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The Right Mortgage Choice for a Short-Term Buy

While buying a home and creating a mortgage loan is an important investment and endeavor, many people go into the process realizing that they will probably not stay in their new home for too many years. In fact, the average American homeowner lives in one home for about 8 years before selling. If you are ready to buy a home but you know you will be moving in a matter of a few years due to a job transfer, or you are planning to add more members to your household soon, you may be wondering what type of mortgage program is best for your needs. The answer may not be clear cut but here is some helpful information to aid you with your home loan decision.

Fixed Rate v. ARM Loan

While there are many, many different programs available to you, we consider here the basic difference between fixed rate mortgages and adjustable rate mortgages (ARMs.) One of the most popular loan choices is the traditional 30-year fixed rate option. Homeowners like this plan because it is a low-risk loan – you get a fixed interest rate at the beginning and you always know exactly what your payments will be each month. Interest rates today are generally pretty low (although higher than 15-year loans or initial rates on ARMs), so this is an especially nice option for buyers right now. One great thing about getting a 30-year fixed for your short-term purchase is that if you do have to stay in the home longer than anticipated you already know that you can afford the payments and you are not under pressure to sell before your interest rate spikes.

You might find a great deal in an ARM or hybrid loan though. You can get an ARM loan that gives you a low fixed interest rate for a period of one, three, five, or seven years, depending on how long you plan to be in the home. If you are absolutely certain that you will be selling within a certain time frame, you can easily choose one of the hybrid plans and enjoy a rate that will probably be a bit lower than the traditional 30-year rate. For instance, currently, the average rate on a 30-year mortgage is 6.14%, but you would only pay 5.90% on a five-year Treasury-indexed hybrid ARM. That might seem like a small difference but it does count. Even if you save just $30 each month with an ARM for those five years, you save a total of about $2000 overall. If you put that saved money away while you live in the house, you can add it on to your down payment for your next home purchase.

You should be careful to check the rate adjustment caps though on any ARM you consider. If you must stay longer in your home than expected you will need to be prepared to make bigger payments and you want to make sure that your rate cannot adjust too much for your budget. Ideally you should make sure that you could afford to make the highest payment possible with your loan if necessary. This will help you avoid financial crisis if the housing market tanks when you try to sell or some other unforeseen calamity arises.

What Type of Home Are You Buying?

Before making a decision on a loan program you need to decide on the type of home you plan to purchase. If you plan to buy a single-family dwelling, the above advice applies. If you are going to buy a condo or townhouse or some other type of residence, you should realize that the market for these types is much more volatile than for single-family homes. You may not be able to predict how the market will be for condos or townhouses when you want to sell. Plus, you will not see as much appreciation for a condo or townhouse and that may hurt you when it comes to re-investing your equity into a new home. A traditional loan may be best for a condo or townhouse purchase, as it will provide the most comfortable loan situation and payments if you are not able to sell when you expected.

