Reading Passage (254 words): Variable-Rate Mortgage

A popular loan in the 2000's was the Adjustable-rate Mortgage (ARM) or also called the Variable-Rate Mortgage. In the 2000's, the United States economy was stable, and many consumers chose this loan with the intention of selling it or "flipping it" for a profit. Typically, loans in the United States are for 15 or 30 years. The ARM loan allows the consumer to have an adjustable rate that adjusts with the market. The consumer is taking a risk with ARM, but the risk can bring huge profit margins. Consumers opt for this loan for a variety of reasons, but mainly for the short-term benefits and profit.

The first reason is the interest rate. Because the interest rate varies as the housing market does, the consumer has an opportunity to have an initial lower interest rate which benefits the buyer in a short term sense. The buyer could potentially become a seller before the interest rate changes.

The second reason is the initial affordability. Consumers can purchase a very expensive home and have a relatively small mortgage payment in relation to the total purchase price of the house. This allows a family or single man or woman to live in a nicer neighborhood and home and have a chance to increase their yearly salaries.

Finally, ARM allows consumers to become investors. Many consumers purchased a decent or even dilapidated home along with an Adjustable-rate, made some minor or major changes, and "flipped" the house for a huge profit margin.

Writing Prompt: Summarize the information in the lecture showing how it differs from the information in the reading passage.

Lecture (371 words): Problems with the Variable-Rate Mortgage

The American Dream, for many, is to own a house. Some buy a house and live in it for their whole lives, but others buy houses for profit and use an interest rate that fluctuates with the housing market.

There is a loan that was popular in the 2000's called the Adjustable-rate Mortgage or also called Variable-Rate Mortgage; let's call it ARM for short. Let's put some perspective or background into what was happening in the 2000's. You could buy a house for say…$300, 000. Your mortgage payment would be low but would eventually rise significantly in the near future. That was okay because the consumers knew that they could potentially sell that same house in 2 or 3 years before the significant mortgage payment increase. Well, it all sounds fine and great, but there were many unforeseen problems such as the low initial interest rate, affordability, and the chance to invest.

Let's begin with the first problem: the actual interest rate. At the time, many consumers felt that the market was strong and that ARM would work to their benefit. In actuality, the interest rate became the quintessential problem when the housing market began to decline. As the interest rate changed, consumers were overcharged or did not correctly anticipate their debt to income ratio.

The second problem was the initial affordability. ARM allowed families or single men and women to purchase an expensive home with a low initial mortgage. Then and now, most Americans believe that they will get a promotion or make more money over time. Many were able to make the initial payments, but failed to pay after the interest rate increased to a much higher level, therefore no longer making their mortgage payment affordable.

The third problem was consumers' investing in a housing market that was on the decline with the grand expectations of making a huge profit. The unforeseen problem was the housing market crash. Houses like the $300, 000 example were hugely overpriced, and, when investors went to sell the house, the house was worth $150,000. The house would be a total loss, and, to make matters worse, the consumer never knew if they could make back the money lost.

Writing Prompt: Summarize the information in the lecture showing how it differs from the information in the reading passage.