



# CIG Trend Talk™

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## Loan: The Option ARM: Myth and Reality

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### 10% - 12% on Private Money

- First: 210 - 220K, Appraised Value: 315K, 70%, Sacramento
- First \$175K, Estimated Value: 425K, Los Angeles
- 70%, First: 154 - 168, Appraised Value: 260K, Beverly Hills, CA
- Stand Alone Second, 45k, Appraised Value: 300K, San Diego

By now, many have heard about the Option ARM (aka, NegAm loans or Pick-A-Pay loans), much of it negative of late. Two weeks ago, Business week's cover story blamed the loan for threatening the US economy. Is it that bad? Or is it as wonderful as some claim? Both. For some, the Option ARM is the greatest financial product ever invented; for others, it's a financial trap. CIG Loan officers are highly trained in this product and can guide you to the correct path.

Option ARMs come in many varieties; all allow at least 3 payment options every month:

1. One payment is the traditional full payment. Principal and Interest
2. One is the interest only payment. Principal is not paid down.
3. One is a payment BELOW the interest only payment, increasing the principal of the loan monthly. This is the minimum payment, and it can be very low (Table 1)

Table 1:

Typical \$500K Loan  
7% Interest, 1% minimum

• Full payment	\$3,326
• Interest Only	\$2,916
• Minimum Payment	\$1,608

Beyond that there are many varieties. Some have monthly variable rates; others fix the rate for 5 or 30 years. The minimum payment period varies tremendously; **some loan payments increase gradually to full payments over 10 years, others suddenly explode in 2 ½ years (but are advertised to last 5 years)!** Understand the loan!

Who should use it? Those who need the cash flow to act SMARTLY with their money:

1. Homeowners who believe they can invest their money at a higher return than the cost of the loan.
2. Real Estate investors, betting on appreciation, use the loan to manage cash flow.
3. Short-term investors use the loan to minimize out-of-pocket expenses.
4. Homebuyers that bet their house will appreciate faster than the principal increases. This is risky, but over the last 5 years, has worked in many markets.

Even those who use the loan correctly should understand all its variables, how fast the principal is increasing and how long the low payments will continue.



Who shouldn't use it?

1. Those who take the loan to live beyond their means
2. Those who do not understand how the loan works.
3. Those who do not work with a well-trained loan officer.

Unfortunately, too many people fall into the second group, thus the bad press. But, it's the opinion of CIG management that the Option ARM is a tremendous product if used correctly. If you want more information, speak to your loan officer.