

Adjustable-Rate Mortgages, Economic Fluctuations, and Lender Portfolio Change

Michael J. Lea, Peter M. Zorn

First published: September 1986

<https://doi.org/10.1111/1540-6229.00396>

Citations: 12

Abstract

In this study we examine the effects of economic fluctuations on the repayment behavior of a portfolio of adjustable-rate mortgages (ARMs). Because the U.S. experience with ARMs is quite recent, we have used data on a form of ARM used in Canada, the rollover mortgage. The results of our analysis suggest that use of ARMs similar to the rollover mortgage may reduce but not eliminate interest-rate risk for lenders, as borrowers, albeit constrained, prepay above-market-rate loans. In addition, we find that the periodic payment change inherent in the rollover mortgage does not lead to higher default rates and, therefore, credit risk.

REFERENCES

- [1] D. Andrukonis and B. Preiss. Projecting Mortgage Cash Flow. *Secondary Mortgage Markets* 1(2): 13-17, May 1984.

[Google Scholar](#)

- [2] D. Belsley, E. Kuh, and R. Welsch. *Regression Diagnostics*. John Wiley and Sons, 1980.

[Google Scholar](#)

- [3] T. Campbell and J. Dietrich. The Determinants of Default on Insured Conventional Residential Mortgage Loans. *Journal of Finance* 38(5): 1569-1582, December 1983.

[Web of Science®](#) | [Google Scholar](#)

- [4] E. Fine and M. McDonough. Developments in the Residential Mortgage Market. *Bank of Canada Review*: 3-17, October 1984.

[PubMed](#) | [Google Scholar](#)

- [5] C. Foster and R. Van Order. An Option-Based Model of Mortgage Default. *Housing Finance Review* 3(4): 351-372, October 1984.

[Web of Science®](#) | [Google Scholar](#)

[6] P. Hendershott, S. Hu, and K. Villani. The Economics of Mortgage Terminations: Implications for Mortgage Lenders and Mortgage Terms. *Housing Finance Review* 2(2): 127–144, April 1983.

[Web of Science®](#) | [Google Scholar](#)

[7] J. Herzog and J. Early. *Home Mortgage Foreclosure and Delinquency*. National Bureau of Economic Research, 1970.

[Google Scholar](#)

[8] J. Jackson and D. Kaserman. Default Risk on Home Mortgage Loans: A Test of Competing Hypotheses. *Journal of Risk and Insurance* 47(4): 678–689, December 1980.

[Web of Science®](#) | [Google Scholar](#)

[9] D. Lessard. Rollover Mortgages in Canada. In F. Modigliani and D. Lessard, editors, *New Mortgage Designs for an Inflationary Environment*. Federal Reserve Bank of Boston, 1976.

[Google Scholar](#)

[10] H. Peters, S. Pinkus, and D. Askin. Prepayment Patterns of Conventional Mortgages: Experience from the Freddie Mac Portfolio. *Secondary Mortgage Markets* 1(1): 6–11, February 1984.

[Google Scholar](#)

[11] H. Peters, S. Pinkus, and D. Askin. Figuring the Odds: A Model of Prepayment. *Secondary Mortgage Markets* 1(1): 6–11, February 1984.

[Google Scholar](#)

[12] H. Peters, S. Pinkus, and D. Askin. Default, The Last Resort. *Secondary Mortgage Markets* 1(3): 16–20, August 1984.

[PubMed](#) | [Google Scholar](#)

[13] K. Vandell. Default Risk Under Alternative Mortgage Instruments. *Journal of Finance* 33(5): 1279–1295, December 1978.

[Web of Science®](#) | [Google Scholar](#)

ABOUT WILEY ONLINE LIBRARY

[Privacy Policy](#)

[Terms of Use](#)

[About Cookies](#)

[Manage Cookies](#)

[Accessibility](#)

[Wiley Research DE&I Statement and Publishing Policies](#)

[Developing World Access](#)

HELP & SUPPORT

[Contact Us](#)

[Training and Support](#)

[DMCA & Reporting Piracy](#)

OPPORTUNITIES

[Subscription Agents](#)

[Advertisers & Corporate Partners](#)

CONNECT WITH WILEY

[The Wiley Network](#)

[Wiley Press Room](#)

Copyright © 1999-2025 John Wiley & Sons, Inc or related companies. All rights reserved, including rights for text and data mining and training of artificial intelligence technologies or similar technologies.

WILEY