

Adjustable Rate Mortgages (ARM)

Product Overview

An adjustable rate mortgage, also known as an **ARM**, has an initial fixed rate period typically lasting from **3–10 years**. During this initial fixed rate period, an ARM often has a **lower interest rate** compared to a fixed rate mortgage.

- Interest rate adjusts after the initial fixed period
- Adjustments are based on an index (such as US Treasury yields) plus a margin set by the loans investor.
- Caps on the amount the rate can change at each adjustment and over the life of the loan help balance the risk of higher rates in the future.
- Worth considering for buyers looking for short term ownership
- First number in an ARM is the initial fixed rate period
- Second number in an ARM is how many years before the rate adjusts again

Initial Fixed Rate Period



5/5 ARM



How Many Years Before
the Rate Can Adjust Again

The Most Frequently Asked Question



Will my rate go up after the initial fixed period, and by how much?



The rate for an ARM is calculated from two key factors. The first is the index, which is a rate set by financial markets. Every ARM is “tied” to a specific index (often a US Treasury bond yield). The second term is the margin, which is which is set by the lender.

All lenders are required to disclose the index and margin as part of the application process. To calculate a mortgage’s interest rate, simply add the index and the margin together to determine the “fully indexed rate.”

While it is not possible to predict exactly what a rate will be down the road, there are rate caps in place to predict how high a rate can go throughout the life of a loan.



Member Benefits

- Lower initial interest rate compared to a 30 year fixed rate mortgage
- Save money if you’ll be selling the home (for reasons like relocation)
- Great for anyone who knows they can pay off their loan early



Questions to Consider

- Do you think rates will go down in the future?
- Is there a reason you will need to sell your home before the initial adjustment period?
- Will you be receiving a large sum of money to pay off the mortgage early?



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