

Fixed-Rate Mortgages

For Informational and Educational Purposes Only

Fixed-rate mortgages are the most common and most popular type of mortgage loan.

Your monthly payment is more stable with a fixed-rate mortgage than with other types of mortgages—because the interest rate is fixed for as long as you have the loan. With a standard fixed-rate mortgage, your monthly payment of principal and interest does not change over the life of the loan. Your total monthly payment can change if it also includes property taxes and insurance (e.g., homeowners, hazard, flood or mortgage insurance), which may increase or decrease.

Fixed-rate mortgages are available for various repayment periods: 30 years, 20 years, and 15 years are the most common loan terms.

Typically, the shorter the term, the less interest you pay over the life of the loan. For example, with a 20-year term on a loan amount of \$100,000 at a 6.5% interest rate, you save roughly \$48,000 in interest costs compared to a 30-year term loan with the same loan amount and interest rate.

However, the longer the term, the lower the monthly payment because you stretch out repayment of the loan principal over a longer period of time. For example, the monthly payment on a 30-year term loan of \$100,000 at a 6.5% interest rate is roughly \$632 versus a monthly payment of roughly \$745 for the same loan with a 20-year term.

Loan Features

- Interest rate is fixed for the life of the loan.
- Monthly payments of principal and interest are the same for the life of the loan.
- The loan is usually fully amortized so it is completely repaid at the end of the loan term (most of the monthly payment is applied to interest in the early life of the loan and to principal later as the loan is paid down).
- Available for 30-year, 20-year, 15-year, and 10-year repayment periods.

Considerations

- Stable, predictable monthly payments.
- A fixed interest rate may be important to you if you expect to live in your home for many years or if interest rates are low.
- You can choose from various repayment periods, depending on whether you want to pay your loan off faster (and save significant interest costs) or stretch your payments over a longer term for a lower monthly payment.