

Can You Make the New Payment?

Coping with the coming wave of resets



By Jacob Yadegar

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Millions of property owners with adjustable-rate mortgages have to dig deeper in their pocket books to pay their mortgage bill as monthly payments are reset higher. Short-term interest rates have risen dramatically since they dipped to record lows and now adjustable rate mortgages are climbing.

More than \$2 trillion of U.S. mortgage debt, or about a quarter of all mortgage loans outstanding, are up for interest-rate resets in the next 24 months, according to Moody's Economy.com. Given the recent increases in rates, a typical \$250,000 mortgage will have payments that are approximately \$300 per month higher today than they were less than 12 months ago. In most instances, borrowers used short-term ARMs to buy homes they couldn't otherwise afford and may now find themselves unable to make the higher payments.

Despite the risks of a big upward adjustment, ARMs are more popular than ever consisting of more than 40% of all mortgages being taken out as reported by the Mortgage Bankers Association. That's the highest level since the trade group began tracking adjustable-rate mortgages in 1990.

Economists say rising rates for 30-year fixed-rate mortgages stoked the popularity of ARMs, but the insatiable desire to own something you can't afford which drove the market is now haunting many. Many who questioned the need for the traditional fixed-rate mortgages because most didn't anticipate current market conditions and were not willing or able to pay the premiums associated with fixed rate loans. If you have an adjustable rate mortgage

or are considering one, there are certain things you should consider before committing to mitigate the potential risks:

- Figure out what the increases to your payments will be with each 1 percent increase in rate and be prepared for the higher payment

- Shop around for the adjustable rate program that is most suitable to your needs. Adjustable rate mortgages vary substantially based on the number of adjustments per year, the potential increase at each adjustment and how high up they can go during the life of the loan.

- Consider taking out a shorter term fixed rate like the 5, 7 or 10 year fixed. These will lock in today's lower rates for the term specified and are lower than the traditional 30-year fixed-rate mortgage. While the payments on these loans are usually not lower than the adjustable rate mortgages, you will eliminate future rate increases.

If the only way you can afford the property you are buying is by getting a short-term adjustable rate, be aware of the looming risks. The warning signs are now evident. Most adjustable rate mortgages will continue to rise while the lending environment as a whole has become much more difficult prohibiting many borrowers from refinancing due to tighter qualifying standards.

Make sure you consult with a mortgage professional and understand all of the potential pitfalls to avoid yourself the agony of surprises down the road that many are feeling today.

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