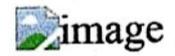
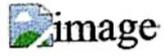
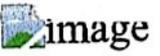


2020-3-16

WSJ Print Edition

War has fueled new inflation fears that could keep rates higher for longer.



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Adjustable-Rate Loans Make a Comeback

Prospect of short-term savings is pushing more to these mortgages

BY VERONICA DAGHER

(1)

Americans are reconsidering adjustable-rate mortgages as a way to cut the cost of buying a home in the short term.

The loans faded from popularity after helping fuel the 2008 financial crisis.

But persistently high mortgage rates have more home buyers turning to ARMs, which tend to have lower rates for a set number of years before floating in tandem with market rates.

Borrowers turning to ARMs are betting that they can refinance before their fixed rate ends, typically after five, seven or 10 years.

While mortgage rates have generally been trending down, the rates on ARMs have been falling faster.

Home buyers are taking advantage of the lower initial teaser rates while waiting for long-term fixed rates to drop.

Back in 2020, record-low fixed-rate mortgages made ARMs an unnecessary risk. Why let your rate float if you could lock in a sub-3% rate for 30 years?

But conditions today are making them look appealing.

Despite briefly dipping below 6% recently, rates have been stuck above that threshold for more than three years. The war in Iran has fueled new inflation fears that could keep rates higher for longer.

So a prospective homeowner might be drawn by a 7-year ARM with a 5.5% rate, which would give them immediate savings compared with a traditional mortgage with a 6% fixed rate.

Ideally, they could refinance into a lower fixed-rate loan before the seven-year period ends.

Some home buyers see ARMs as a way of getting that lower rate sooner than they would with a fixed mortgage. What's more, ARMs are less risky than they once were. The 2008 crisis showed the dangers of rates surging after short teaser periods, but regulations since then have meant ARMs now have longer initial fixed periods, providing a bigger buffer before monthly payments jump. What was once a product geared toward subprime borrowers is now more often used by affluent borrowers.

Still, there is reason for caution. If your financial situation changes—perhaps because of job loss—you might not qualify to refinance when the time comes. There is also no guarantee mortgage rates will fall. ARMs have become especially popular for loans of more than \$1 million. The option accounts for more than twice the share of this \$1 million-plus market than in the overall market as of late last year, according to Cotality. Since these borrowers face much bigger monthly payments, a lower starting rate can translate into more substantial savings. That shows in regional data. ARMs are more prevalent in places such as California and Massachusetts, where home prices may be double the national average. Buyers in these areas frequently use ARMs to reduce their initial monthly payments and qualify for larger loan amounts. Note

Others simply see ARMs as a path to homeownership.

“For many borrowers, ARMs are less a preference and more a necessary tool to access the market or afford a specific home,” said Archana Pradhan, principal economist at Cotality.

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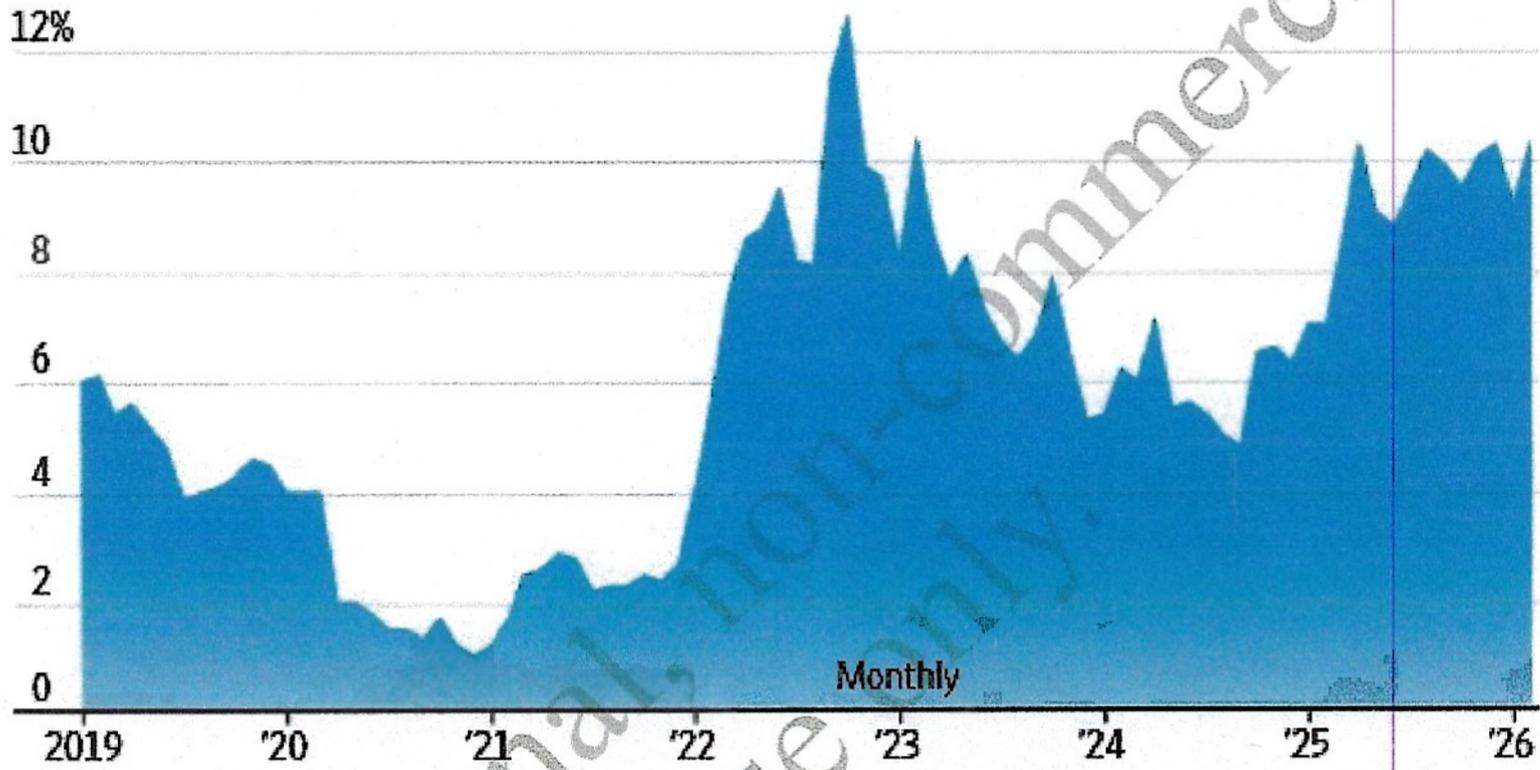
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2026-3-16

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Adjustable-rate mortgages, market share



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ARM vs. fixed interest rates

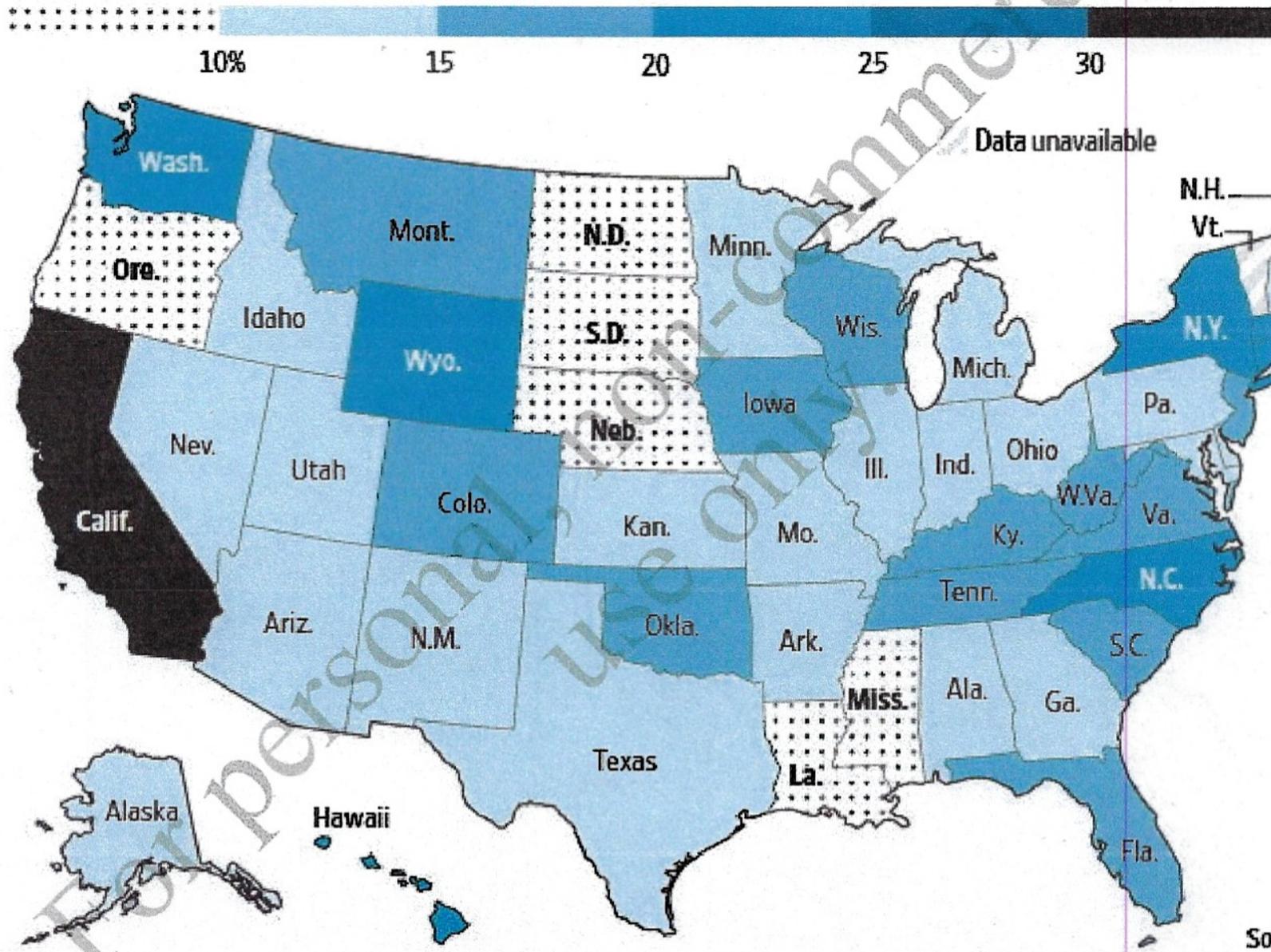


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Share of ARM loans in 2025



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