ARM Worksheet for First Mortgages
Be safe - know before you sign

Brought to you by Karen The Loan Lady

Name of Loan: _____(fixed period)/______(adjustment period)

A) **Start Rate:_**_________________% (This rate should be at least .50 less in rate than a 30 year fixed rate - less than that you should probably opt for a 30 year fixed rate). This is the rate your loan will be fixed at for

B) **Margin**: ______________% (Usually around 3.00%) This will never change on your loan.

C) **Index**: ____________% This is called a YIELD. This will change during your loan period. It is usually either the SOFR or the 1 Year TBILL, Google the yield and the 10 year history. All ARM's use an index which is basically a "measure of the economy". With ARMS, when you share the risk of what the economy will do with the lender they give you a better rate in return - that is why ARMS have lower rates. Mortgage pricing is risk based pricing - lower the risk, higher the rate. Which is why 30 year fixed pricing is so much higher. However, most people don't hold onto their loans for 30 years but rather 5 to 7 years, so ARMS could make sense for some. Lower rates equal lower payments and can improve the chances of qualifying for a mortgage loan.

D) **Fully Indexed Rate:**__________________% Add B to C. Margin plus Index = fully indexed rate.

E) **Initial Fixed period:** _________________Years \(Usually is a 5, 7 or 10 year. Avoid monthly, 1, 2 & 3 year programs - which have lower rates but higher risk).

F) **Adjustment period**: Every 6 Months or Every 12 Months

G) **First adjustment period cap:** ___________% over what your start rate was (this is the maximum your rate can increase to in the first adjustment period but the rate could be less, see below). This is usually 2.00% on 5 year ARMS and 5.00% on 7 and 10 year arms).

H) **Second/subsequent adjustment period cap**: _______% over your current rate on your statement, this is the maximum. Usually this figure is 1% per adjustment period. If this second/subsequent rate is higher than 1% you should not proceed with the loan.

I) **Life adjustment cap: __________%** Usually 5% over what your start rate was (A). If your start rate was 3.875% then your max cap over the life of the loan cannot be higher than 8.75% = (G). However, the period caps come into play at each adjustment (E/F).

J) **Is there a prepayment penalty?** If yes, do not proceed with the loan! All lenders have the ability to offer up pricing without a prepayment penalty. Ask for that option instead, if they insist, use another lender even if you have less than perfect credit and have other challenges with qualifying. ARMS + Prepayment penalties = Too Risky.

K) **Qualifying rate**: ______________________________%_Usually start rate(A) plus 2% on 5 year ARMS. Qualify at start rate (A) on 7 and 10 year arms. Buying power is higher with a 7 or 10 year ARM - LP. 5 Year arms have lower rates but higher qualifying rate.

FAQ's

Question: What is the maximum my rate could go up to after my initial fixed rate period of (enter E)_______years?

Answer: Add Start rate (A) to **First** Adjustment period cap (F) =________________this is your maximum capped rate.

Question: Could this rate actually be lower at that first adjustment period?

Answer: Yes. Your rate flows with the economy - so you would need to google what the yield is for your index at the time of that adjustment and add that INDEX YIELD (C) to the Margin (B) and compare this to the max capped rate above. Your rate will be the **lower o**f the two.

Example: Max capped rate is: 8.50%, index plus yield is 6.50% - your rate will be 6.5% up until the next adjustment period (F). Every 6 or 12 months it is recalculated based on the index/yield at that time.

Question: What is the maximum that my rate could go up to after my (H) second adjustment period?

Answer: The second and subsequent adjustment periods have a lower cap rate (good thing!). Usually 1% maximum increase over the prior rate that is on your statement, but never higher than your life cap (I).

Question: How do I know if an ARM is right for me?

Answer: This differs for each person, however, if having a markedly lower payment is needed to increase your buying power on a new home in a competitive sellers market or to reduce your

housing payment on a refinance loan AND you think you may not stay in the loan/home that long (see fixed period - E above), then it may be wise to consider an ARM.
Even if you are in the loan past the adjustment period and your rate/payment increases, you will need to consider the benefits that you have enjoyed up until that point with the lower rate. Essentially if you offset that increase on your payment with the money that you saved by going with the ARM vs. 30 year fixed rate. .500% better interest rate (normally) for ARMS over the fixed rates, factor in 5, 7 or 10 years. Savings add up. Usually borrowers come out ahead, some borrowers stay in ARM loans for many, many years - long after adjustment caps have come into play because they flow with the economy and have enjoyed even lower interest rates along the way.

ARMS are a tool that can be used strategically to meet your goals both short and long term. The key is understanding how to use these tools. This worksheet and the corresponding video *ARMS/Karen The Loan Lady,* will help you effectively compare your options and make knowledgeable and wise decisions with your mortgage financing.

You should understand the loan program completely before you give any lender/banker your complete trust when it comes to getting a new mortgage loan.

Be safe, know before you sign!