Lenders Expand ARM Offerings

Adjustable-rate mortgages (ARMs) became increasingly popular in 1994. The ARM share reached 43 percent in third quarter 1994, up from 37 percent in the second quarter and more than double the 20-percent average in 1993.

Rising 30-year mortgage interest rates plus lenders' efforts to make ARMs more attractive by offering teaser rates drove the increase in ARM share. The 1994 average discount from the fully indexed ARM rate was 3.18, up significantly from 2.19 percent in 1993 and at its highest level since 1988.

Freddie Mac surveyed 101 ARM lenders during the first week of November 1994. Other findings include:

- Eighty-five percent of lenders offered jumbo one-year ARMs (loans greater than the conforming limit of $203,150). The interest rate on a jumbo one-year ARM is less than one-fifth of a percentage point greater than the rate on a conforming ARM during the first year.
- The spread between 30-year fixed-rate conforming mortgages and one-year ARMs widened to 3.14 percent, the highest recorded in the 10 years the survey has been conducted.
- Many lenders expanded their menu of ARM products. In 1994, more than three-fourths of lenders offered ARMs that have a constant rate for three years and then annually adjust (3/1 ARMs), compared to less than one-third of lenders in 1993. A more modest increase was seen in the availability of 3-year ARMs that adjust every three years; 30 percent of lenders offered 3/3 ARMs, compared to 13 percent in 1993. More than one-half of lenders offered the annually adjusting 5-, 7- and 10-year ARM products.**—Cheri Brown, survey coordinator**

	1-Year ARMs		3-Year ARMs	
	Conforming	Jumbo	3/3	3/1
Initial Period Rate	5.91%	6.08%	7.92%	7.72%
Points	1.5	1.5	1.6	1.6
Margin	2.81	2.80	2.79	2.78
Fully Indexed Rate	9.09	9.08	10.03	9.06
Initial Period Discount[1]	3.18	3.00	2.11	1.34
FRM-ARM Spread[2]	3.14	2.97	1.13	1.33
Percent of ARM Lenders Offering	100	85	30	77

Note: The sample is limited to ARMs indexed to either the 1-year or 3-year Constant Maturity Treasury (CMT). Data were collected from 101 ARM lenders during the week of November 4, 1994.

[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 mortgage (FRM) commitment rate of 9.05 percent from Freddie Mac's Primary Mortgage Market Survey

Source: Freddie Mac