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Mortgage Article: Adjustable Rate Mortgages

When you should consider moving from an Adjustable Rate Mortgages (ARM)

10 Million Americans feel the pinch from Adjustable Rate Mortgages

By: Matt Padgett, President, Keystone Mortgage Group Knoxville Tennessee

One in every four mortgages in the US is an Adjustable Rate Mortgage (ARM), if you fall into this category you are likely feeling the pinch from mortgage rate jumps that leave you paying much more every month. Many borrowers I speak to have seen their mortgage interest rates jump from 4% to 7% or more. That can be a BIG difference.

Why is this happening? The past five years have seen a real estate boom – and a lot of this was fueled by a large number of attractive, cut-rate mortgages. Many of these were ARM's which carry a fixed interest rate for an initial period, typically ranging from two to ten years. Now, with short-term interest rates rising, and the real estate market cooling, conditions are looking very bad for Knoxvilleians who took out ARMs and whose fixed interest rate period is expiring.

Where their loans might have been teaser rates below 2%, now they face a jump to 5% or more.

This can literally mean you spending hundreds of dollars more each month. And many people are struggling to find the extra money. A recent report from the Mortgage Bankers Association said that already in Tennessee about one in five homeowners with a high-interest (sub prime) ARM was at least 30 days late at the end of last year. After 90 days there is a very real danger of foreclosing and you losing your home.

What Should You Do?

Many people I meet with are confused by their adjustable-rate home mortgage, and many had underestimated how much their payments could jump. If the mortgage rate on your ARM loan has not adjusted yet I recommend you steps now to help minimize your mortgage rate jump. If your first statements have arrived with the new monthly payment and have given you sticker shock, you have options. You can take control of the situation and take action!

1. My first recommendation is to get informed! Find out your current rate, and how much your rate can increase at any one time. If your mortgage rate has not yet increased, find out when that rate will begin increasing. Also investigate how high the maximum rate could reach on your loan.
2. Review your original mortgage loan documentation to see if there is a pre-payment penalty. If there is a penalty associated with paying off the loan early, find out how

many years into your loan this penalty extends.

3. More often than not, there are other mortgage options available to you. Many people are electing to move from an ARM to a more secure fixed-rate mortgage loan. Call a Keystone Mortgage Group mortgage professional at: 865-909-0211 and investigate the options available to you.
4. Choose your next loan carefully. Focus on what would be in your best long-term interest; don't just choose a loan based on your initial monthly payments – this way of thinking can cause serious ARM pain!

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