

# Understanding an Adjustable Rate Mortgage



## **What is the difference between a fixed and adjustable-rate mortgage (ARM)?**

For a fixed-rate mortgage, the interest rate is set when you take out the loan and will not change for the entire life of the loan. With an ARM, the interest rate may go up or down at regular intervals after an introductory period.

## **Why consider an ARM loan?**

ARM loans may start at a lower interest rate than fixed-rate loans, and the initial rate can stay the same for years. However, when the introductory period is over, the interest rate can increase or decrease, and the amount of your payment is likely to change. Borrowers who plan to sell or refinance their home prior to the end of the introductory period may choose to consider an ARM loan for the lower initial interest rate.

## **What is an example of an ARM loan?**

For example, a 5/1 adjustable rate mortgage, or 5-year ARM, is a mortgage loan where the initial interest rate will stay fixed for the first 5 years. Then, the rate may adjust at 1 year intervals. Common introductory periods are 3, 5, 7, and 10 years, while 6 months and 1 year are common adjustment periods. ARM loans typically have adjustment and lifetime caps.

## **Know how your ARM adjusts.**

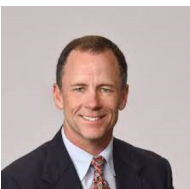
When considering an ARM, be sure to read your loan terms carefully and ask your lender these important questions:

- How high can your interest rate and monthly payments go with each adjustment?
- How frequently will your interest rate adjust?
- How soon could your payment go up?
- What is the cap on how high your interest rate could go?
- Is there any limit on how low your interest rate could go?
- Can you still afford the loan if your rate and payment go up to the maximums allowed under the loan contract?

*An adjustable rate mortgage may not be the best option for all borrowers. Not all borrowers will qualify. Contact your mortgage consultant to determine the right loan option for you.*



**Contact us** to learn more about your home buying options!



**Philip Caulfield**  
Mortgage Consultant  
NMLS#: 386911  
Cell: 650-222-0386  
philip.caulfield@phmlans.com  
philipc Caulfield.phmlans.com

**PROSPERITY**  
HOME MORTGAGE, LLC®

661 El Camino Real, Suite 103  
San Carlos, CA 94070



All first mortgage products are provided by Prosperity Home Mortgage, LLC. (877) 275-1762. Prosperity Home Mortgage, LLC products may not be available in all areas. Not all borrowers will qualify. Licensed by the Department of Financial Protection and Innovation under the California Residential Mortgage Lending Act. Licensed by the Delaware State Bank Commissioner. Massachusetts Mortgage Lender License ML75164. Licensed by the NJ Department of Banking and Insurance. Also licensed in AK, AL, AR, AZ, CO, CT, DC, FL, GA, ID, IL, IN, KS, KY, LA, MD, ME, MI, MN, MO, MS, MT, NE, NC, ND, NH, NM, NV, OH, OK, OR, PA, RI, SC, SD, TN, TX, UT, VA, VT, WA, WI, WV and WY. NMLS #75164 (NMLS Consumer Access at <http://www.nmlsconsumeraccess.org/>) ©2022 Prosperity Home Mortgage, LLC. All Rights Reserved.