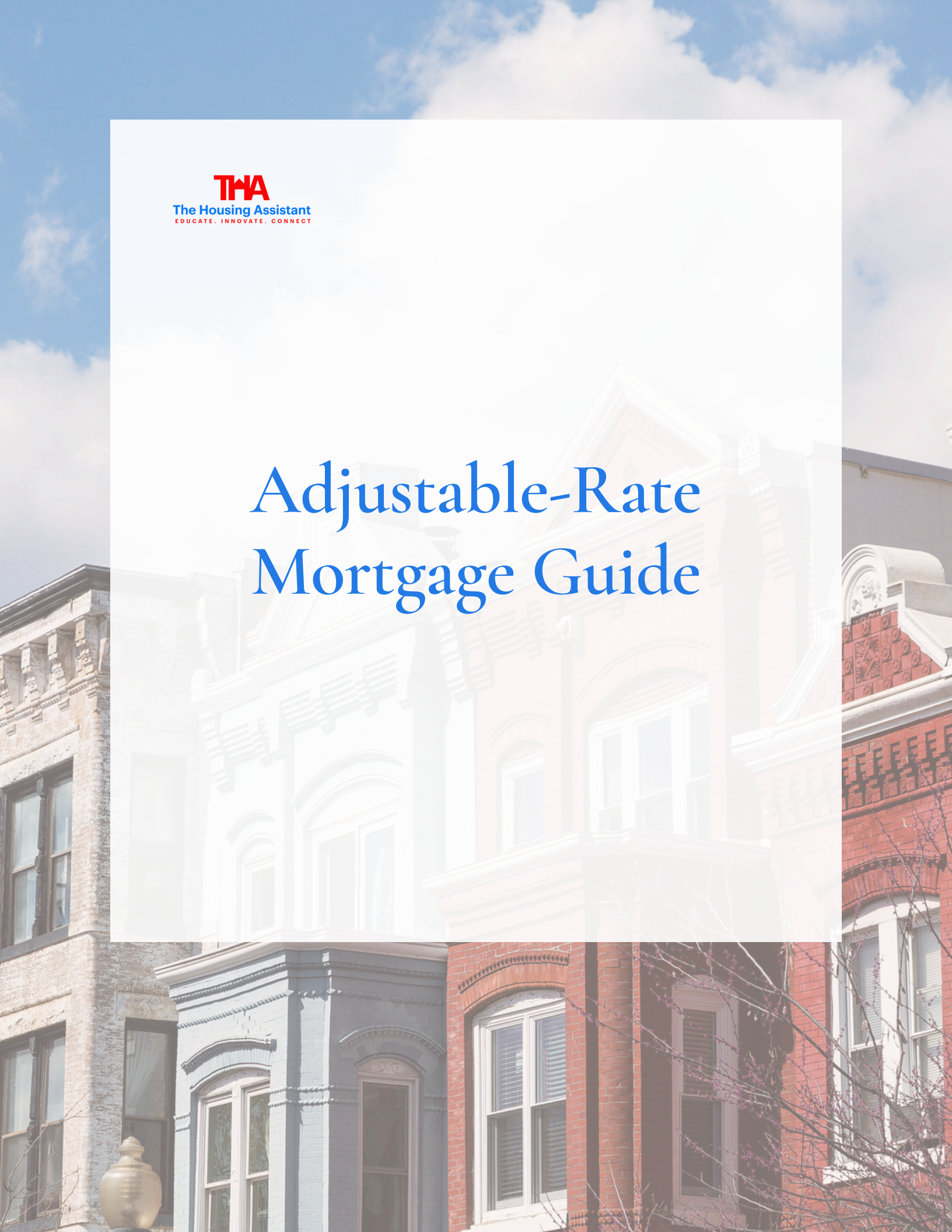


Adjustable-Rate Mortgage Guide



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A Comprehensive Guide by The Housing Assistant



What is an Adjustable-Rate Mortgage (ARM)?

An Adjustable-Rate Mortgage (ARM) is a loan with an interest rate that adjusts after a set initial period. The rate changes based on a financial index plus a margin. ARMs usually offer lower initial rates, making them ideal for short-term homeowners or those expecting to refinance.

Key Features of ARM Loans

Feature	Description
Initial Interest Rate	Lower introductory rate fixed for a set period (e.g., 5 years).
Adjustment Period	Frequency at which the rate can change after the fixed term.
Index	A benchmark rate (e.g., SOFR) used to determine interest rate changes.
Margin	Fixed percentage added to the index to calculate your rate.
Interest Rate Cap	Limits on how much the rate can increase per adjustment or over the life of the loan.
Loan Term	Usually 30 years with changing interest rates after the fixed period.

Qualification Requirements

- Minimum credit score (usually 620+).
- Steady income and job history.
- Acceptable debt-to-income ratio (typically under 43%).
- Lender must assess ability to repay at highest potential rate.

THA Tips

- Understand your rate caps—know your maximum possible payment.
- Consider how long you plan to stay in the home.
- Ask your lender to explain your worst-case scenario.
- Use ARMs strategically—ideal for short-term stays or rising income borrowers.

Types of Adjustable-Rate Mortgages (ARMs)

ARM Type	Structure	Ideal For
5/1 ARM	Fixed for 5 years, then adjusts annually.	Short-term homeowners or frequent refinancers.
7/1 ARM	Fixed for 7 years, then adjusts annually.	Mid-term buyers seeking stability and lower rates.
10/1 ARM	Fixed for 10 years, then adjusts annually.	Longer-term buyers not ready for a fixed-rate mortgage.

ARM Qualification Checklist

- Credit score of 620 or higher (varies by lender).
- Stable employment and consistent income history.
- Down payment requirements based on loan type.
- Review of ability to repay at future adjusted rate.
- Compliant debt-to-income ratio (usually under 43%).