



Hybrid ARMs Dominate Product Offerings in 30th Annual ARM Survey

January 28, 2014

Low Initial Interest Rates Vary With Length of Initial Fixed Period

MCLEAN, VA--(Marketwired - Jan 28, 2014) - [Freddie Mac](#) (OTCQB: FMCC) today released the results of its 30th Annual Adjustable-Rate Mortgage (ARM) Survey of prime loan offerings, which was conducted January 6 to January 10, showing ARM initial-period rates have increased since last year, but remain near historic lows. Visit the following [link](#) for the January 2014 Treasury-Indexed ARM Features table as well as exhibits summarizing the latest survey and providing a 30-year historical perspective of the survey.

News Facts

- The initial rate on a one-year Treasury-indexed ARM was unchanged while initial-period rates on hybrid ARMs were up relative to last year with the largest rate increases for hybrids with longer initial fixed-rate periods, such as the 7/1 and 10/1 which rose by 0.71 and 0.76 percentage points, respectively. This pattern largely reflects term structure movements in the rest of the capital markets and the Federal Reserve's monetary policy, which has kept the federal funds rate and other short-term interest rates exceptionally low while allowing a rise in medium- and longer-term interest rates from last year.
- Hybrid ARMs continued to be the most popular loan product offered by lenders and chosen by ARM borrowers. Hybrid ARMs have an extended initial fixed-rate period -- generally three to ten years -- and then adjust annually thereafter. Nearly all of the ARM lenders participating in the survey offered a hybrid. The 5/1 hybrid (a five-year fixed-rate initial period before the rate resets annually) was by far the most common, followed by the 3/1, 7/1 and 10/1. Far less common were ARMs where the repricing frequency was fixed for the life of loan, such as a one-year adjustable, a 3/3 ARM (which adjusts once every three years), or a 5/5 ARM (which adjusts every fifth year).
- In early January 2014, the interest rate savings for the 5/1 hybrid ARM with a 30-year term -- the most common ARM offered in today's market -- compared to the 30-year fixed-rate mortgage amounted to about 1.36 percentage points. For a \$250,000 loan, the monthly principal and interest payment on a 5/1 hybrid would be about \$194 less than on the 30-year fixed-rate loan over the first five years of the loan.
- Among the 106 ARM lenders surveyed, 84 offered Treasury-indexed ARMs and 22 London Interbank Offered Rate (LIBOR)-indexed ARMs; generally, community and regional lenders were more likely to offer Treasury-indexed ARMs while large, national lenders offered LIBOR-based ARMs. Thus, even though offered by fewer lenders, the LIBOR-based product accounted for more than one-half of ARM originations. LIBOR-indexed ARMs generally had a lower margin (about 0.5 percentage points lower) than Treasury-indexed ARMs, a similar initial interest rate, but a higher index rate (about 0.5 percentage points higher).

Quotes:

Attributed to Frank Nothaft, vice president and chief economist, Freddie Mac.

- "Homebuyers have preferred fixed-rate mortgages the past few years because of the low interest rates and the certainty of the monthly principal and interest payment. As longer-term rates rise, ARMs with their lower initial interest rates will become more appealing to loan applicants. Hybrid ARMs are particularly attractive because they have an initial extended fixed-rate period of 3 to 10 years."
- "Borrowers who have taken out ARMs generally prefer hybrids, because these products include an extended initial period where the interest rate is fixed. During 2013, ARMs comprised one-in-ten new home-purchase loans, according to the Federal Housing Finance Agency. We are expecting ARMs to gradually gain back some favor with mortgage borrowers, with the ARM share rising to 12 percent of the home-purchase market in 2014."

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