



A Mortgage With A Rate of 3%

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Does such a thing really exist? Yes, but buyer beware on this one.

This low rate is in fact possible, with a product known as an "Option ARM" (sometimes called a "Cash Flow ARM"). **Keep in mind**

however, that what is being advertised is the payment rate, not the interest rate.

On most traditional fixed rate mortgages, you pay the same amount of money each month. **With these Option ARMs on the other hand, each month you receive a statement with up to four different payment options to choose from.** It is up to you to decide which payment to make.

- **The first option is to make the minimum payment.** This option is the lowest of all four payments, however you end up creating a **negative amortization**, meaning your original loan balance will actually **increase** rather than decrease.
- **The second option is interest only.** In this case, you pay only the interest due. So while your original loan balance doesn't go up, it doesn't go down either.
- **The third option is a "traditional" 30-year mortgage payment.** It's the monthly equivalent of both principal and interest, amortized over 30 years.
- **The fourth option on an ARM like this would be a 15-year amortization.** Here, you pay a monthly number that assumes the loan will be paid off in 15 years rather than 30.

It is important to **understand the difference between what you are required to pay (like the minimum amount due on a credit card) and what you really should pay** each month in order to make progress at paying off your mortgage.

Keep in mind, simply making the minimum payment each month for example, while allowable under this arrangement, may hurt your financial position over time if home values stay steady or fall.

With these types of loans, the "real" interest rate (sometimes called the fully indexed rate) is calculated by the index (like the LIBOR, COFI or MTA) plus a fixed margin.

As with all investments therefore, and to ensure you derive maximum benefit without compromising your long-term financial goals, make sure you consult with a financial planner or accountant when thinking about committing to an Option ARM mortgage.



Got questions about real estate financing?

Contact Debbie@westchester-mortgage.com or 617-965-1236. She'll consider them for inclusion in a future column. Debbie Siegel is president of Westchester Mortgage in Newton, Massachusetts. She is licensed in several Northeastern states.