

Option ARMS vs. Option Fixed

By Fred Solomon, Jr.

The Option ARM & Option fixed loans are the greatest loans in America in order to achieve the lowest monthly payment.

For someone who just lost their job and needs to reduce their mortgage payment dramatically this is a great loan. For someone who had a tragedy recently happen to them and money is a major problem, this is a great loan! The problem is that this loan has potential negative amortization, most likely a pre-payment penalty, and it is an adjustable rate loan. The loan officer will tell you that the payment is fixed for 5 years (which is true), but the rate is adjustable except on the option fixed (which they don't tell you unless you ask – most of the time).

They conveniently forget to mention to you that the loan has potential negative amortization, if rates go up and if you make the minimum monthly payment each month. The loan balance can actually go up each month if you make the minimum payment. If you ask on negative amortization, they will probably explain to you that there are 3 to 4 payment options to make to avoid negative amortization. However, on the option ARM do they tell you that the loan is based on an adjustable rate, unless you ask? They say the payment is fixed for 5 years. Actually, that is close to

true. The minimum payment option has a maximum annual payment cap of 7.5% per year. So that means if the minimum payment in year 1 is \$1,000, the maximum the payment can be in year 2 is \$1,075. Remember on the Option ARM or any ARM loan (for that matter), the loan accrues interest at the Index (MTA, COSI, & a few others) + a margin of anywhere from 2-3%. **The option fixed has a fixed rate for either 5 or 30 years.**

This is the type of information most receive before they talk to Solomon Financial. We call it “BS” – “Before Solomon”. Because, before they met Solomon they found out there is a lot of “BS” out there. People aren't giving the right advice. They aren't recommending the correct loan program. They are just pushing them into a certain loan that may or may not be their best choice. Choice? What's that? We don't offer choices, we offer only one program & one program only & that is the program that makes us the most amount of money in our pocket.

Sounds great over the phone until you see your rate **go up, your loan balance go up** and then find out you have a pre-payment penalty. Then, you are so upset because you were not aware your loan had a 3 year pre-payment penalty. Then, you start to realize that you better get out of that adjustable that might have been sold to you as a fixed payment for 5 years. **A fixed payment for 5 years does not mean that you have a fixed rate**, because the rate is actually

adjustable on the Option ARM. That was all “BS” – *Before Solomon*. The OPTION Fixed is an option to the OPTION ARM where the rate is fixed for 5 or 30 years.

Then, after you met Solomon Financial you found out a great new option to the Option ARM. Yes, it has a Pre-payment Penalty, unless you buy out of it. Yes, it does have Negative Amortization, if you make the minimum payment (but others call it deferred interest – just like calling a used car – Pre-owned). Yes, it has 3 different options on the mortgage statement just like the Option ARM. The Start Rate is between 1-2% (payment option #1), the interest only portion of the loan is available for the 1st 10 years & has a fixed rate (for 5 or 30 yrs) option (payment option #2), or the fully amortized principal & interest 30 yr fixed payment (payment option #3).

We have found that a lot of people are misled about these Option ARM loans.

Option Fixed Facts

- ◆ You can always buy out of the pre-payment penalty.
- ◆ The Negative Amortization is the difference between the 5 or 30 yr fixed interest only option & the start rate (between 1-2%).
- ◆ Here's the best part of this loan, we can do it at zero cost (with a pre-payment penalty).
- ◆ The rate is fixed for either 5 or 30 years.

This is a great option for someone who really can't afford the payment of a 30 year or 30 year interest only. For more details, explanation or comments, e-mail fred@SFMdirect.com Or go to our website and click on “Ask Fred.”

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