



Option ARMs Expected to Lead Next Wave of Foreclosures

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Since February 2009, default and foreclosure rates on option adjustable rate mortgages have passed those of subprime mortgages, which led the initial wave of foreclosures. Option ARMS accounted for \$750 billion in mortgages between 2004 and 2007, and they remain at risk, especially because many are not eligible for refinancing.

About one-third of option ARMS are already in default, and it is expected that 600,000 option ARMS will reset within the next four years. According to Barclays Capital, 81% of the option ARMs originated in 2007 are expected to default, with many ending in foreclosure. Barclays projects that banks will lose \$112 billion on option ARMs written from 2005 to 2007.

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