BNY MELLON
WEALTH MANAGEMENT

A Hybrid Mortgage Solution: Flexibility At Your Fingertips

Whether you're thinking of buying a new home or refinancing an existing one, it can help to understand the range of lending options available to you, some of which can provide the security of a fixed-rate mortgage with the flexibility of an adjustable-rate mortgage (ARM). With the ability to combine both, you can get the best of both worlds.

By using two different mortgage products that are secured by one property, you may be able to get a lower blended rate and improved cash flow, ultimately matching your time horizon for how long you hold the debt with how long you lock in the rate.

Key Differences Between Fixed-rate Mortgages and ARMs

While fixed-rate mortgages maintain a predetermined interest rate for the full duration of the loan, interest rates on ARMs change periodically, causing monthly payments to fluctuate. Because lenders must consider the possibility of rates rising in the future, fixed-rate mortgages tend to carry higher rates than ARMs, which move in unison with their benchmark rate. Therefore, during the first few years, ARMs can provide borrowers with more capital to put toward the principal as well as increased liquidity for other spending needs.

Do ARMs Still Have Charm?

Historically, ARMs have ranged from 40 basis points (bps) to 100 bps lower than 30-year fixed-rate mortgages.[1] The price incentive—along with the fact that only a small percentage of homeowners keep the same mortgage for more than 10 years—means you shouldn't rule out ARMs completely. With interest rates on the rise and further rate hikes expected, homeowners looking to purchase or refinance should not necessarily base their mortgage decision on how long they intend to hold the home; rather, they should consider how long they intend to hold the mortgage.

Matching the time frame in which you hold the debt with that of the rate lock period is a strategy worth considering. Those who prioritize long-term stability often choose a fixed-rate mortgage that locks the rate for 15 to 30 years. To that end, it's not surprising that the 30-year fixed-rate mortgages were the product of choice for over 95% of all mortgages funded in 2021.[2]

However, the question remains: should you consider an ARM in a rising rate environment? The answer is: it all depends. At BNY Mellon, clients use mortgages not only to manage cash flow, but also to access liquidity, maximize tax deductibility and manage their tolerance for risk. The reason you might choose an ARM is not just because the rate is lower than a fixed-rate product, but because the initial rate lock period better matches the duration you plan to hold the debt.

You Don't Have to Choose One Over the Other

With a BNY Mellon Hybrid Mortgage Solution, you have the ability to select from any of our adjustable-rate or fixed-rate products. One of the most popular combinations tends to be a shorter-term ARM with a longer-term fixed-rate mortgage or a longer-term ARM. You can use multiple mortgage products to yield a lower blended rate and manage interest rate risk with a rate lock that you select. Hybrid mortgages can be useful for those who anticipate liquidity events, are looking to manage their tolerance for risk or have a BNY Mellon mortgage and are looking to access the equity in their home.

Scenarios for a Hybrid Mortgage Solution	
Manage Tolerance for Risk	This mortgage client requested a $2 million loan for the purchase of a primary residence. They liked the fact that the 1-Month ARM was almost 300 basis points lower than the average 30-year fixed-rate mortgage but was hesitant to put the entire loan amount in a short-term ARM, given that rates were rising. BNY Mellon's mortgage banker structured a Hybrid Mortgage Solution utilizing two products. The banker structured $1 million in a 1-Month ARM, allowing the client to take advantage of a low interest rate and increase his cash flow. The remaining $1 million was put into a 30-year fixed-rate loan. This structure gave the client peace of mind, a hedge against rising rates and an overall lower blended rate, than if he chose a 30-year fixed for the entire loan amount.
Future Liquidity Event	The client wanted to refinance a $4 million mortgage on her primary residence and planned to pay down 50% of the principal within five years by using a distribution from the sale of her business. BNY Mellon's mortgage banker recommended a Hybrid Mortgage Solution comprised of a 5-year ARM, which would lock the rate for the first 5 years on the first $2 million and a10-year ARM for the remaining $2 million, providing the client with long-term rate protection for the ten years she intended to hold the mortgage.
Access Equity in Home and Keep Low Rate on Existing BNY Mellon Mortgage[3]	The client had a very low fixed rate on a BNY Mellon first mortgage and was interested in leveraging the equity in his home to fund a new trust he was establishing for his children. If he refinanced the first mortgage, he would lose his low interest rate. BNY Mellon's mortgage banker recommended a Hybrid Mortgage Solution where the client retained the low rate on his BNY Mellon first mortgage and accessed the equity through a BNY Mellon second mortgage. The cash proceeds from the second mortgage were used to fund the children's trust.

Unrivaled Expertise

Borrowing is a critical component to managing wealth, allowing you to stay invested. In our experience, wealthy investors don't necessarily need to borrow; they choose to borrow. We believe that managing both side of the balance sheet requires strategic and prudent use of leverage to achieve your objectives.

Our mortgage bankers work closely with clients and advisors to create lending solutions which enable them to better manage the impact of taxes, strategize spending, raise liquidity and protect their overall wealth, providing an alternative to liquidating investments. Mortgages are not only used to acquire or construct a primary or secondary home, but the proceeds can be used to fund a trust, transfer wealth, or make future investments.

With decades of experience in facilitating jumbo mortgage lending, we have unrivaled expertise in designing and managing home financing solutions. Our mortgage bankers serve as a single point of contact throughout the financing process and execute each transaction with speed and personal care.

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[1]St. Louis Fed: Economic Research – 30-year fixed-rate jumbo mortgage index vs. 5-year adjustable-rate mortgage average in the United States. Accessed April 18, 2022.

[2]U.S News: Adjustable or Fixed-Rate Mortgages: Which is better? December 6, 2021.

[3]Eligibility for a Hybrid Mortgage that accesses equity in the home requires BNY Mellon, N.A. to be in first and second lien position and any other liens must be subordinated.

Mortgage services, provided by BNY Mellon, N.A., are subject to application and credit approval. Interest rates subject to change. Minimum loan amount: $500,000. NMLS #764464