Are You a Good Candidate for an ARM?

Whether you're financing your first home or your next, ARMs make the most sense for buyers who:

Plan to move in a set number of years

If you plan to move (to a bigger home to accommodate a growing family, for example) in a handful of years, an ARM might be beneficial because you'll most likely pay off the loan before rates adjust.

Expect a financial windfall or increase in income

If you know you can count on more money down the road, you can use that money to pay off principal quickly or refinance with better terms.

Expect conventional loan rates to decrease in the long-term

While never a guarantee, many consumers are seeing how rates are trending and expecting a correction and an opportunity to refinance later, making ARMs a popular option for right now.

Modern Adjustable Rate Mortgages (ARMs): What You Need to Know

CommonWealthONE FOR YOU • FOR LIFE

NMLS# 403416

MEMBER ADVANTAGE MORTGAGE

NMLS# 1557 (LENDER)

Why You Should Consider an ARM

Many consumers don't consider adjustable rate mortgages because they have a bad reputation (appropriately earned). The truth is, **adjustable rate mortgages have changed considerably** since the years prior to the financial crisis of the late 2000s.

Today's ARMs are a safer option for several reasons.

First, today's ARMs are different:

- They require similar qualification requirements as conventional fixed-rate mortgages
- Rates have firm caps now

Not only have these types of mortgages changed, but the market has too.

Both home values and rent prices are on the rise, with rates on conventional loans at 10 and 15-year highs.

AVERAGE 30-YEAR FIXED MORTGAGE RATE, FROM MORTGAGE NEWS DAILY

There are three additional factors that have changed the market to the advantage of potential homebuyers.

1 **Houses are in short supply, with high demand**

Compared to the years leading up to and during the financial crisis of 2008, there were too many homes on the market, which was one reason values collapsed. Forecasting by the National Association of Realtors indicates that demand will continue to outpace supply for the indefinite future.

2 **Lending standards have tightened due to the Dodd Frank Act**

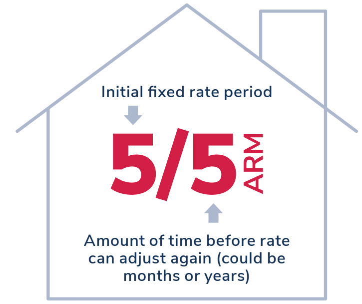
As mentioned above, today's ARMs are different partially because lending standards have changed. Mortgage credit availability was simply out of control in the early 2000s. Even in the past few years since the pandemic began, lenders have been focused on accountability and issuing responsible loans.

3 **Foreclosures are down**

The above factors contribute to this one as well, but the main reason foreclosures are down is because home values continue to steadily rise, making many homeowners "equity rich".

How Does an ARM Work?

There are many different adjustable rate products available, but all have a few things in common. ARMs begin with an initial fixed rate period, followed by a period or periods in which the rate cannot adjust again after the first adjustment. See the illustration below for a common example.



Proof in the Potential Savings

An ARM could mean significant savings in interest. Check out this hypothetical example comparing payments with ARMs vs a conventional 30-year loan.

HOME PRICE = **$500,000** DOWN PAYMENT = **$100,000**

RATE (AS OF JANUARY 2023)*	
30-YEAR FIXED	5/5 ARM
6.50% / 6.695% APR	4.24% / 4.891% APR

MONTHLY PAYMENT*		
30-YEAR FIXED	5/5 ARM (Starting payment)	5/5 ARM (After first adjustment)
$2,528	$1,965	$2,394**

INTEREST SAVINGS WHEN COMPARED TO 30 YEAR FIXED†	OVER 3 YEARS	OVER 5 YEARS	OVER 10 YEARS
	$27,086	$45,041	$53,240

*Rates are subject to change at any time. Your actual rate and payment will depend on your individual financial circumstances. The payments shown reflect principal and interest only and do not include taxes and insurance. **Assumes a .5% annual average rate increase and a 2% adjustment rate cap. †Interest savings assumes a max rate increase of 6% over life of loan. The interest break-even point in this example scenario would be 17.8 years. Please reach out to your mortgage loan officer to discuss your applicable rates.

Now that we know how an ARM works and why they could be a better fit in the current market, how do you know if an ARM is the right fit for you? **Flip to the back to learn more.** →

CommonWealthONE
FOR YOU • FOR LIFE

NMLS# 403416

MEMBER ADVANTAGE MORTGAGE

NMLS# 1557 (LENDER)

Join us for

Q&ARM night!

Have all your questions about adjustable rate mortgages answered by lending professionals from credit unions around the country.

Our virtual information session will be hosted live on

February 21, 2023 at **5:30pm ET**

Visit **https://memberadvantagemortgage.com/arm-loan-forum/** or scan the QR code provided to register, submit questions, and get invited to the session.

EQUAL HOUSING LENDER

Terms apply. Visit www.nmlsconsumeraccess.org for complete licensing information.