

Teaser-rate pricing has largely disappeared from the adjustable-rate mortgage (ARM)

market, according to Freddie Mac's ninth annual ARM survey. The 1992 initial-year discount from the fully indexed rate averaged 1.07 percent for conforming 1-year ARMs, the smallest discount recorded since 1986.

Freddie Mac canvassed 121 lenders during the first week of December 1992. Other survey findings:

- Jumbo 1-year ARMs continue to carry a premium of one-quarter to three-eighths of a percentage point over conforming ARMs, similar to the difference between jumbo and conforming fixed-rate loans.

- A steep Treasury yield curve resulted in the widest spread between 30-year fixed-rate mortgages and 1-year ARMs

recorded in the history of the survey—2.82 percent. Look for the spread to decline as the Treasury curve flattens during the next year.

- One-half of the ARM lenders offered a 3-year ARM product split evenly between traditional 3/3 ARMs and 3/1 ARMs. (A 3/3 ARM adjusts every three years; a 3/1 ARM is fixed for three years, then adjusts annually.) The initial rate on the 3/1 ARM averaged 1.63 percentage points above the 1-year ARM because of the initial 3-year rate lock. Lenders added an additional eighth of a point above the 3/1 ARM for the extra interest-rate risk of a 3/3 ARM that adjusts only every three years.

- ARM note rates varied three times more often across lenders than fixed-rate mortgages. Thus, shopping for loans can pay off in lower rates, especially for ARM borrowers.—**Frank Nothaft, deputy chief economist**

WHAT LENDERS SAID . . .

Characteristics of ARM Programs
(Average percentages for week ending December 4, 1992)

	1-Year ARMs		3-Year ARMs	
	Conforming	Jumbo	3/3	3/1
Initial period rate	5.52%	5.70%	7.28%	7.15%
Points	1.72	1.81	1.67	1.99
Margin	2.77	2.80	2.75	2.71
Fully indexed rate 1/	6.59	6.62	8.10	6.53
Initial period discount	1.07	0.92	0.82	-0.62
FRM-ARM spread 2/	2.82	2.64	1.06	1.19
Percent of lenders offering product	100	86	27	28

NOTE: The sample is limited to ARMs indexed to either the 1-year or 3-year Constant Maturity Treasury (CMT).

1/ Based on the value of the weekly average 1-year or 3-year CMT.

2/ Based on the average 30-year conforming fixed-rate commitment rate of 8.34 percent from the Primary Mortgage Market Survey (PMMS).