

save a bit on the monthly payment. But again, factor in closing costs and any prepayment penalties.

“Keep in mind that if you choose an ARM today, interest rates could go up when your ARM adjusts in a couple of years,” says Steven Rick, senior economist with the Credit Union National Association, in Madison, Wis. “On the other hand, a decline in interest rates can lower your monthly payment. When you take out an ARM, you are taking the risk—interest rates rise and fall. When you take out a traditional fixed-rate mortgage, the financial institution is taking the interest rate risk.”

Stay put

Finally, you could keep your current ARM and take the adjusted payments as they come. If you're a homeowner who's been in a market that's cooled, which of course is anyone's guess, you'd have to be willing to take your chances and live with the uncertainty.

The other thing to consider is how long you want to be in that house. If you're in a 3/3 ARM and you plan to sell within 24 to 36 months, it might make sense to remain in your current ARM.

Unfortunately,

Many homeowners with ARMs say they don't know what they'll do when their rate adjusts.



some homeowners with ARMs coming due can't afford the refinancing costs on a new mortgage or the higher payments a rate adjustment will trigger on their current ARM. Or the house may have lost value and no longer will appraise at the value they hoped for. These homeowners feel stuck, and selling their home may seem the only way out.

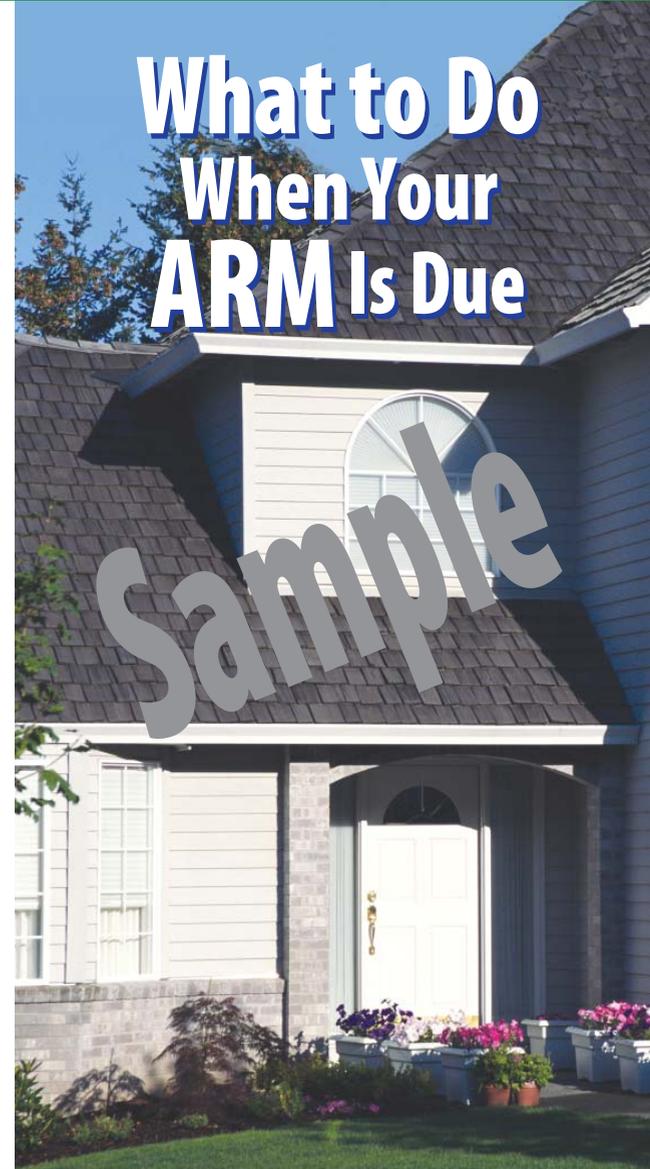
For them, we repeat our earlier suggestion: Talk to people at your credit union, whether you're looking for loan advice or help with budgeting so you can afford your mortgage.

Sample



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What to Do When Your ARM Is Due

Sample

If you have an ARM (adjustable rate mortgage) and your fixed-rate period is drawing to an end, your first rate adjustment is looming. It's time to devise a plan.

Many ARM borrowers face that task with uncertainty. In fact, many homeowners with ARMs say they don't know what they'll do when their rate adjusts. If you're among those who feel unsure, consider a few pointers.

Take stock

Begin by closely examining the ARM you have. How often can the rate adjust? How much can it rise each adjustment? How much will your monthly payment increase at each adjustment? What's the limit on the rate increase over the life of the loan?

The first thing you have to do is know where you're at. Ask a credit union loan officer for help in analyzing your ARM contract.

Many consumers got their ARMs elsewhere, sometimes from mortgage brokers who glossed over the details when issuing the loan. Those borrowers end up poorly informed about the ARMs they hold. Some homeowners don't even know what *type* of mortgage they own, much less the loan details.

Talk to a loan professional at your credit union, whether or not you got the ARM there. He or she can help you understand your ARM, review your options,



**Credit unions remain
a good source for
mortgage loans.**

and decide what to do next, based on your individual circumstances.

Weigh your choices

If your ARM is coming due for adjustment—or even if you have some time before you'll face that decision—you have three basic options:

- Refinance into a fixed-rate 30-year (or shorter term) mortgage.
- Refinance into a new ARM that has terms better suited to your situation.
- Stay with the ARM you have and accept the rate adjustment.

Refinancing into a fixed-rate mortgage means you'll never have to worry about rate adjustments again for as long as you own your home. Usually the interest rate on a fixed-rate loan is higher than for an ARM, but that depends on the economic environment at that time.

Another possible obstacle to refinancing into a new mortgage is closing costs, which usually run 2% to 4% of the mortgage amount. A \$200,000 mortgage, for example, could have closing costs of at least \$4,000. What's more, your current ARM may have prepayment penalties, which can be several thousands of dollars. Check your contract.

Still, it may be worth spending the money to refinance to a fixed rate if you plan to stay in your house long enough to recoup the costs. As a general guideline, your length of stay should be at least three to five years. But that will depend on exactly what your closing costs and any prepayment penalties add up to.

Another option is to switch to a new ARM with better terms than the one you have. You'll face the decision again in a few years about what to do when

Smart decisions now help avoid future foreclosure

Foreclosure filings surpassed three million in 2008, up 81% from 2007 and 225% from 2006, according to Realty Trac, a firm that analyzes such data, in Irvine, Calif.

And, a record 5.4 million American homeowners with a mortgage—nearly 12%—were at least one month late or in foreclosure at the end of 2008, according to *Massachusetts Business News*.

The best way to prevent foreclosure is to protect yourself and your home even before you sign the loan documents. And, talk to the people on your credit union's staff. They can help. Credit unions have a long history of helping people. Economist Bill Mitchell says that, even though there's a credit crunch, credit unions remain a good source for mortgage loans.

- Be sure you understand all the terms of your loan—including if and when the payment could increase and how high it could go;
- Think twice about any loan that allows negative amortization (the house becomes worth less than the amount of your home loan);
- Resist the temptation to overextend yourself, even if you get approved for the financing; and
- Build up an emergency fund that could tide you over for a few months.

the rate adjustment hits. A new ARM might be a viable option for a borrower who plans to sell the house in a couple of years. In the meantime, you'd