

When seeking ARM mortgage, get all the facts



MORTGAGE SHOPPING

Last week this column featured a list of topics to cover with prospective mortgage lenders when shopping for a fixed rate mortgage. If you're shopping for an adjustable-rate mortgage (ARM), ask the additional questions that follow. This most important thing to discover is the maximum amount your payment might rise.

Financial index and margin: The interest rate on an ARM is determined by adding a margin or spread to a specified financial index. This is called the fully indexed rate. Find out both the financial index used (Treasury, Certificate of Deposit, cost of funds, etc.) and

the margin (that is, how much higher is the ARM rate than the index rate?).

Initial interest rate: Is the initial rate quoted the fully indexed rate or a lower introductory rate, sometimes called a teaser or discount rate? A teaser rate may sound like a bargain today, but it may turn out to cost you more in the long run. This low rate lasts only until the first adjustment. After that, you will be charged the fully indexed rate, at which point your payments may become unmanageable.

Adjustment interval: How often can the interest rate be adjusted - every six months, one year, three years, five years? A loan that adjusts its interest rate after six months is called a six-month ARM; after one year, a one-year ARM, etc.

Rate caps: Rate caps limit how much your interest rate can move, either up or down. Periodic caps limit the change

per adjustment period, and a lifetime cap governs the maximum amount the interest rate can increase or decrease over the life of the loan. For example, you may find a one-year ARM with a 2 percent periodic cap and a 6 percent lifetime cap. If this one-year ARM is originated at 8 percent, after the one-year adjustment period, it could be adjusted upward to as much as 10 percent, or downward to as low as 6 percent, depending on the movement of the index. Remember to consider the adjustment interval when comparing rate caps. The one-year ARM just described could reach its lifetime cap of 14 percent (original interest rate of 8 percent plus lifetime interest rate of 6 percent) in three years if interest rates rose steadily. A three-year ARM would just be making its first adjustment after such a three-year period.

Payment caps: Payment caps may appear similar to rate caps, but don't be misled. While they can limit how much your monthly payment increases, they don't restrict the interest rate from going up. Many ARMs with payment caps have no corresponding interest rate caps. As a result, you may end up paying the lender less than the amount of interest you owe each month. If this happens, this unpaid interest is

added to your loan balance, and the principal amount you owe increases rather than decreases with each payment. This is called negative amortization - and generally should be avoided.

Convertibles to fixed-rate loans: Some ARMs let you convert to a fixed-rate mortgage at specified times, typically during the first five years of the loan. Because the convertibility feature often an added expense (some lenders charge an extra point, for example), find out the exact conversion terms and how much it would cost you to convert your ARM to a fixed-rate loan. You'll want to compare this cost with the costs incurred and the interest rate savings you might gain by refinancing your mortgage to a fixed-rate loan. This will help you decide the relative advantages of each option to determine which is most cost effective for you.

After you've gathered your information and talked to several mortgage lending institutions, you'll want to compare the terms and options that look most promising. You may see from asking the questions identified in this and last week's column that one lender is quoting the lowest interest rates, but another charges less in upfront costs payable at closing. Still another lender has the most liberal lock-in policy. Only you know which features address your situation to the best advantage. Once you decide that, you will want to schedule an appointment with a loan officer

to start filling out your mortgage application. Fannie Mae (Federal National Mortgage Association) is available if you need help understanding mortgage information, want the names of mortgage lenders in your area or would like a home buyer credit counselor who can help put you on the path to ownership. Give them a call at 1-800-832-2345, 9 a.m. to 5 p.m.

Here are some recent interest rates that may be helpful to you in tracking the direction of rates. These are just a guide. Be sure to call a lender to get current rate quotes.

In Freddie Mac's Primary Mortgage Market Survey, the 30-year fixed rate for North Central area for the week of June 14 rose again to 8.43 percent (U.S. average 8.39 percent). A week ago the average for the U.S. was 8.3 percent and one year ago it was 7.55 percent. Current 15-year fixed-rate mortgages average 7.91 percent and adjustable-rate mortgages average 5.94 percent for our area of the country.

Write David Mully at P.O. Box 485, Novi, MI 48376-0485. Mully is available to answer your mortgage shopping questions. If you have questions or would like free assistance with your mortgage search, call Mully at 1-800-405-3051 or fax your questions to (810)380-0603. You can access Mully's previous mortgage shopping articles at on-line at: <http://econline.com/~emoryd.mully>

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Real Estate One received a Producer Award at the Genesis Relocation Services annual conference. The award was given for dedication to serving transferees and their families.

Real Estate One, headquartered in Farmington Hills, competed against other Genesis affiliates of similar size from around the nation.

"We are very proud to receive this award," said Richard S. Elea, president of Real Estate One. "We believe it reflects both the dedication of our sales associates and the professionalism of our relocation staff."

Genesis is an association of 395 real estate firms with more than 41,000 sales associates and 1,700 offices throughout North America.

Home financing workshops

Ross Mortgage presents free, no-obligation home financing workshops at 6:30 p.m. Tuesday, June 25, at the International Business Center, 43000 Nine Mile east of Novi Road, Novi, and 6:30 p.m. Wednesday, June 26, at Freedom Hill County Park, 16 Mile east of Schoenherr, Sterling Heights.

For reservations, call (810) 968-1800.

ERA to expand

ERA Franchise Systems, a residential real estate network, is expanding its franchise sales force in advance of an aggressive campaign to double the number of franchises by the year 2000.

Currently, ERA has more than 2,500 independently-owned and operated offices throughout the U.S. and 14 other countries.

HFS, publicly-owned franchisor of hotels and real estate brokerages, acquired ERA in February.

"The way to increase market share is to sell more franchises to quality brokers and help our current base of broker members and sales associates become even more productive," said Fred Beilstein, ERA president and chief operating officer.

"This will be accomplished through the use of improved technology to support our product and service offerings," he said.

ERA has 16 franchise offices in the Detroit area, 13 in western Michigan.

Real Estate One

Bonadeo testimonial

The Building Industry Association of Southeastern Michigan hosts a testimonial dinner for James S. Bonadeo, president emeritus who headed the association for three years, at 6:30 p.m. Thursday, June 27, at Laurel Manor in Livonia.

Tickets are \$150 per person. Proceeds will be used to establish the James S. Bonadeo Scholarship for students interested in the construction industry and will help support political action for protection of private property rights.

For reservations or information, contact BIA at (810) 737-4477.

Schwitzer acquisition

Coldwell Banker Schwitzer Real Estate, a member of the Coldwell Banker Residential Affiliates, has acquired the Red Carpet Keim office at 1956 Woodward in Birmingham.

Schwitzer plans to relocate its current Royal Oak office to that Keim location.

Al Butts, broker/owner of the Keim office, will remain in the organization as associate broker in sales. Gary Jones, manager of the Schwitzer Royal Oak office, will remain as man-

ager of the new mega-office.

Apartment management

Lawrence Technological University sponsors a series of workshops on apartment management and review of the registered apartment management certification 2:30-5:30 p.m. Thursday Sept. 12 on campus in Southfield.

Topics include risk management, marketing rental housing, planning for development management, financial management and maintenance.

Fee is \$395. To register, call Karen Piontek at (810) 204-4020.

New member

The Masonry Institute of Michigan has introduced an informational member classification that offers support services at reduced cost to non-mason contractors or suppliers who don't qualify for associate membership.

Benefits include in-house continuing education programs, membership rates for technical seminars and advertising in a directory/resource guide.

Annual cost is \$300. For information, call (313) 458-8544.

Baseball night

The Birmingham Bloomfield Rochester South Oakland Association of Realtors sponsors a Realtor Family Night 7:05 p.m., Thursday, July 11, Tiger Stadium when the Tigers host the Boston Red Sox.

Tickets, \$12 in advance, include \$4 worth of food and merchandise credits at the stadium.

The evening will include a first pitch ceremony, promotional messages on the marquee at Michigan and Trumbull and a welcome on the Jumbotron scoreboard.

For information, call the BBBSOAR office at (810) 879-5730.

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