada, an adjustable-rate mortgage, often called a variable-rate mortgage, has an interest rate that can fluctuate based on the prime rate set by your lender. These mortgages typically start with a lower interest rate compared to fixed-rate mortgages and can be ideal for [short-term savings](#).

How Does an ARM Work?

With an adjustable-rate mortgage (ARM), you start with a low interest rate, which means your monthly payments are also lower at the beginning. For example, if your starting rate is 4.5% for the first five years, you'll pay less each month compared to a fixed-rate mortgage.

However, if the prime rate goes up, your interest rate can increase as well. For instance, if your rate increases from 4.5% to 5.5%, your monthly payments will also go up.

Some ARMs have fixed monthly payments, which means you'll pay the same amount every month. But if interest rates rise, less of your payment will go toward paying off the actual loan. This means you might not pay down your mortgage as quickly.

Benefits of ARMs

- 1. Lower Initial Payments:** The starting interest rate on an ARM is usually lower than that of a fixed-rate mortgage, resulting in lower monthly payments during the



1. **Lower Initial Payments:** The starting interest rate on an ARM is usually lower than that of a fixed-rate mortgage, resulting in lower monthly payments during the initial period.
2. **Potential for Lower Rates:** If interest rates in the market decrease, your payment could also go down. This flexibility can be financially advantageous.
3. **Cost-Effective for Short-Term Buyers:** If you plan to sell or refinance before the rates adjust, an ARM can save you money in the initial years.

Drawbacks of ARMs

1. **Unpredictable Payments:** After the initial fixed period, your monthly payments can change, making it difficult to budget long-term.
2. **Risk of Rate Increases:** If interest rates rise significantly, your monthly payments could increase dramatically, potentially becoming unaffordable.
3. **Complex Terms:** ARMs can be complicated, with various terms and conditions to understand. This complexity can result in stress and unforeseen expenses.

Comparing Fixed-Rate and Adjustable-Rate Mortgages

Feature	Fixed-Rate Mortgage	Adjustable-Rate Mortgage (ARM)
Interest Rate	Stays the same throughout the loan term	Can change after the initial fixed period
Monthly Payments	Predictable and stable	Can vary, leading to potential increases
Risk	Low risk	Higher risk if interest rates rise
Complexity	Simple to understand	More complex due to terms and conditions

Who Should Choose Which Mortgage?

Choose a Fixed-Rate Mortgage If:

1. **You Prefer Stability:** If you want to know exactly what you'll pay each month for the life of the loan, a fixed-rate mortgage offers predictability.
2. **You Plan to Stay Long-Term:** If you intend to live in your home for many years, locking in a fixed rate can save you money if interest rates rise.
3. **You Want Protection Against Rising Rates:** In a fluctuating market, having a fixed rate protects you from rising costs.

Choose an Adjustable-Rate Mortgage If:

1. **You're Looking for Lower Initial Payments:** If you want to minimize your payments in the short term, an ARM can offer lower initial rates.
2. **You Plan to Move Soon:** If you expect to sell or refinance before the rates adjust, you could save money with an ARM.
3. **You're Comfortable with Some Risk:** If you're confident that your income will increase or that you can manage potential payment fluctuations, an ARM might work for you.

Conclusion

Choosing between a fixed-rate mortgage and an adjustable-rate mortgage involves weighing each option's pros and cons. Fixed-rate mortgages offer stability and predictability, which makes budgeting easier. On the other hand, ARMs come with potential risks from payment increases.

Before making a decision, consider your financial situation, how long you plan to stay in your home and current market interest rates. A [mortgage broker](#) can help you find the right mortgage solution tailored to your needs.

Whether you prefer the stability of a fixed-rate mortgage or the flexibility of an ARM, Alpha Mortgage House Corp is here to help. Our expert mortgage brokers in Surrey and Vancouver work with top lenders to find financing that suits you. Contact us today to discuss your options. Or, check your eligibility for a mortgage that fits your life.





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Contact Info



Alpha Mortgage
House Corp , #12830 80 Ave
#202, Surrey, BC V3W 3A8, Canada



Mr. Gurinder Toor
604-417-2700
gtoor@alphamortgage.ca



Mr. Sukh Bhatti
604-765-4023
ssbhatti@alphamortgage.ca



Ms. Raj Sekhon
604-593-2975
rsekhon@alphamortgage.ca

Testimonial

Manpreet Kaur

My husband and I purchased our first home in Surrey BC. It was so difficult for us to understand the mortgage process, but thanks to Sukh, he was so knowledgeable and immersed and made things easy for us. Everything went so smoothly, we had our dream home at the lowest possible interest rate in Surrey BC.



Manpreet Kaur



House Wife

