Adjustable Rate Mortgages

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Federal Reserve Board Chairman Alan Greenspan made the following comment: Homeowners "might have saved tens of thousands of dollars had they held adjustable rate mortgages rather than fixed rate mortgages during the past decade."*

Even prior to Mr. Greenspan's observation, lenders began expanding their ARM products to offer a full suite of adjustable rate mortgages to meet the needs of borrowers. Aside from possibly saving money, ARMs have many benefits. With an ARM, borrowers may qualify for a lower rate that could put them in a bigger house, or one with the pool they always wanted. And considering Mr. Greenspan's comment, ARMs are a great solution for buyers who don't plan to be in the same home for 30 years, or who simply want to save money on their mortgage.

A Typical Scenario:

A couple finds the perfect property. Unfortunately, with interest rates rising, they may no longer qualify for a fixed rate mortgage to purchase that particular house by the time they come to a final decision. An ARM may provide a smaller down payment and lower start rate or may offer various payment options, such as interest only, so the couple might be able to own their dream home.

ARMs may feature:

- Payment options, including interest only
- Various documentation types
- Availability to borrowers with lower credit scores, even for those with less-than-perfect credit
- Interest rates pegged to various indices

In the same address, Greenspan observed, "American consumers might benefit if lenders provided greater mortgage-product alternatives to the traditional fixed rate mortgage."* After all, the needs of consumers are individual and vary with each borrowing situation.

In the array of ARM products on the market today, one unique ARM is based on the Monthly Treasury Average (MTA) Index, an index of the rolling average of annual yields on U.S. Treasury securities as made available by the Federal Reserve Bank. Each month, the MTA adjusts to a maturity of one year. Because it is a rolling 12-month average, it does not move up or down as rapidly as other pure-rate indices. Consequently, general market interest rate increases or decreases take longer to have a strong impact on the MTA Index, and this particular ARM provides stability that many consumers seek.

More Types of Borrowers:

An ARM can be an excellent choice for self-employed or commissioned borrowers who may have inconsistent income. It also works well for purchasing investment properties where rental income may be uneven. In addition, an ARM can be well-suited for savvy investors who want to maximize cash flow for investment purposes or as a means of deferring interest to offset capital gains in a portfolio of securities.

The lending arena is no longer simply about fixed rate mortgages. Customers now have alternatives to present to borrowers in order to meet a multitude of situations and needs.

**Quoted from* The Wall Street Journal, *February 23, 2004, from Alan Greenspan's address to the Credit Union Association in Washington.*

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