



TRADE YOUR ARM FOR A FIXED RATE

By switching to a fixed-rate loan, you will not only reduce your payment, you will also likely lock in an attractive rate for as long as you own your home.

In fact, while one-year ARMs currently offer tempting introductory rates averaging 5.59%, most experts recommend avoiding them, because you could easily find yourself facing sharply higher payments in the near future, even if interest rates don't rise. Why? Well, after the introductory rate expires, ARMs are typically pegged to the one-year Treasury rate (recently 5.25%) plus 2.75 percentage points, with increases of as much as two points a year. Assuming interest rates don't change, you would pay 7.59% in the second year (the full two-point increase) and 8% in the third year.

There are certain cases, however, where an ARM makes sense. If you are fairly certain you'll be moving within five years, you can save some money -- and avoid rising payments -- with a five-year ARM, recently averaging 6.62%. Such loans offer a fixed rate for five years and adjust annually thereafter.