

Alan Greenspan: The Federal Reserve chairman's affection for adjustable-rate mortgages.



“One way homeowners attempt to manage their payment risk is to use fixed-rate mortgages, which typically allow homeowners to prepay their debt when interest rates fall but do not involve an increase in payments when interest rates rise. Homeowners pay a lot of money for the right to refinance and for the insurance against increasing mortgage payments.

Calculations by market analysts of the "option adjusted spread" on mortgages suggest that the cost of these benefits conferred by fixed-rate mortgages can range from 0.5 percent to 1.2 percent, raising homeowners' annual after-tax mortgage payments by several thousand dollars.”

“Indeed, recent research within the Federal Reserve suggests that many homeowners might have saved tens of thousands of dollars had they held adjustable-rate mortgages rather than fixed-rate mortgages during the past decade,”

“American homeowners clearly like the certainty of fixed mortgage payments. This preference is in striking contrast to the situation in some other countries, where adjustable-rate mortgages are far more common and where efforts to introduce American-type fixed-rate mortgages generally have not been successful.”