

What is an ARM?

An Adjustable Rate Mortgage (ARM) has a rate that can change,
and your payments will adjust accordingly.

A Fixed Rate Mortgage has the same payment
for the entire term of the loan.

The **LIBOR** is the most widely used benchmark for reference rate for short term interest rates. LIBOR stands for the London Interbank Offered Rate, and according to the British Bankers' Association (which compiles the LIBOR), it is the rate of interest at which banks borrow funds from other banks, in marketable size, in the London interbank market.

LIBOR products are a flexible, non-volatile way to help borrowers qualify for loans, lowering the start rate for a fixed period.

Fully Amortizing ARM:

This is the most common type of ARM. The monthly payment is calculated to pay off the entire mortgage balance at the end of the term - typically 30 years. After any fixed interest rate period has passed, the interest rate and payment adjusts annually, not exceeding a maximum rate called the "Interest Rate Cap."

Interest-Only ARM:

An Interest Only ARM only requires monthly interest payments during the initial fixed rate period, or for the first five years for certain loan products. At the end of the fixed rate period, the loan begins to adjust and the borrower makes fully amortizing payments until the end of the term, with the rate not exceeding the Interest Rate Cap. During the interest-only phase, the borrower has the option of applying the savings to pay off the principal, which will greatly reduce the term of the loan over all.

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