



New Year, New Home? Exploring Adjustable-Rate Mortgages

Will 2024 be the year you buy a home? If you're anxious about affordability, you're not alone. Sellers are struggling to sell and mortgage rates have reached 8% for the first time since 2000. Real estate economists predict rates will drop slightly in 2024, but not enough for real relief. One option gaining traction: Adjustable-rate mortgages. While not without its risks, ARMs can provide relief in a few different ways.

What is an Adjustable-Rate Mortgage?

An adjustable-rate mortgage (ARM) is a home loan with a variable interest rate. With an ARM, the initial interest rate is fixed for a set period.

After that, the rate on the outstanding balance resets periodically, at yearly or monthly intervals. For example: a 5/1 ARM has a fixed rate for five years and then resets every year after that. A 5/6 ARM is fixed for five years and resets every six months.

Initial Affordability and Lower Interest Rates

The initial lower interest rate of ARMs can provide you with a more affordable entry point into homeownership. In a housing market where prices have surged locking in a lower interest rate at the outset can lower your monthly mortgage payments, making your dream of owning a home more achievable.

Short-Term Security and Flexibility

ARMs offer short-term security and flexibility if you know you won't be in the home for more than a few years or if you anticipate changes in income, job location, or household size. Alternatively, if you experience a loss of income or are growing your family, the initial lower payments of an ARM provide breathing room.

Interest Rate Caps

As mentioned above, ARMs are not risk-free. During the foreclosure crisis for instance, buyers locked in low rates that then reset and caused monthly payments to balloon beyond what they could afford to pay.

Today, tighter regulations and increased transparency have mitigated some of that risk. Interest rate caps limit the extent to which rates can increase during specific periods, providing you some predictability and protection against drastic rate hikes.

Larger Loan Qualification

With lower initial interest rates, ARMs can allow you to qualify for larger loan amounts compared to fixed-rate mortgages.

This can be advantageous if you're looking to purchase a larger home or secure a move-in ready property in an area where the housing market is competitive.

Get Connected

While ARMs offer a compelling alternative for those who value flexibility, short-term stability, and potential savings, it's important to connect with your financial organization or a

certified housing counselor who can answer questions, help you explore down payment assistance programs, and determine whether an ARM is right for you.

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