

Adjustable mortgages fit homeowners' lifestyles



DAVID C. MULLY

ON MORTGAGES

In the last few years, adjustable rate mortgages, (commonly referred to as ARMs), have become more and more popular. The main reason for this increased interest is that homeowners are realizing that the chances of having the same mortgage for more than 10 to 15 years are becoming less and less likely.

If you take a look at the big picture, you will find that in today's housing environment, people are moving more frequently and refinancing more often. So if that's the case, why take an interest rate that is more likely going to be higher on a 30-year fixed rate mortgage when you're most likely not going to have that same mortgage for that long?

If you are a traditional conservative fixed-rate type of person, that's fine, but you should at least take a look at the wide variety of ARMs out there. You may find an ARM program that suits your needs and saves you money in the meantime.

When you consider the ARM, be aware of the different types that you can tailor to your particular situation. The ARMs that are currently available are what lenders call a six-month/one-year ARM, three-year ARM, five-year ARM and a COFI ARM.

These programs have rates that are fixed for the initial one, three, five, seven- or 10-year period, then they start to adjust thereafter at a maximum increase of 2 percentage points per year with a lifetime cap of 5 to 6 percentage points. For example, if the cap were 6 percentage points, a 7-percent ARM could become a 13-percent mortgage.

The five- and seven-year ARMs have become more popular than the five- and seven-year balloon mortgages you may have heard

about, because the rate is usually the same, but with the balloon you usually have to pay the loan off, or refinance at the end of the five- or seven-year period.

For the five- and seven-year ARM, the loan starts to adjust up or down at the end of the five- or seven-year period. This would be better in case you decide to stay in your house; you wouldn't be forced to refinance or pay off the loan.

Generally the shorter the initial fixed rate period (6 months, one year, three years), the better the rate is going to be to start with. The longer the initial period, (five years, seven years, 10 years), the higher the initial rate will be. But normally they all will be lower than a 30-year fixed-rate mortgage.

Depending on your forecast of how long you'll be in the house, go with that time period. First com-

pare the rates because the difference may not be as great as other times. For example, if you planning on moving in five years, let's say the five-year ARM rate is 7 percent, but the seven-year rate is 7.125 percent. For that small difference, you probably would take the extra two years of security in the seven-year ARM, just in case you end up staying in your house longer.

Also, remember there's another reason these ARM programs make sense. If mortgage rates drop in the next three to 10 years or if you decide you need equity out of your house for your kids' college educations, to pay off bills, or do some home improvements, you're probably going to end up refinancing the house anyway.

So why not save the money by getting a lower rate now and taking the limited risk that you'll still have the same mortgage more than 10 years from now? For example, on a \$100,000 loan at a 30-year fixed rate of 7.5 percent, the principal and interest payment would be \$659.21. If you went with a five-year ARM, for example, at a rate of 6.875 percent, the payment would be \$656.03; you would save \$42.28 per month.

Multiply this by the first five years, and you come out with \$2,536, even if the rate went up to the maximum 2 percent increase in the sixth year of the five-year ARM program. (In this case that would be 8.875 percent).

You would still be ahead overall. It would take a few more years to eat up the \$2,536 you saved in the first five years. So, in case even if you don't move within five years, you still come out OK. You can use this type of example on all of the ARM vs. fixed-rate mortgage comparisons.

If you're really not a risk taker, you still may find the 10-year ARM to your liking. It stays fixed for 10 years and then starts to adjust. The rate most likely will be lower than a 30-year fixed-rate mortgage. Generally the ARM mortgages have 30-year payment terms but most times can be paid off early without penalty.

ARM programs can also help you qualify for a higher mortgage amount and sometimes offer more flexibility when obtaining so-called mortgage mortgages, those over \$203,150.

The information and opinions contained in this article are those of David Mully, not necessarily those of NBD Bank. Mully has been assisting homeowners with their mortgage needs for several years. He is a mortgage representative with NBD Bank. His toll-free number is 1-800-654-6244.

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AMERICOR MORTGAGE

Americor Mortgage, a Troy-based lender, has introduced a program that allows borrowers to refinance their loans at current market rates for no money out of their pockets and without adding anything to the loan amount.

After enrolling in PreFinance, Americor will enter client information in a computer system where mortgages are monitored each month in comparison to current interest rates.

Should rates lower, clients will be notified and asked to consider refinancing, again with no charges.

"Mortgages are becoming more of a financial tool today and an important part of someone's investment portfolio," said Tom Belames, Americor's president and CEO.

"PreFinance gives our clients the added benefit of making sure that they are taking full advantage of their mortgage."

The program applies only to refinancings, not original mortgages.

For information, call Americor at (810) 643-0800.

HELP-U-SELL

Help-U-Sell of Northwest Wayne County, with offices in Canton, recently was recognized as the top volume franchise in the national chain for the months of February and May.

Help-U-Sell offices have found their niche in the marketplace by offering consumers a full menu of services and setting fees depending on how involved sellers want to get in transactions.

"Sellers like us because we give them many options to choose from," said Chuck Gorris, co-owner of the local franchise. "Buyers like us because we can, at their request, represent them directly, looking after their interests."

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