

Illustration 2. Comparison of interest-only loans and payment-option ARMs to fixed-rate and traditional adjustable-rate loans

Illustration 2

SAMPLE MORTGAGE COMPARISON <i>(Not actual loans available)</i>			
Sample Loan Amount \$200,000 – 30-Year Term – Interest Rates For Example Purposes Only			
	Traditional Fixed Rate Mortgage <i>(7%)</i>	5-Year Interest-Only ARM <i>(initial rate 7%; maximum rate 12%)</i>	Payment Option ARM <i>(rate in 1st month 2%; variable rate after 1st month (starting at 7%); maximum rate 12%)</i>
REQUIRED MONTHLY PAYMENTS			
Years 1-5	\$1,331	\$1,167	\$739–\$987 (increasing annually)
Year 6 – if rates don’t change	\$1,331	\$1,414	\$1,565
Year 6 – if rates rise 2%	\$1,331	\$1,678	\$1,859
Year 8 – if rates rise 5%	\$1,331	\$2,094	\$2,319
EFFECT ON LOAN BALANCE AND HOME EQUITY			
After 5 Years, How Much Will You Owe?	\$188,263	\$200,000	\$221,486
After 5 Years, How Much Home Equity Have Your Loan Payments Built?	\$11,737	\$0	NEGATIVE \$21,486