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Teaser rates in conventional adjustable-rate mortgage (ARM) markets

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Abstract

This article examines the pricing of teaser rates on adjustable-rate mortgages (ARMs). The theory indicates that lenders may offset teaser rates on ARMs through an increase in upfront fees or points, through looser life of loan rate caps, or through higher contract rates after the teaser has expired. Cross-sectional regression results fail to reject the null hypothesis that teaser ARMs are correctly priced.

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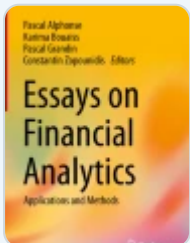
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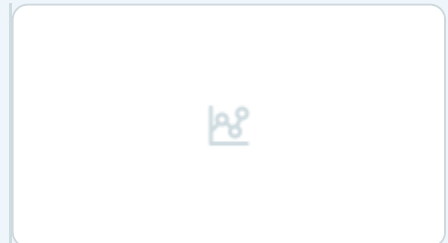
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