

# CLIENT TELL

## ADJUSTABLE RATE MORTGAGES: What You Need to Know

By Ben H. Colvard, III

A large part of the recent housing boom in this country was funded by adjustable rate mortgages or ARMs. While some might argue the housing industry is heading more toward a bust, as the Chinese adage goes, crisis = opportunity. If you know the facts and do your research, there are ways to a) make your mortgage work for you and b) capitalize on the correction of home costs.

- What was your initial interest rate? The period of your initial rate will vary depending on your time of ARM.
- When is your first adjustment?
- What is the index rate that the mortgage is based on? The margin from that index rate that will determine your next payment.
- Is there a limitation to how much it can change now and over the life of the loan? Most mortgages are capped at 5% above the beginning rate.

- How often will future adjustments happen?

As you answer these questions, it's important to keep in mind that while your rate might seem low now, most conforming adjustable rate mortgages were fixed for 3/5/7 or 10 years but all adjust to either one year treasury bills or one year LIBOR.

Many of the sub-prime or Alt-A loans will be fixed for either two or three years but then adjust again every six months for the term of the loan. How often it will adjust in the future has nothing to do with the initial fixed rate period. If your mortgage is going to adjust in the next six months and the amount of the first adjustment is less than current interest rates, then you need to determine when your next adjustment is. Most adjustable mortgages have a limitation on how much the interest rate can go up or down at each adjustment. However, even a small percentage point increase can add hundreds of dollars to your monthly payments. **(Continued on Page 3)**

## The LEARNING ROOM

As the temperature drops, home energy costs skyrocket. Here are a few resources to help you survive the winter energy crunch:

10-Minute Energy Saving Secrets, by Jerri Ferris, Fair Winds Press. This book provides 250 easy ways to save BIG on energy costs. It is available in most public libraries.

The American Council for an Energy-Efficient Economy hosts an online consumer guide. Visit it at: [www.aceee.org/consumerguide](http://www.aceee.org/consumerguide). This web site includes practical information on everything from heating to refrigeration and ventilation. It even has a handy checklist and discusses current Federal and State incentives that may prove helpful at tax time.

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**FROM THE PRESIDENT**  
Jim Godfrey

Happy New Year! This simple, heartfelt declaration encourages us all to take stock — to look back on the past year and to look forward to the future. From a financial perspective, 2007 brought many changes. By the close of the year, mortgage delinquency rates were at their highest point since 1986. We also experienced hefty increases in energy costs — heating fuel and electricity at home and gasoline at the pump. These changes will affect us all in 2008.

We Are Here for You. As economic pressures mount, please know that you are not alone. Here at CCCS, we are committed to helping you prepare and make the most **(Continued on Page 3)**

## Client Tell

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## FROM THE TRENCHES

by Kathy Skidmore-Williams

Each January, I set myself a number of goals for the coming year. In the past, they've been pretty ambitious—lose a bazillion pounds, exercise every day, fix everything that's broken in the house, pay off all my debts, etc., etc., etc. And by each mid-year, it's pretty apparent that I'm not going to meet any of them, leaving me with a depressing sense of failure.

I think resolutions are a good thing; we need to keep working to improve ourselves, both inside and out. But this year I've decided to set more realistic goals for myself. Instead of a bazillion pounds, I'm shooting for a pound a week. I will try to exercise once or twice a week. I've set a priority list of house repairs/improvements that need to be done, and I will try to work through the top two or three by the end of the year. And I will continue to pay down my debts, month by month.

I know that I won't reach my ideal weight or fix everything that needs fixing in my house or pay off all my debts by the end of the year, but like the story of the tortoise and the hare says: Slow and steady will win the race...and I think I'll like myself better along the way.

Kathy Skidmore-Williams is CCCS's client reporter. She joined our program in October 2006.

## GAS SAVING TIPS

**Drive smart.** Consider car pooling to work or school. Give the car with the best gas mileage to the family member who drives the farthest each day. Think of ways to consolidate trips.

**Keep your car tuned.** Dirty air filters, improperly tuned engines, and under-inflated tires waste gas. A poorly tuned engine may increase the amount of gas you use by 20 percent.

**If possible, use regular unleaded gasoline.** Check your owner's manual. Does it recommend that you use 87 octane gas? If so, that's *regular unleaded* gas. There's no need to use premium. Never fill the tank beyond the first *click* on the automatic fuel nozzle; gas will end up on the ground instead of in your tank.

**Stay steady and slow.** When you drive, maintain a stable speed. Avoid quick starts and stops -- these eat up gas. Also avoid speeding. Simply slowing down from 70 to 65 mph saves five dollars for each extra hour that you drive a car -- and about 10 dollars each extra hour you drive a truck or SUV.

**Lighten the load.** The heavier your car is, the more gas it will take. Routinely remove items that you don't need from your trunk, storage compartments or passenger seats.

## SIX WAYS TO CUT WINTER ENERGY COSTS

1. **Turn the Thermostat Down.** Turn the thermostat down several degrees when you leave home for the day or for extended periods. Also consider turning it down a few degrees when you're at home— particularly at night when you're in bed.
2. **Limit Your Shower Time.** Shorter showers use less hot water. You can also install aerators to save on the amount of water you use.
3. **Wash Clothes in Cold Water.** Laundering in cold may also save on clothing wear-and-tear. For even further energy savings, consider drying clothes on a line or rack instead of in the dryer.
4. **Turn Off Those Lights.** Your parent weren't wrong. Turning off the lights each time you leave a room can lead to substantial savings.
5. **Check Your Water Heater.** Make sure it's in good condition and that it's properly insulated. Also keep the water temperature between 115-120 degrees Fahrenheit.
6. **Use Energy-Efficient Light Bulbs.** Compact fluorescent light bulbs cost more but last much longer and use less electricity. To learn which bulb to use where, visit: [http://www.newdream.org/consumer/ed\\_bulb.html](http://www.newdream.org/consumer/ed_bulb.html).

## FROM THE PRESIDENT'S DESK

(continued)

of the coming year. This issue of *Client Tell* offers suggestions for dealing with some of the economic challenges we currently face.

**Budget Inventory.** Now is also an excellent time to revisit your budget. Have you encountered any changes in income this past year? How do increases in your mortgage payment, utilities, or other expenses affect your bottom line? Your personal budget must be up-to-date in order to serve as an accurate financial blueprint. If you need help reassessing your current finances or recalculating your budget, please call Operations at 1-800-571-2227 or visit the CCCS website ([www.cccs-inc.org](http://www.cccs-inc.org).) Financial Tools section and take advantage of our interactive Budget Worksheet.

**A Bright Future.** Amid the challenges, 2008 offers abundant opportunities. If you seek to learn new money skills and make your DMP payments on time and in full, you are likely to finish the year in a much healthier financial state!

## ADJUSTABLE RATE MORTGAGES (continued)

For example if you have a 5.5% initial rate for two years, your payment will be calculated by the index (six month LIBOR of 5%) plus a margin (4%) not to exceed a cap (2%) so the payment would be based off 7.5%. It would be recalculated again in six months and if the LIBOR index did not change your new payment would be based off 9%. In dollars your initial payment on \$200,000 would be approximately \$1,135; for months 24 through 30 the payment would be approximately \$1,384. If rates did not change, an unlikely scenario, the payment for months 30 through 36 would be approximately \$1,579. In this situation many borrowers could refinance at a rate of 6.5%, a payment of approximately \$1,250, just slightly more than the initial payment fixed for thirty years.

If you feel that your initial interest rate is better than what you can obtain in the market and it does not adjust for at least nine months, then sit tight for now. However, if your property is depreciating in value and may be worth less than it was when you purchased it, it may be wise to refinance now to avoid mortgage insurance or the fact that you may owe more than the appraised value. If you're unsure about your house's property value, call a realtor you trust. Most are happy to come to your home for a complimentary "market analysis," where they review selling trends in your neighborhood and guesstimate what your house might sell for.

For many, the time is ripe to refinance. Many borrowers can obtain a better new fixed rate loan, which will generate lower monthly payments than what will happen when the rate on their ARM adjusts. Mortgages are not "one size fits all" anymore. After you know the facts of your own mortgage, consult a mortgage professional to determine your best course of action to make your mortgage work for you.

Ben Colvard is a CCCS board member who has worked in the mortgage industry in Maryland and Delaware for more than 35 years. To help homeowners navigate the changing market, he recently founded 1st Personal Mortgage Service which is located in Ellicott City, MD.

## BEHIND ON YOUR MORTGAGE? ACT NOW TO SAVE YOUR HOME

If you're behind on your mortgage payment, don't wait until it's too late to avoid foreclosure. Take steps now to safeguard your most vital financial asset — your home:

**Step 1 - Make a Reality Check.** List your present take-home pay and other sources of income. Then write down and total up all the household and personal expenses you currently have. Subtract this total from your income. The figure that's left will help you determine how much additional money you need in order to make regular mortgage payments. It also will help you assemble information you may need to supply to your lender.

**Step 2 - Increase Income and Reduce Spending.** Consider increasing your hours at work or taking on an additional part-time job. Look for a better paying job. Study payroll deductions, particularly credit union and insurance costs, to see if they can be reduced. Hold a garage sale. Also look for ways to reduce your costs. Brown bag it instead of eating out. Turn down the thermostat to reduce your utility bill. The Financial Tools section of CCCS of MD & DE's website ([www.cccs-inc.org](http://www.cccs-inc.org)) offers more ideas.

**Step 3 - Contact Your Mortgage Lender.** Describe your situation to the lender. Also be prepared to provide financial information, such as your monthly income and expenses. Without this info, they may not be able to help. Stay in your home. If you abandon it, you may not qualify for assistance.

**Step 4 - Contact a HUD-Approved Housing Counselor.** Find an agency near you online at: [www.hud.gov](http://www.hud.gov).

**Ask a Counselor**

**A:** I have always made my DMP payments by money order. But this can really be a hassle. Isn't there an easier way to pay?

**Q:** Yes! The ACH EASY PAY system makes it possible to have your payment automatically deducted from your checking account each month. Using our online payment service, you also can make payments via the Internet. To make an online payment, follow the instructions in the Client Services section on our website ([www.cccs-inc.org](http://www.cccs-inc.org)). You'll need your PIN and Client Number to make the payment. Call 1-800-571-2227 with any questions.

**A Few Reminders**

**Start the Year by "Paying It Forward":** Do you remember your first counseling session? Did you experience relief when you found out there was a practical way to repay what you owed? If so, this is the time to "pay it forward." If you know someone — a family member, friend, or co-worker — who is in serious debt, please suggest that they contact CCCS of MD & DE at 1-800-642-2227 or visit our website at [www.cccs-inc.org](http://www.cccs-inc.org). Help someone you care about gain peace of mind.

**CCCS Takes Video Online:** Do you have a young adult in your household who will soon be leaving home for the first time? If so, we have something special for you! CCCS has just posted *How to Spend the Rest of Your Life* on its website ([www.cccs-inc.org](http://www.cccs-inc.org)). This 10-minute video uses live interviews with real teens to teach the wise and responsible use of credit. To access the video, simply click on the "Educational Video" icon on the Resources menu.

**Still Paying by Money Order?** If so, here are a few guidelines it pays to follow: Please legibly print all information. Write "CCCS of MD & DE" in the "Pay to Order Of" blank, list your address and phone number below your signature, and write your client number in the corner of the money order. Sign the money order and include the top portion of your statement. Keep a receipt for future reference. No matter which form of payment you use, please send us copies of your creditor statements each quarter.

*A personal finance education advocate since 1966.*

