Adjustable Rate Mortgages

Soaring gas prices, rising costs for education and health care and the doubling of credit card minimum monthly payments have all taken a financial toll on consumers in recent months. Now add in the repercussions of having an adjustable-rate mortgage (ARM) and you're in a real mess. The Federal Reserve has signaled that it has probably finished bumping up interest rates, but only after 15 hikes in less than two years. Homeowners are left in the wake to make significant adjustments and come up with more cash to cover their monthly mortgage bill.

Consider an average-size loan of $150,000. What was once a $1,000 monthly payment is now $1,200 and that extra $200 is hard to come up with for those who borrowed heavily. According to the Mortgage Bankers Association, in states such as Michigan, Alabama and Missouri, a fifth of homeowners in the higher-interest subprime category of ARMs were at least 30 days late in making a payment. And a recent study by First American Real Estate Solutions, a real estate data provider, projects that about one in eight households with ARMs that originated in 2004 and 2005 will default on those loans.

The only way out may be to downsize to a less expensive home or rental. Deciding to refinance into a more stable loan may not lower your payments, but you will have a consistent monthly payment on which to plan a budget. Refinancing into a hybrid loan, such as an ARM that eventually converts into a fixed 25-year loan, may also be an option if you can't sell your home before your initial low rates expire. But before making any decision, it's always a good idea to seek financial advice from an expert such as an independent mortgage broker, accountant, financial advisor or attorney.

Source: *"Mortgage Mess"* Time Magazine