

Information on mortgage interest rates

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If you are buying a home and taking out a loan for this purpose, you need to understand the ins and outs of home buying and interest rates. For instance, there are different types of mortgages available. You can mortgage your asset and take loans from the lender. The clauses of the agreement however can be complicated. The lender may mention a type of loan that you are not really aware of. As a result, you may sign the agreement and realize later that it was a mistake.

Here are the things, you should know about the interest rates:

Interest rates are dependent on the status of the economy. During a recession, the rates come down and during economic growth period the rates shoot up. So, one has to understand the market and plan ahead in order to ensure a smart move.

When you apply for a home loan, the lender or the bank gives you the money at a particular rate of interest. This interest on the loan amount is the amount of money that should be repaid to the lender along with the actual loan amount. For example: If \$100,000 is borrowed at 5% interest, then the amount to be returned to the lender or bank after one year will be 5% of \$100,000 plus the actual \$100,000. This type of calculation is called Simple Interest.

Similarly, if the tenure of loan is monthly instead of annually, then the interest calculated over a year will be divided by twelve (Number of months in a year) and that amount will be added to the actual home loan amount. This rate is termed as Periodic Interest.

Occasionally, the interest rate is calculated periodically. This period can be bi-monthly, quarterly, half-yearly or bi-annually and so on. In all these cases, the interest rate of one year is taken as reference and the amount is divided by the ratio of duration of period.

Another type of interest is Compounded interest. This consists of a cumulative calculation of the interest. Here, a borrower ends up paying more than what he / she actually pays under simple interest.

The CI (compound interest) is the true interest in the case of both borrowing and lending. This type of interest is also called an annual percentage rate.

According to the consumer protection laws, a borrower has a right to see the APR from the lender. This APR shows the true cost of the loan amount for the borrowed period of time. It is not advised to take a loan from a lender who is not showing the APR to you.

It is actually up to the Federal Reserve Bank to determine the continuing and future rates of interest and the Federal Reserve Open Market Committee decides on the monetary policy of the state depending on its present situation. For instance, in order to stabilize the economy the Federal Reserve reduced the funds rate to 1% during the years between January 2005 and December 2007.

No matter what the lender is saying, read the agreement carefully and ask questions if you have any, before signing the agreement.

About the Author

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