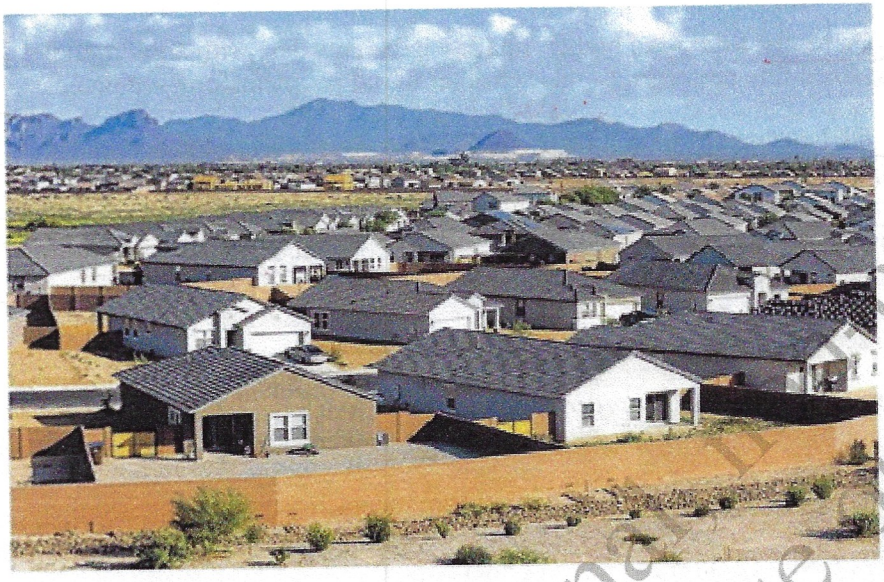
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Attractive rates of less than 3% years ago are now jumping to more than 7%.



FROM TOP: REBECCA NOBLE/ BLOOMBERG NEWS; ANDREW HECKER About 186,000 ARMs are set to readjust next year. Above, a development in Marana, Ariz.



Andrew Hecker's Minneapolis-area home.

Adjustable Mortgages Get Nasty Shock

Payments could rise sharply for homeowners who financed when rates were historically low

BY NICHOLAS G. MILLER

Andrew Hecker never believed taking out an adjustable-rate mortgage in 2019 would be much of a risk. His lender offered him an initial rate about 1.25 percentage points below the 4% rate for a traditional 30-year mortgage at the time. He figured he would move from his home in the Minneapolis area before his rate readjusted in seven years.

Now, he is staring at a mortgage rate jumping from 2.75% to as much as 7.75% in January. That will increase his minimum payments every month from $6,800 to $9,300.

"That basically means every single penny I've been making in extra payments is going to go toward interest," he said. "You look at it and right now in 2026, it's kind of stupid. I should have taken the fixed mortgage."

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Tens of thousands of homeowners have adjustable rate mortgages from years ago that are now resetting, increasing their monthly payments by hundreds or even thousands of dollars, with mortgage rates at their highest point in three years.

The draw of adjustable-rate mortgages is clear. They offer a discounted borrowing rate for an extended period—typically three to 10 years—before floating to the market rate and continually resetting for the life of the loan, often with restrictions on how much the rate can increase at once.

The risk is that market rates have risen by the time the loan resets, leading to higher monthly payments than with a traditional mortgage. But if rates fall, or borrowers move before the fixed-rate period ends, their cheaper initial payment comes at no cost.

Adjustable rate mortgages became notorious for fueling the housing crash of 2008. Lenders offered millions of buyers predatory ARMs with low introductory rates that quickly leapt, forcing many into foreclosure and contributing to the subprime housing crisis and recession. ARMs comprised a third of all mortgages at points in the mid-2000s, and they accounted for the majority of subprime mortgages during the housing bust. Today, adjustable rate mortgages comprise around 5% of active mortgages, and they are less risky because of greater regulation and higher lending standards.

But they are growing in popularity again as more buyers seek refuge from mortgage rates well above 7%.

For the week ended Oct. 30, 11.4% of mortgage applications were for ARMs, according to the Mortgage Bankers Association. That is up from 6.3% at the beginning of the year, when mortgage rates were falling and briefly dipped below 6%.

According to Intercontinental Exchange, 186,000 adjustable-rate mortgages readjust next year, increasing the monthly payment initially by a median $645, which will eventually turn into $754 after getting through rate increase caps baked into the loans.

The largest category consists of people who took out seven-year fixed-period adjustable rate mortgages in 2020. They face a median monthly payment increase of 43%, or $1,269 a month.

"An ARM is riskier for the borrower," said Brad Case, chief resi dential economist at Homes.com. It "can really save money, provided you're not going to stay in your house forever. And many people don't."

"The risk is that it resets and you're not ready to move" and that you can't afford the extra payment, he added.

But ARM borrowers tend to have higher net worths and likely won't have trouble coping with the payment increase, according to Andy Walden, head of mortgage and housing market research at Intercontinental Exchange.

That is because many of the most prolific ARM lenders are those offering jumbo mortgages, which are often used to buy highvalue homes.

Among borrowers who saw an initial ARM payment increase in 2024 and 2025, when rates were slightly below what they are now, more than 98% who were current on their payments before the increase were still current six months later, Walden said.

Still, for homeowners suddenly --forced to pay thousands more every month, the risk is palpable.

Vishal Mishra refinanced into a five-year fixed-period adjustable rate mortgage in 2021—securing a now unthinkable 2.375% rate. Mishra thought the mortgage market in recent years had been pretty stable and knew he could always refinance.

"The rates are not going to go anywhere like crazy because that was a very stable time," he recalled thinking. In hindsight, it was "definitely not a very sound strategy."

In September, his rate readjusted and would have brought his monthly payment up from around $4,000 to almost $6,500. To avoid that, he put down an extra $100,000, bringing his payment down to around $5,000.

Many with ARM resets are trying to pay down as much of their loans as they can.

Meanwhile, Hecker, who still has about $600,000 left on his mortgage, is weighing his options before his rate adjusts. He's leaning toward refinancing into another seven-year ARM at an initial rate of 5.75%. He just hopes he won't regret it. "I really doubt I'm going to be here," he said. "But hey, I probably should have looked at that in 2019, right?"

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