

# Mortgage 101: Fixed Rate v. Adjustable Rate

By Cynthia Wilkins | March 15, 2025



Buying a home is likely one of the most exciting, expensive, and, well, let's face it — nerve-wracking — purchases you'll ever make. And considering most of us can't plunk down hundreds of thousands in cash to buy a home outright, you'll need to look into a loan (aka mortgage). You do, however, have options for the type of mortgage you choose: fixed rate, adjustable rate, or hybrid.

## Fixed Rate Mortgages

Fixed rate mortgages have set interest rates, meaning the rate stays the same for the life of the loan, typically 15 to 30 years. If you're buying your home when rates are at an all-time low, a fixed rate may be the wisest choice, since you lock in that low rate.

## Adjustable Rate Mortgages

Adjustable rate mortgages have interest rates that fluctuate over the course of the loan. Most ARMs today are structured as 5/1, 7/1, or 10/1 loans, meaning the rate is fixed for the first five, seven, or 10 years, then adjusts annually. Typically, your interest rate is based on the going mortgage rate, so when rates are high, your payment will be higher.

If rates drop, you could end up paying less in interest than someone locked into a fixed mortgage. If interest rates are high when you purchase your home, you may want to consider an ARM hoping rates will go down, though they may also continue to climb. An ARM carries more uncertainty than a fixed rate loan, and that is worth factoring into your decision.

## Hybrid Mortgages

If you want a blend of both, you're in luck. Hybrid mortgages are a type of ARM that starts with a fixed rate period, typically five, seven, or 10 years, then converts to an adjustable rate for the remainder of the loan. The 5/1 and 7/1 ARMs mentioned above are examples of hybrid products. Of course, without a crystal ball, it's impossible to forecast what market rates may be once that

fixed period ends. But the fixed period gives you years to settle in and build equity, and refinancing may be on the table once the period ends. A lot can change in five to 10 years — and that's not always a bad thing.

Regardless of which type of mortgage you pursue, and as daunting as the process may seem, buying a home can be a rewarding financial choice that can lead to many happy returns.

---