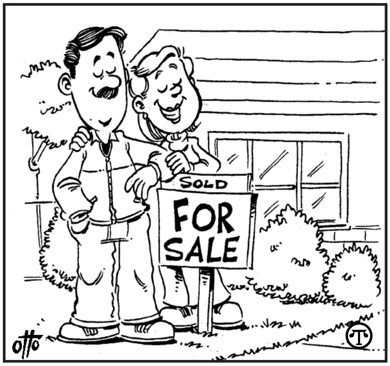
# Is An ARM The Right Choice For You?

(NAPSA)—Do you plan to stay in your home less than 10 years? Then an Adjustable Rate Mortgage (ARM) might be for you. As the name implies, ARMs feature interest rates that adjust periodically in line with changes in overall mortgage rates. ARMs have attracted new attention in light of a suggestion by Fed Chairman Alan Greenspan that more consumers should consider alternatives to fixed rate mortgage products.

The chief advantage of ARMs is substantial cost savings over comparable fixed rate mortgages, said David Herpers, director of consumer affairs at Amerisave, a leading online mortgage provider. “You can typically find rates 2 percent lower on an adjustable rate mortgage than you do on fixed rate loans,” Herpers said. “The savings on your monthly payment can be quite significant.”

So why aren’t they more popular? Perhaps one reason is many consumers don’t fully understand how ARMs work. The complex-sounding jargon associated with ARMs doesn’t help. Most ARMs include a fixed, introductory period during which the interest rate does not change. At the end of this period, rates are adjusted at regular intervals, usually every year thereafter. ARMs are generally labeled with a pair of numbers, which describe the length of the introductory period and the length of the interval between subsequent readjustments.

For example, a 3/1 ARM would include a three-year period in which the rate is fixed. The interest rate is adjusted at one-year intervals thereafter. Similarly, a 5/1 ARM comes with a five-year




fixed period, and rates are adjusted regularly each year thereafter.

**Which is right for you?**

“At Amerisave we typically ask our customers how long they expect to be in their home,” Herpers said. “If they’re going to be in their home five years, then the 5/1 ARM is a perfect solution. If they’re going to be in their home for seven years, then go for the 7/1 ARM.”

Consumers do take on more risk with ARMs if they stay in their home beyond the fixed period. An important feature for consumers to look at in gauging the risk of an ARM are caps, or limits on how high the rate on the loan can increase during any given period.

- The initial rate cap is the maximum allowable increase at the end of the fixed, introductory period.
- The periodic rate cap is the maximum allowable upward adjustment each period thereafter.
- The lifetime cap is the maximum the borrower will ever have to pay over the duration of the loan, regardless of what’s going on in the interest rate market.

To illustrate, assume a 3/1 ARM at 3 percent with initial, periodic and lifetime caps of 2, 2, and 6, respectively. This translates to a mortgage with a three-year introductory period fixed at 3 percent annually. At the end of the third year, the rate may increase as much as two percent depending on prevailing rates. The maximum rate at the end of the third year would be 5 percent. The rate is readjusted each year thereafter by no greater than 2 percent. Finally, since the maximum allowable rate increase is 6 percent over the life of the loan, you will never pay more than 9 percent total.

**ARMs a good choice for Americans on the move**

“With Americans moving and refinancing as often as they are, we believe more people will want ARMs because of their greater flexibility and lower cost,” Herpers said. “Really, the only people for whom ARMs may not be suitable are those who plan to stay in their home for a long period of time, say, ten years or more.”

For interested borrowers, the Internet remains one of the most reliable sources of up-to-date information on ARMs and other mortgage-related products.

Amerisave is one of the nation’s leading and fastest-growing online mortgage companies, serving customers in 42 states via its Web site, www.amerisave.com. Amerisave’s mission is to provide the best rates from top banks for a variety of home financing needs. The company provides customers the ability to obtain the most competitive rates instantly via the Web. Amerisave offers a $300 guarantee that consumers will not find a mortgage loan at lower cost in rates and fees.