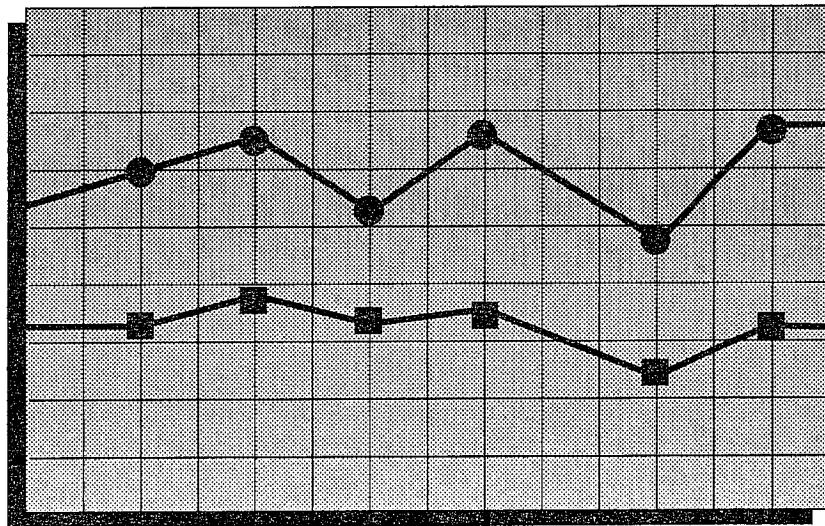


ARM White Paper



*An examination of the
Great Western-designed
Adjustable Rate Mortgage*

GREAT
WESTERN



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FOREWARD

In 1981, a new mortgage loan instrument was introduced that would forever change home financing. The adjustable rate mortgage (ARM) loan, pioneered by Great Western Bank along with a handful of California savings institutions, was created to ease a home lending crisis during a period when interest rates were at record levels, and when funds for home loans had all but disappeared — at any interest rate.

After eight years of volatile interest rate movement, the ARM remains the single most effective loan that bridges the “affordability gap” through all interest rate cycles. The ARM continues to allow thousands of potential buyers to participate in the American dream of individual home ownership. It helps thousands who are unable to qualify for fixed rate mortgage loans.

While there has been some standardization among lenders in the type of adjustable rate mortgage loans offered, more than 120 different types of ARMs are available to consumers. Not all ARMs are alike; each has distinct characteristics that make it behave differently.

This *ARM White Paper* is designed to provide real estate professionals, REALTORS®, journalists, legislators, consumer groups and others with a careful examination of ARMs, how they work and how important they are to mortgage financing today and tomorrow.

The *White Paper* profiles Great Western’s most popular ARM loan in detail, one that is tied to the 11th District Cost of Funds Index. It specifically pertains to residential (one- to four-unit) ARMs and related ARM loan products.

Great Western, which introduced its ARM in the spring of 1981, is one of the nation’s leading residential mortgage lenders and has originated nearly one-half million ARMs totaling \$40 billion since the product’s introduction in mid-1981.

Great Western’s \$42 billion dollar loan portfolio, some 400,000 loans, comprises primarily residential monthly adjustable rate mortgages.

A New Breed of Financing: The Adjustable Rate Mortgage

“’Tis well an old age is out, and time to begin a new.”

—John Dryden

Adjustable rate mortgages (ARMs) were introduced in 1981, a year that may be remembered best for another kind of mortgage — the 15 percent fixed rate loan. It was a year in which soaring interest rates first raised the specter of a growing “affordability gap,” with tens of thousands of families priced out of the home market by each new increase in the interest rate charged for fixed rate loans.

The same mounting interest rates had already hurt the thrift (savings and loan) industry, which originates the greatest percentage of home mortgages. Savings institutions’ mortgage investments had long been limited to fixed rate mortgages, often at interest yields of eight percent or less; but by the early 1980s thrifts’ own money costs were more than 10 percent. This “negative spread” produced record losses across the industry — losses of more than \$12 billion — and many thrifts simply quit making mortgage loans.

This decline in mortgage lending made it more difficult for home buyers to obtain mortgages, even at high rates. Over time, it appeared likely that fewer and fewer lenders would remain committed to residential mortgage lending and that no mortgage money would be available, at any price, during some parts of the interest rate cycle.

A NEW MORTGAGE FOR A NEW ERA

Enter the ARM — the adjustable rate mortgage. The ARM was created by the thrift industry to help control the costs of home financing to consumers and thrifts. ARMs offered lower initial interest rates than fixed rate mortgages, which helped more consumers qualify for home loans. The ARM was also developed to help thrifts survive, too — particularly the portfolio lenders which focused on mortgage loans as the central part of their asset base. The creation of the ARM allowed portfolio lenders to remain in the housing finance market on a consistent basis, providing the most affordable possible financing throughout the interest rate cycle.

An ARM is called “adjustable” because its interest rate, and therefore its monthly payment, can change. All ARMs are by regulation required to be tied to an index that is not in the control of the lender and which tends to reflect changes in economic conditions. Both the interest rate and the monthly mortgage payment adjust at regular intervals to reflect changes in the index to which the ARM is tied.

Adjustable rate mortgages offered lenders a way to avoid at least some operating losses when interest rates were high. It no longer made sense — after deregulation — for thrifts to provide only 30-year fixed rate loans that required lenders to tie up their money well into the 21st century. **This would be the equivalent of an employee locking himself into a contract to work for the same salary for 30 years** — even though the cost of living is almost certain to rise. During the early 1980s, because most thrifts held only fixed rate loans, more than 1,000 savings institutions disappeared.

With the advent of the ARM and its precursor, the variable rate mortgage, borrowers began to share some interest rate risk. In return they received low introductory rates, plus the benefit of lower mortgage payments when interest rates went down, lower overall rates, lower “points” and fees associated with taking out a mortgage, and consumer protections such as caps on interest rate and payment adjustments — year-to-year and over the life of the loan — and the option to defer interest.

BORROWER ACCEPTANCE

Not surprisingly, some home buyers found the new ARM loans confusing — as no standardization existed, and more than 150 different types of ARMs soon became available. But ARMs were much more appealing than the other choices available during the same period. One was a fixed rate 30-year mortgage with an interest rate of 15 percent or more. The other was a mortgage loan that was a throw-back to the 1920s — a balloon note with all principal due in a lump sum at the end of five years. The extraordinarily high interest cost of the former and the financial guillotine threat of the latter were frightening to borrowers.

Faced with such alternatives, home buyers began to choose the ARM. Within a few years, about 70 percent of all new mortgage loans came to be ARMs.

ARM PROVES ITS VALUE TO BORROWERS

Over the course of the last decade, which has been marked by historical higher and lower interest rate cycles, ARMs have proven their essential value to the borrower and the entire real estate community:

- ARMs have helped to make housing affordable for hundreds of thousands of first-time buyers who were priced out of the housing market.
- Thousands of both first-time and move-up borrowers who chose ARM loans over the last several years have found that ARMs were a better value than fixed rate loans, offering reductions in interest rates and lower monthly payments.

- The majority of the thrift industry, which is devoted to helping families buy homes, is healthier today because of ARMs. This assures home buyers a steady supply of financing for mortgage loans at all points in the interest rate cycle. **This is why portfolio lenders are so crucial for consumers: ARMs assure that they can be in the market at all times with funds for home buyers.**
- Without ARMs, the availability of any home financing would have been sharply reduced — if not eliminated — during periods when interest rates were rising.

CHOOSING A BETTER ARM

Great Western believes that its primary ARM loan is the best mortgage loan product currently available. Since its introduction of ARMs in 1981, the company has written more than \$40 billion in ARM loans. The Great Western ARM is designed to strike an equitable balance between protection and savings for the consumer and a cushion against losses for the lender.

This Great Western ARM protects the borrower from sharp swings in interest rates because it is tied to what has been the most stable monthly interest rate index for ARMs, the 11th District Cost of Funds index of the Federal Home Loan Bank. Because the Cost of Funds index has been more stable, it did not decline as rapidly as other indices, it also did not rise as rapidly — an important consumer protection. Moreover, the Great Western ARM in a falling interest rate environment recently saved customers thousands of dollars in interest payments. In addition, the Great Western ARM gives consumers more options than fixed rate loans, with a variety of choices about payment schedules, more flexible qualifying terms, faster processing because most do not require Private Mortgage Insurance, no prepayment fees and an assumability feature. The Great Western ARM also provides a good value because it offers predictable monthly payments, lower initial interest rates and the substantial savings in closing costs that result from lower “points” and fees.

Great Western customers clearly prefer the ARM as approximately 90 percent chose ARMs even during mid-1987 when interest rates bottomed to produce a nine-year low in rates for 30-year fixed rate loans. Simultaneously, interest rates on Great Western ARMs reached their lowest levels ever. More than 50,000 Great Western ARM customers, for example, benefitted from reductions in interest rates — with total average monthly savings of more than \$1 million in 1985 and 1986. Even when interest rates have been low, Great Western has remained one of the nation's leading originators of ARMs, writing more ARMs for more home buyers than any other single lender in California, the biggest ARM market in the country.

MOBILE AMERICA

But low rates are not the only reason the vast majority of home buyers choose an ARM. Lifestyles and financing needs play a major role as well. The average home price is still climbing, and move-up home buyers who require larger homes — and larger mortgage loans — are choosing ARMs.

So are many "mobile Americans." (The typical American family moves every five to seven years.) These consumers recognize that the benefits from an ARM — lower monthly payments, lower initial interest rates, and lower closing costs — can help them to save money compared with 30-year fixed rate loans. Also, because Great Western ARMs carry no prepayment fees and are fully assumable to qualified buyers, it may be easier to sell homes financed with the Great Western ARM.

In the last two years, the company originated more than \$20 billion in real estate loans, mostly residential ARMs.

The Mortgage Industry Before the ARM

"Upon this point a page of history is worth a volume of logic."
—Oliver Wendell Holmes

About half of all mortgage loans in this country are made by the thrift industry. Historically, thrifts were established to serve middle- and working-class families by providing a safe haven for their family savings and a source of funding for home ownership. By law, thrifts for many years paid interest rates on deposits higher than banks and used those customer deposits to fund home loans and help families buy their own homes.

The traditional mortgage loan — from the 1930s through the 1970s — was a fixed rate note with a 30-year term. During this period, the interest rates the industry could charge for deposits were regulated by the U.S. Government. Variable-rate loans of any kind were rare before the 1960s and were not common until computers could be used for the complicated task of calculating the effects of changing interest rates.

The traditional formula for thrift operations was simple. Savings and loans accepted savings deposits and paid, for example, 5.5 percent interest (the maximum rate was set by federal regulations) and then loaned the money out in the form of mortgages, usually at rates between 6.5 and 8.0 percent. Home buyers deducted mortgage interest payments from their federal taxes and, in most markets, profited from steady increases in home values.

ONE-SIDED DEREGULATION

By the end of the 1970s, however, problems were developing in the industry. Consumer dollars — once invested for savings almost exclusively in the thrift and banking industries — began to chase the higher yields offered by other investments. In short order, trillions of dollars in customer deposits were lost to uninsured money market funds, which paid higher, unregulated interest rates. During the mid-1970s, for instance, total deposits in thrift savings accounts increased at an average rate of more than 17 percent annually. By 1981, the net annual increase in deposits had declined to only 2.8 percent. Since new deposits created the pool of funds available for mortgage loans, this slow rate of growth meant that savings and loans had less money available to lend.

To stem this loss of deposits — which was also known as “disintermediation” — Congress in 1980 deregulated the interest rates thrifts could pay for savings accounts, allowing savings institutions to offer money market rates to depositors. Unfortunately, this one-sided deregulation affected only the deposit — or liability — side of the industry. While this helped thrifts attract deposits, it also greatly increased their cost for such funds and their resulting risk exposure when they held large portfolios of low-yielding fixed rate loans, as most did.

As interest rates climbed and thrifts paid higher interest rates to depositors, there was no offsetting increase in the income received from mortgage lending — because **only one side of the business was deregulated**. In short order, this created a “mismatch” between lower loan yields for thrifts and higher rates paid to depositors. The result was an erosion of profit margins that was devastating to the industry. In 1984, the Federal Home Loan Bank Board released these figures:

**Cost of Funds and Interest Return on Mortgages
for Savings Institutions**

<u>Year</u>	<u>Cost of Funds</u>	<u>Mortgage Return</u>	<u>Spread</u> ¹
1976	6.38%	8.00%	1.32%
1978	6.38	8.50	1.83
1980	8.94	9.34	0.40
1981	10.92	9.91	-1.01*
1982	11.38	10.68	-0.70*

*Negative spread

¹ Must cover taxes, overhead and provide for profit.

Because of this one-sided deregulation the costs to attract funds for mortgage loans in 1981 and 1982 were much higher than the returns from existing mortgage loans. Thrifts were confronted with a no-win situation — unless Congress would act to deregulate further the asset side of the thrift industry.

This situation created the worst crisis in the history of the thrift industry. According to the U.S. League of Savings Institutions, federally chartered thrifts had combined profits of 9.57 percent of revenues in 1977, declining to 1.38 percent in 1980; in 1981, the industry actually suffered losses on operations of 6.96 percent, and in 1982, losses of 5.64 percent. Pre-tax losses totalled more than \$12 billion in 1981 and 1982.

Imagine a baker contracting to provide a family with bread at 50 cents a loaf for 30 years, no matter what happened to his expenses for flour, yeast, labor and delivery trucks. The baker would almost certainly go out of business before the 30 years were up. What the early 1980s taught thrifts, and their regulators, was a lesson that bakers and other businesses had known all along.

One potential solution to the problem was for mortgage lenders to stop making home loans altogether, and many did just that. This was impractical for most thrifts, though, because their main line of business — and income — traditionally had been mortgage lending.

Such a solution also would have severely injured consumers, who were already finding it nearly impossible to buy homes because of high mortgage rates. During this period, the percentage of Americans owning their own homes fell slightly, from almost 65 percent to just over 64 percent. This was the first decline in home ownership rates since the Great Depression.

AFFORDABILITY GAP

Another possible solution was to increase the cost of mortgages, but consumers were naturally reluctant, if not unable, to take out 30-year loans at rates of 15 percent or more. Here is a profile of how monthly payments vary with interest rates:

**Monthly Mortgage Payment on a \$100,000 Mortgage
30-Year Fixed Rate
Including Principal, Interest, Taxes and Insurance**

<u>Interest</u>	<u>Payment</u>
8%	\$ 734
9	805
10	878
11	952
12	1,029
14	1,185
15	1,264

If a family planned to devote only 25 percent of its monthly income to mortgage payments, it would need an annual income of \$35,232 to qualify for the 8 percent mortgage. At 15 percent, the same loan would require an annual income of \$60,672. And, in late 1981 and early 1982, 15 percent mortgage rates were common. Many potential home buyers were locked out of the market because they couldn't afford financing. This created a widening "affordability gap" that prevented tens of thousands of potential home buyers from owning their own home.

NARROWING THE GAP

A third potential solution was the introduction of a product that would strike a balance between affordability for home buyers and fair, stable profitability for lenders: the adjustable rate mortgage loan. The idea underlying the ARM was not entirely new. In 1968, regulators in California and several other states allowed lenders to offer a product called the variable rate mortgage (VRM). These loans were somewhat similar to the ARMs offered today, but the original VRM was not a

fully **adjustable** loan. The VRM's interest adjustments were limited to a lifetime interest rate cap of 2.5 percentage points over the initial interest rate. Increases and decreases were also limited to a 0.25 percentage point at specified intervals. During the late 1970s and early 1980s, when interest rates swung wildly from less than 10 percent to more than 20 percent, this cap did little to protect mortgage lenders.

Despite these limitations, Great Western emphasized the VRM in its marketing, converting 70 percent of its mortgage portfolio to VRMs between 1975 and 1980, because the alternative would have been so much worse. This conversion made Great Western considerably stronger through the periods of increasing interest rates in the late 1970s and early 1980s. While VRMs did not adjust enough to keep pace with rising interest rates, they did provide Great Western with some protection and kept its losses lower. Similarly, Great Western VRM borrowers found that, while their VRM mortgage interest rates increased, the rates were generally well below the rates for new fixed rate mortgages.

The Debut of the ARM

"For the first time, those of us who originate home mortgages have been able to design a loan, rather than have it created by the political process. The result is a loan that is the most sensible quid pro quo between the borrower and lender yet developed."

— James F. Montgomery
Chairman & Chief Executive
Great Western Financial Corporation

Congress acted to deregulate the asset side of the thrift industry in 1981. Rather than design another loan product, the government allowed thrifts to invent their own mortgage: the adjustable rate mortgage (ARM).

But at first, there were signs of hesitation and misunderstanding among some consumers. Many borrowers confused the new ARM with the old VRM — two very different loans. Moreover, lenders began to offer ARMs that did not feature some consumer protections such as a payment cap and lifetime interest rate cap. Nonetheless it quickly became clear that ARMs had an important point in their favor: affordability.

ARMs were more affordable because they were offered at lower rates. Lenders, because they were sharing some risk with the borrower, rewarded home buyers by offering lower initial rates. The initial rates would eventually be adjusted to reflect the prevailing interest rate of an index to which the loan is tied — plus a margin — and that adjusted rate could be higher or lower than the initial rate. In practice, lenders have been able to price ARMs lower than fixed rate loans to compensate borrowers for sharing the interest rate risk. These lower ARM rates effectively lowered the cost of home buying for thousands of potential buyers who could not afford the high interest rates on 30-year fixed rate loans. Soon, the popularity of ARMs began to grow.

MORE PEOPLE QUALIFIED

Pricing advantages, combined with appropriate consumer protections, proved irresistible for borrowers. By 1984, more than 70 percent of all new home loans nationwide were ARMs. The percentage of home buyers that chose ARMs was even higher in areas with above-average home prices such as California. In these areas, many of the first-time borrowers taking ARM loans would otherwise have been closed out of the market because of the effects of expensive housing costs and high interest rates. Many move-up buyers also would have been closed out of the market of their choice for these same reasons.

BETTER QUALIFYING RATIOS

Most fixed rate mortgage lenders require that the borrower meet strict qualifying standards to allow the lender to sell the loan on the secondary mortgage market. Typically, fixed rate loans require that the borrower's monthly mortgage payment (principal, interest, taxes and insurance, or PITI) be no more than 25 percent of gross monthly income. Moreover, fixed rate lenders generally limit the total monthly payment for all debts to no more than 33 percent.

Major ARM portfolio lenders, such as Great Western, can adopt more flexible qualifying ratios for borrowers. Typically, the monthly mortgage payment can be as much as 28 percent of an ARM borrower's gross monthly income, and the total monthly debt can be as much as 38 percent. Most important, these ratios are guidelines and are sometimes increased depending on individual circumstances. This allows many first-time and move-up home buyers to qualify for an ARM who would otherwise be closed out of the home market because they either do not meet the relatively inflexible qualifying criteria for a fixed rate mortgage or cannot afford a home of their choice with a fixed rate mortgage.

NOT ALL ARMS ARE ALIKE

Because each savings institution developed its own ARM products, many different adjustables soon became available. Consumers who had grasped the concept of adjustable mortgages then found themselves confronted with the further challenge of deciding among more than 150 different types of ARMs.

What quickly became clear was that not all ARMs are equal. There are a few key elements: the index to which the interest rate is tied, the initial rate offered, the margin added to the index, payment and interest caps, and the protection against sudden spikes in interest rates. These features vary widely, and each can have an affect on a family's income and home purchasing power.

Over time, a few ARMs have come to dominate many markets. One of the most popular of these is the Great Western-designed ARM. This product has won wide acceptance from home buyers and borrowers, as well as thrifts and other investors who have purchased Great Western ARMs to hold in their own portfolios. Great Western believes that its loans are more popular because of these features:

1. An interest rate pegged to the 11th District Cost of Funds Index with an appropriate interest margin.
2. A cap on annual monthly payment increases (except when the loan is reamortized in the 10th year and every 5th year thereafter).
3. A lifetime interest rate cap.
4. Predictable monthly payments.
5. Flexible payment options when interest rates are high.

These features create important protections for the home buyer. First, the

Great Western ARM minimizes "payment shock", which occurs when monthly payments increase too rapidly, and provides as much flexibility as possible in repayment and prepayment options.

INDEX STABILITY

Second, Great Western ARM interest rates are pegged to what has demonstrated to be the **most stable** interest rate index to be used, the 11th District Cost of Funds index. This rate ties ARM payments to the closest and fairest independent measure of the thrift's own cost of money. It also protects Great Western customers from the sudden sharp increases in interest rates that have occurred several times since the late 1970s. **Another common index, the Treasury Securities Constant Maturities Index, rose above 13 percent for a total of 22 months between 1979 and 1985, reaching a high of 16.72 percent. The highest rate ever for the 11th District Cost of Funds was 12.673 percent, and that was for only one month.**

The monthly swings in other ARM's indices — changes in the average rate up or down — are more pronounced. Historically, the Treasury index has been 80 percent more volatile than the cost of funds index, while another ARM index, the six-month CD rate index, has been 100 percent more volatile than the cost of funds index.

PREDICTABLE PAYMENTS

Third, Great Western ARM payment schedules are adjusted annually, with limits placed on increases in costs to borrowers. A monthly payment can rise no more than 7.5 percent annually. For a homeowner with a monthly mortgage payment of \$1,000, the payment could not increase more than \$75 more per month (before the loan is reamortized) in the worst case possible. Other ARM's allow for greater and more frequent monthly payment increases, which can result in payment shock. These ARM's typically have a yearly cap of **two percentage points** on increases in the **interest rate** on the loan. These can mean much larger monthly payment increases.

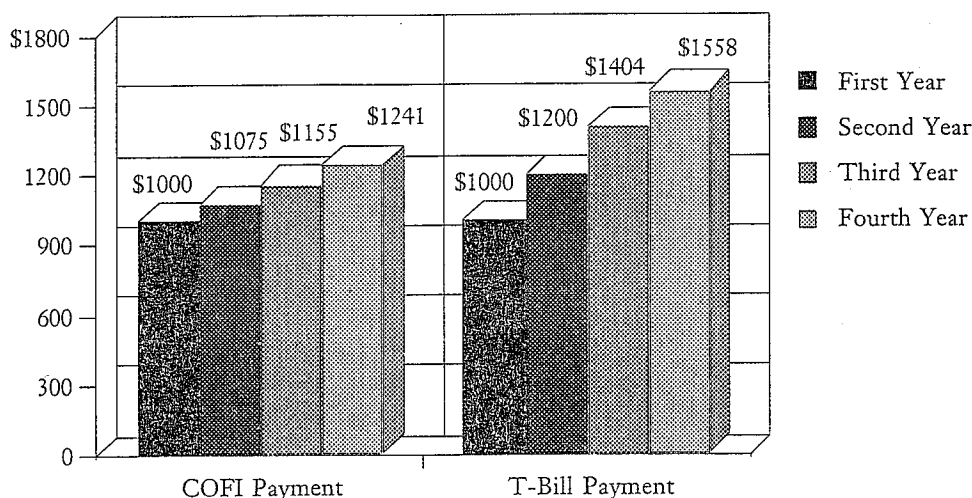
PERCENT VS. PERCENTAGE

Otherwise knowledgeable commentators and even real estate professionals routinely mix the terms "percent" and "percentage points" when comparing ARM's. A two percent annual interest rate cap, which is common in many mortgage loans, really is a two percentage point annual interest rate cap. A two percentage point interest increase in one year, which would bring a mortgage with a 10 percent interest rate to 12 percent, results in a 20 percent increase in the interest owed. Thus, if the deferral of interest is not allowed, the monthly payment must increase by 20 percent.

A 7.5 percent increase in the **monthly payment**, which is a protection built into the Great Western ARM, means that, at the end of the year, the monthly payment is limited to an increase of only \$7.50 for every \$100 in the borrower's monthly mortgage payment.

For the homeowner with a \$1,000 monthly payment, if interest rates rose two percentage points, with a 7.5 percent payment cap, the most the borrower's monthly payment could rise would be \$75 — to \$1,075. But a borrower with a two percentage point yearly interest rate cap on the loan would face a monthly payment increase of more than \$150 a month, or more than 15 percent, if not capped. One such increase can provoke payment shock, and several could well price the homeowner out of his home. Because the Great Western ARM will limit payment increases to 7.5 percent of the monthly payment, it protects the homeowner better from such sudden spikes in payment levels.

Monthly Payment Comparison Cost of Funds vs. 1-Year T-Bill Index



CONSUMER PROTECTIONS

Fourth, the most popular Great Western ARM allows borrowers to decide how to proceed when interest rates rise faster than their monthly payments. In such cases, Great Western ARM borrowers can decide to increase their monthly payments at once or to defer the unpaid interest until a later date, based on their own family financial requirements. For some homeowners this can mean the difference between owning a home and losing a home. (See Chapter 5, In Focus: Deferred Interest for a more thorough explanation.)

BENEFITS WHEN RATES GO DOWN

In addition to these important protections, the Great Western ARM has demonstrated that ARMs can remain competitive with fixed rate loans even when interest rates are low. To date, virtually all of Great Western's ARM borrowers have paid lower rates than they would have paid if they had chosen fixed rate loans when

they financed their homes. In addition, as interest rates have fallen, borrowers have been paying off their mortgage loans much faster than they would have with fixed rate mortgages. So in addition to savings thousands of dollars in interest payments — which could have added up to tens of thousands of dollars in future interest payments — the homeowners' equity build-up has accelerated in tandem with an acceleration in the repayment of the principal.

A good example is the mortgage held by Mark and Frances Anderson, whose ARM experience is typical of thousands of borrowers who saved when rates went lower. The Andersons took out a Great Western ARM in 1981 to finance a retirement home they were building in Hawaii. In total dollars, they were ahead by \$9,105.64 in five years, and they sold their home.

If the Andersons had taken a fixed rate loan, their payments between 1981 and 1985 at \$1,681.25 a month would have amounted to \$75,656.25, or about \$6,000 more than they actually paid. In addition, their loan balance, which would have been more than \$124,000 after four years with the fixed rate note, was actually \$120,987.00 after four years of ARM payments.

The Andersons' case is not an isolated one. By the end of 1986, more than 50,000 families had seen their monthly mortgage payments decline with Great Western ARMs; this translated into a combined savings to these consumers of as much as \$1 million a month in lower interest payments.

PROTECTION WHEN RATES RISE

In a rising interest rate environment, borrowers are protected from huge increases in their monthly payment by a monthly payment cap. The more stable cost of funds index has provided additional cushion because the index has been less volatile and shields the Great Western ARM from sudden spurts in mortgage interest rates. A lifetime cap provides added safety by limiting the maximum level to which interest rates can rise. Moreover, historically, in a rising interest rate environment, housing values increase (See Chart on Page 24). This helps keep borrowers ahead in terms of equity should proportionately higher interest payments increase during a rising cycle of interest rates.

SECONDARY MORTGAGE MARKET SALES

ARMs have also proven their value in the secondary mortgage market, in which institutions sell pools of mortgages to investors who receive a portion of the income from such loans. (When a loan is sold, the seller often maintains responsibility for billing and collection and turns the payments, less a servicing fee, over to the buyer.)

When ARMs were introduced several years ago, secondary market investors were wary. They were concerned about ARMs, fearful that these loans would produce massive payment delinquencies and eventually foreclosures. They also wondered whether the majority of consumers would immediately convert to fixed rate loans as soon as interest rates went back down. Neither has happened.

In recent years, as ARMs have begun to prove their long-term value, secondary market acceptance has widened. While pricing conditions can vary considerably in the secondary market, it was not uncommon for the early loan pools of ARMs to be sold at a premium (over par).

SAFETY AND SECURITY

Additional evidence of the benefits of ARMs has been offered by the Federal Home Loan Bank, the regulator that sets minimum net worth requirements for the thrift industry. The 1987 revision in FHLB net worth requirements set lower capital requirements for thrifts with large portfolios of ARMs. This special credit was FHLB's way of recognizing that ARM loans make a savings institution more safe by offsetting the traditional mismatch that had existed between loans and deposits. ARM lenders, the FHLB believed, were in a better position to remain healthy should interest rates rise in the future.

How to Find a Better ARM

“Quality is never an accident; it is always the result of intelligent effort.”

—John Ruskin

While the term “adjustable rate mortgage” has become common, these loans go by a variety of names, including adjustable mortgage loan, affordable loan, variable mortgage, and monthly adjustable. In fact, hundreds of institutions cumulatively offer more than ten dozen different ARM products in today’s market. This is because each lending institution designed its own loan products in the months and years immediately following deregulation.

The features generally found in all ARMs are these:

- Interest rates pegged to an index and adjusted at set intervals.
- Payments adjusted at set intervals.
- Total changes in interest rates, up and down, capped for the term of the loan.
- Lower initial interest rate.

Over time, lenders have adjusted their products to appeal more to consumers and the secondary market. The Great Western ARM is one of several widely copied products.

GREAT WESTERN ARM

The chief identifying characteristics of Great Western’s most popular ARMs are these:

- All interest rates are adjusted monthly based on changes in the 11th District Cost of Funds, with payment changes coming only once a year at the loan’s anniversary date.
- Loans are re-amortized at 5- or 10-year intervals, if needed, to assure repayment at the end of 30 or 40 years. Borrowers avoid balloon payments with the Great Western ARM.
- No pre-payment fees are charged for full or partial repayment of mortgage principal.
- All Great Western ARM loans are fully assumable to qualified buyers, subject to possible adjustments of caps.

Each of these elements has been adopted after careful evaluation of the home finance market, and Great Western believes that the combination of these elements provides the greatest flexibility for the home buyer, as well as a margin of profit for the company.

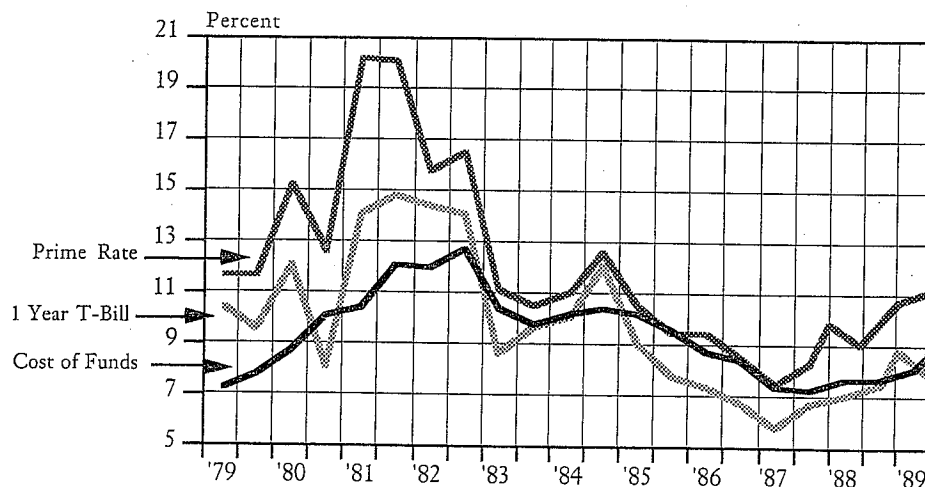
11th DISTRICT COST OF FUNDS

The most important structural element of Great Western's most popular ARM is its reliance on the 11th District cost of funds as an interest rate index. This index has been the least volatile monthly index in the industry, which means protection for borrowers against spikes in interest rates.

The 11th District Cost of Funds is the average cost of money for thrifts in California, Nevada and Arizona. One of the attractions of the index is that it makes sense for consumers. Unlike other ARM indices — such as a Treasury bill-based index — **the cost of funds index is not arbitrarily tied to an open market index unrelated to the cost of funding the mortgage.** The cost of funds index is directly related to the cost of funds for mortgages. When customers ask why the interest rates have changed on their mortgage loans, lenders of this ARM have a logical answer — “Because our cost of money changed.”

But the most appealing aspect of the 11th District Cost of Funds — to borrowers — is that it shifts slowly when interest rates change. **The other commonly used indices, chiefly Treasury bill yields and the prime interest rate, have been far more volatile.** This table demonstrates the relative fluctuations of these indices:

ARM Index Comparison Cost of Funds vs. T-Bill vs. Prime



The 11th District Cost of Funds Index has proven so stable that, even when the prime rate reached almost 21 percent and T-bill rates exceeded 16 percent, the cost of funds index rose no higher than 12.673 percent. That was in 1982, and only for one month — by far the most stable performance of these indices. Historically, the T-bill index has been 80 percent more volatile than the cost of funds index. In addition, the 11th District Cost of Funds has produced the lowest average rate since the introduction of ARMs.

The 11th District Cost of Funds is less volatile because it is the **weighted average** cost of various funds, including long-term sources for many institutions. The basic fund sources are:

- Savings accounts
- Checking accounts
- Federal Home Loan Bank advances
- Money market accounts
- Certificates of deposit

One result for mortgages based on this index is a steadier interest rate than mortgages with interest rates pegged to T-bills or the prime rate. It has given Great Western customers predictable monthly payment schedules — avoiding payment shock if rates go up — as well as the benefits of steady interest rate reductions as the cost of funds index has declined.

Great Western also uses the 11th District Cost of Funds index in its loan programs in other parts of the country, most notably in Florida where Great Western is one of the state's leading lenders, because the 11th District index is the only monthly published cost of funds index that includes the weighted average of costs.

Moreover, to give REALTORS® and home buyers a wide selection of product choices, Great Western also originates — and then sells to the secondary mortgage market — a T-bill indexed adjustable rate mortgage loan. The Great Western T-bill ARM is offered in states where T-bill ARMs have been the most popular type of adjustable rate loan. For customers who do not want the option to defer interest, and **who could handle significant increases in the monthly payment from one year to the next**, the T-bill loan provides several benefits:

- The one-year T-bill index historically declines more rapidly than the 11th District Cost of Funds Index when rates decline. Borrowers benefit more quickly in this interest rate environment because the more sharply reduced interest rate may translate into lower monthly payments.

- Nearly all one-year T-bill ARMs are designed to amortize on a straight line — without readjustments — and without the possibility of deferred interest. Borrowers instead will pay higher monthly payments to assure that their loans are amortized on schedule **without** any additional adjustment in the future.
- Many borrowers are attracted to the one-year T-bill indexed ARM when interest rates are low. When designed with a lifetime interest rate cap of no more than five to six percentage points over the initial interest rate, T-bill ARMs can limit the impact of rising interest rates because the index is capped based on a lower initial rate.

LOW INTRODUCTORY RATES

An important early feature of most ARM loans that continues to be popular today is the low introductory rate. There are two benefits to borrowers:

- Loan payments are lower for the introductory period as the initial interest rate is lower. This gives the borrower substantial interest savings.
- The borrower typically is qualified for the loan based on the initial interest rate, if the loan is secured from a portfolio ARM lender. Thus, families selecting ARMs can usually afford larger homes than they could with traditional fixed rate loans.

Some mortgage lenders have used excessively discounted teaser rates to entice home borrowers into mortgage loans. Generally, **a teaser rate is one that is more than 2.5 percentage points below the actual fully indexed loan rate at the time the mortgage is written.** Great Western does not offer excessively low introductory rates because this could mean unqualified borrowers would be encouraged to obligate themselves to mortgages they potentially could not afford. The key selling points of the most popular Great Western ARM are the features that come into play after the introductory rate expires: the 11th District Cost of Funds Index, the payment adjustment caps and the opportunity to defer interest payments.

INTEREST ADJUSTMENTS AND CAPS

The interest rate on the basic Great Western ARM adjusts monthly, with interest calculated on the 11th District Cost of Funds rate for the monthly period ending 60 days earlier. An additional average margin of approximately 2.25 to 2.50 percentage points is typically added to cover a lender's handling costs and to assure a fair profit. The margin selected by the borrower will correspond to the different terms available for the ARM the borrower selected. Borrowers should be aware that T-bill ARMs typically have higher margins than cost of funds ARMs, averaging approximately 2.75 percentage points.

Here is how the Great Western introductory rate and interest rate adjustments would actually look on a \$100,000 mortgage written in August 1984:

**GREAT WESTERN ARM
Mortgage Interest Rates
Loan Date - October 1984**

<u>Month \ Yr.</u>	<u>11th Dist Rate</u>	<u>GWFC Margin</u>	<u>Actual Interest</u>
Oct 1984	10.71%		11.71%
Nov 1984	10.86		11.71
Dec 1984	11.04		11.71
Jan 1985	10.99		11.71
Feb 1985	10.89		11.71
Mar 1985	10.52		11.71
Apr 1985	10.22		11.71
May 1985	10.16	2.00%	12.16
Jun 1985	9.98	2.00	11.98
Jul 1985	9.87	2.00	11.87
Aug 1985	9.70	2.00	11.70
Sep 1985	9.57	2.00	11.57

In this example, seven months of the loan are at the initial interest rate of 11.71 percent. Starting in the eighth month, the interest rate is calculated monthly. This borrower saved hundreds of dollars in interest during the introductory period over what he or she would have paid with a fully indexed ARM and over what he or she would have paid for a higher fixed rate mortgage.

Great Western ARMs are written with a lifetime interest rate cap — usually between five and six percentage points above the initial (non-introductory) rate. If, for example, a borrower took out a loan at an introductory rate of 7.8 percent, then the top percentage rate chargeable would be:

$$7.8 \text{ percent initial rate} + 5.0 \text{ percentage points increase} = 12.8 \text{ percent.}$$

PAYMENT ADJUSTMENTS AND PAYMENT CAPS

Great Western ARM mortgage loan payments typically are adjusted every 12 months, and sometimes every six months, depending on the loan terms chosen by the consumer. At the end of this period, a new monthly loan payment is calculated and remains fixed for 12 months. To amortize the mortgage on schedule, if necessary, the loan is adjusted typically in the tenth year, and every five years thereafter.

To demonstrate how adjustments work, the following example shows what happens to a borrower's monthly payment and amortization schedule when rates change. This example is based on the period **after** the borrower's introductory rate period ends:

Loan Amount: \$100,000
Term: 30 years
Payment: \$1,092 (at October 1984 rate)

GREAT WESTERN ARM Mortgage Payment and Amortization
\$100,000 Balance at October 1, 1984

Example does not include introductory period or introductory interest rate and related savings

<u>Month</u>	<u>Rate</u>	<u>PMT</u>	<u>Interest</u>	<u>Principal</u>	<u>Balance</u>
Oct	12.062%	\$1,092	\$1,080.02	\$ 12.00	\$ 99,988.00
Nov	13.107	1,092	1,092.12	(.12)	99,988.12
Dec	13.289	1,092	1,107.20	(15.29)	100,003.41
Jan	13.244	1,092	1,103.70	(11.70)	100,015.11
Feb	13.141	1,092	1,095.25	(3.25)	100,018.36
Mar	12.770	1,092	1,064.36	27.64	99,990.72
Apr	12.467	1,092	1,038.82	53.18	99,937.54
May	12.410	1,092	1,033.52	58.48	99,879.06
Jun	12.226	1,092	1,017.60	74.40	99,804.66
Jul	12.122	1,092	1,008.19	83.81	99,720.85
Aug	11.954	1,092	993.39	98.61	99,622.24
Sep	11.815	1,092	980.39	111.14	99,511.10

Between November and February, interest costs were greater than payments and the unpaid interest was deferred, or added to the loan balance. Later in the year, when interest rates fell, interest charged went down and more of each month's payment went to reduce the mortgage principal. As a result, **the loan was paid off at a faster rate than it would have been with a fixed rate loan** for that period at the same interest rate. (In addition, the home buyer in this example could not have found a fixed rate loan at a rate as low as the initial rate the ARM offers, which means the ARM also cost less than a fixed rate mortgage.) The advantage of the ARM versus a fixed rate loan is aptly demonstrated by the table below:

	<u>Great Western ARM</u>	<u>Fixed Rate at 12.962%*</u>
Total principal paid	\$ 488.90	\$ 243.62
Total interest paid	12,615.10	12,953.66

*The average mortgage rate for a conventional 30-year fixed rate loan at the time of the ARM loan origination.

At the end of the year, the next year's payment is calculated using the new balance and the next month's interest rate.

Loan balance	\$99,511.10
Interest rate	11.97%
Term:	29 years
Payment:	\$1,015
Payment change:	- 7%
Monthly payment savings:	\$77

COMPARE PAYMENT CAPS

Payment caps, which limit annual payment adjustments each year, protect the borrower from major fluctuations in the interest rate. Most Great Western ARMs carry payment caps that limit increases and decreases to 7.5 percent of the previous year's monthly payments.

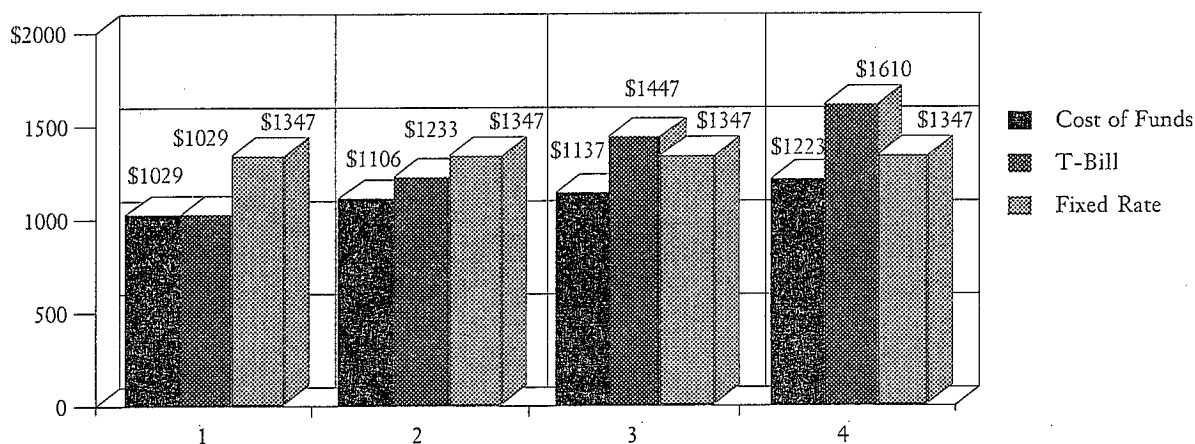
In the example above, with a prior year monthly payment of \$1,092, the maximum increase would be just \$82 (7.5 percent of \$1,092). The new monthly payment would be \$1,174. If interest rates were lower, the 7.5 percent monthly payment cap would allow the payment to drop as low as \$1,010. If the next year a maximum upward adjustment was required — a worst-case scenario — the monthly mortgage payment would be \$1,262.

In a best-case scenario, if rates declined to allow a maximum decrease in the monthly payment (from the past monthly payment of \$1,010), the new monthly payment would be \$934.25. That is a monthly reduction of more than \$150 in just two years.

A COMPARISON OF WORST-CASE SCENARIOS

To examine the different characteristics of cost of funds ARMs, one-year T-bill indexed ARMs, and the 30-year fixed rate mortgage, the following chart shows how their monthly payments can behave — and compare — in a worst-case scenario.

COFI vs. T-Bill ARM vs. Fixed Maximum Monthly Payment Change

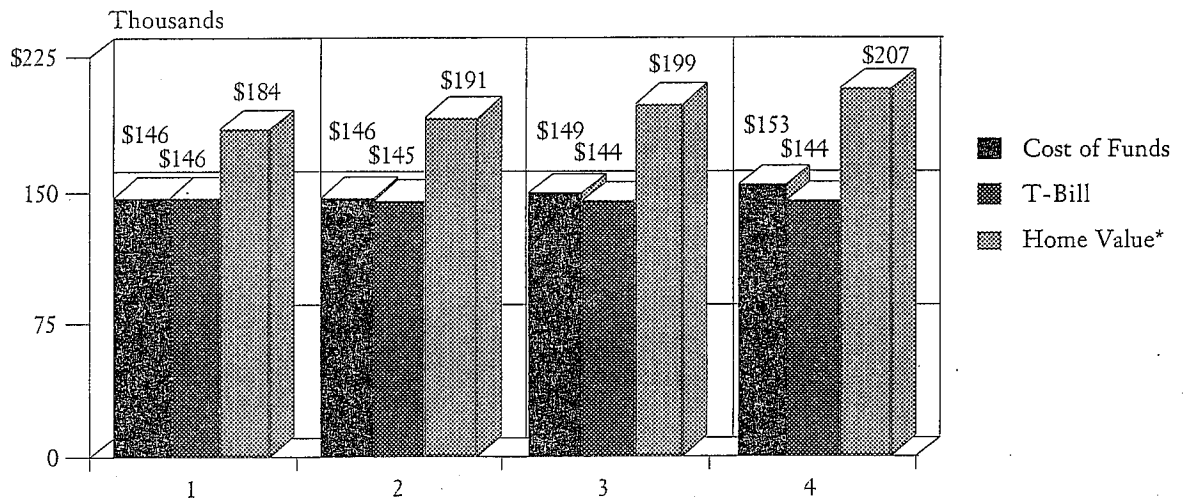


ARMs initial interest rate is 7.5%; Fixed is 10.5%

In the example, our home price is \$184,000, the median home price for homes in the San Fernando Valley in Los Angeles, California, in June 1988. Assuming an average down payment of 20 percent, a borrower would secure a loan for \$147,200. This worst-case scenario assumes that interest rates would rise two full percentage points each year for four consecutive years, until both ARM's reached their lifetime cap of 13 percent — the highest interest rate possible.

As the chart above illustrates, the 7.5 percent payment cap feature of the cost of funds index keeps the monthly payment predictable, even throughout a worst-case scenario. Because of its deferred interest option, the borrower can choose to keep payments low and manageable. As the chart shows, while the T-bill without a payment cap had a monthly payment that increased 20 percent the first year and more than 54 percent — from \$1,029.25 to \$1,610.20 — in just four years, the cost of funds index ARM only rose 7.5 percent each year from \$1,029.25 to \$1,222.77, a total increase of just 24 percent.

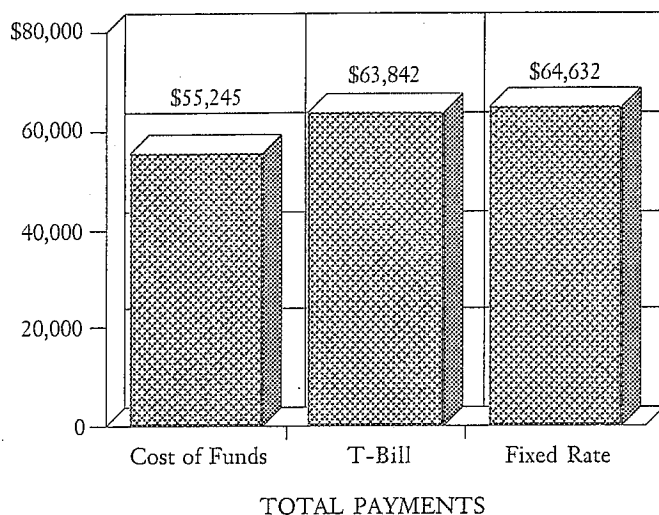
COFI vs. T-Bill ARM Loan Balance & Home Value Comparison



*Assumes 4% annual appreciation

The cost of funds ARM in this example allowed for the deferral of interest, which increased the loan balance by \$6,600. However, as this chart shows, even if the home's value increased at an annual rate of 4 percent per year — well below most economists' projections and recent average increases in most markets — the homeowner with the cost of funds ARM would still be ahead by more than \$53,500 in this example. It is also important to note that the cost of funds ARM borrower would also have the option to pay some or all of the deferred interest, if he or she wanted to prevent negative amortization entirely, and could afford the higher monthly payments.

4 Years/Total Payments Cost of Funds vs. T-Bill vs. Fixed



In this example, T-bill ARM borrowers have built up more equity in their homes as rates rose by reducing their principal balance by \$3,000. However, in order to accomplish this, their payments increased dramatically each year. This resulted in total payments of \$63,842 for the T-bill indexed ARM compared with total payments of \$55,245 for the cost of funds indexed ARM. T-bill ARM borrowers paid \$8,597 more than cost of funds ARM borrowers.

In the case of the cost of funds ARM, even though interest rates increased two full percentage points for four years straight, its monthly payment of \$1,278 in the fourth year remained more than \$100 below the monthly payment for the 10.5 percent, 30-year fixed rate loan.

These examples illustrate how relatively stable payments remain even in extreme and exceptional cases, providing the Great Western Cost of Funds ARM borrower with the advantage of predictable monthly payments.

ADJUSTMENT PERIOD

The only time a payment cap will not be applied in this type of ARM is when the loan is re-amortized to assure that it is paid in full at the end of its term. If a re-amortization is necessary, it will first occur at the end of the first ten years, and every five years thereafter. At those times, ARMs are recast, or adjusted, to help the borrower avoid a balloon payment at the end of the loan and assure that the loan is paid in full on schedule. The effects of deferred interest and accelerated amortization are taken into account at these stages and a new payment is calculated.

Understanding Deferred Interest

"If a man makes a better mouse-trap...the world will make a beaten path to his door."

—Ralph Waldo Emerson

The method of calculating the interest rate and annual monthly payments on an ARM is sometimes misunderstood. This misunderstanding occurs because the interest rate on the ARM is adjusted **monthly**, while the monthly payment only changes once **annually** and remains fixed for the next 12 payments. This protects borrowers in two ways: First, it keeps the monthly payment predictable; second, if interest rates rise rapidly, it allows the borrower to choose to defer interest payments to keep monthly payments affordable.

Simply stated, monthly payments represent two kinds of obligations: principal and interest. Ideally, the scheduled payments on the ARM cover both. When interest rates rise, though, there may be times when the scheduled monthly payment does not cover the interest that is owed. When this happens, the borrower can choose to pay the interest in full or simply choose to defer it by adding it to the balance of the loan. When the borrower chooses to defer unpaid interest, it is added to the principal balance of the loan, which can result in "negative amortization."

However, recent history has shown that when negative amortization occurs with a Great Western ARM, interest deferral is typically temporary. By the ARM's design, the same provision that allows for the deferral of interest also permits "accelerated" amortization. Thus, when interest rates decline, the regular, fixed monthly payment can help offset earlier interest deferrals. The vast majority of Great Western customers have experienced this benefit as a result of the performance of the index since 1981.

IMPORTANCE OF DEFERRED INTEREST

The deferred-interest option is perhaps the most important consumer protection a well-designed ARM can offer because it helps the borrower avoid "payment shock." Even in times of spiralling interest rates, borrower payments remain manageable. The alternative would be drastic increases in the monthly payment that could result in payments so high that borrowers could not afford their monthly mortgage payments.

When interest rates fall, borrowers with an ARM that offers a deferred-interest option will receive many benefits not available to borrowers with so-called "no-negative" ARMs. These benefits include greater savings on total interest costs, and the more rapid build-up in equity that results from a greater reduction in the principal balance.

Great Western ARM borrowers also are notified on their monthly billing coupons of any amount of deferred interest that will be added to the loan balance. The borrower is automatically given the option to avoid the deferral of interest by simply adding the appropriate amount to the regular monthly payment.

These two options — deferring interest or making a higher payment to avoid paying it later — provide flexibility and protection for borrowers. Great Western believes that the opportunity to choose to defer interest is the greatest single consumer protection feature of its ARM.

"PAYMENT PROTECTION" INSURANCE

The deferred interest feature acts as an insurance policy for payment protection by ensuring that the borrower is not hit with payment shock. This feature keeps a borrower's monthly payment predictable and manageable. The borrower knows that the most his or her monthly payment will increase from one year to the next is \$7.50 for every \$100 in the monthly mortgage payment for the first 10 years.

The alternative to the payment protection this ARM offers is a product that could call for an increase in the monthly payment that is not predictable and that the borrower may not be able to afford. This is a prescription for disaster for both borrower and lender.

HOME EQUITY: NOT LOSING GROUND

Many consumers fear they will actually "lose ground" with a mortgage that contains a deferred-interest feature. Home buyers have worried that the equity in their homes would decrease even as they made regular payments. This has not happened, primarily because most ARMs have been written during a period when interest rates have generally declined. One research study by Wertheim & Co., Inc., a leading Wall Street firm, offers several reasons why one's loan balance would be unlikely to exceed the resale value of the home.

First, even when interest rates are increasing at the maximum rate, most home buyers' incomes are increasing as well. Thus, while the payment goes up, it can be expected to remain about the same as a percentage of a borrower's total income.

Second, even if the greatest amount of negative amortization possible were to occur, home values in such an inflationary environment tend to increase at a rate that should more than offset the negative amortization. (See chart page 24)

Finally, if the borrower does defer interest, he or she will also experience a build-up — in essence — of deferred interest credits. When interest rates go down, the borrower should be able not only to catch up during a stage of accelerated or

"positive amortization," but also reduce his principal balance even further. This is because the monthly payment remains fixed for the year, and the interest rate on this loan is adjusted monthly; when rates drop, the payment received may exceed interest owed. This additional amount in excess of interest owed is applied directly to the balance of the loan and causes accelerated or positive amortization. If deferred interest was incurred previously, this environment of rapidly declining interest rates would, in effect, allow borrowers to catch up and reduce their principal at a faster than average rate.

POSITIVE AMORTIZATION

While most Great Western ARM borrowers should expect to experience periods of deferred interest, they can also reasonably expect periods of accelerated or positive amortization. Interest deferral occurs because the interest rate adjusts monthly while the monthly payment remains fixed for the entire year, creating a difference between the interest that is owed and the actual interest paid.

Positive amortization occurs in times of declining interest rates when the scheduled payment amount the borrower pays exceeds the actual interest due that month. This excess payment is applied directly to reduce the principal amount of the loan, which increases the borrower's equity. Also, the lower monthly interest due can provide substantial interest savings for the borrower over the life of the loan.

WHY IT IS A SAFER ARM

Analysts have concluded that it is unlikely that Great Western ARMs will result in substantial deferred interest. Their conclusion is based on two major observations. First, the 11th District Cost of Funds index to which the vast majority of all Great Western ARMs are tied tends to move slowly; second, periods of very high interest rates have tended to be very rare. Therefore, over time, most build-up of deferred interest should be offset by accelerated amortization in periods of falling interest rates. In effect, over its full life cycle, the Great Western ARM should tend to perform much like a fixed rate loan.

Jonathan Gray, a leading analyst with Sanford Bernstein and Company, conducted a comprehensive study in 1986 to analyze ARMs with negative amortization under a variety of interest rate conditions. The study then compared the interest-deferred ARM to other ARM products that did not feature negative amortization. According to the report:

1. ARMs with negative amortization will prove superior to the more common type of ARMs both at locking-in a relatively stable margin, "and, most important, at minimizing loan losses at the next peak in rates."
2. "We believe that this [negative amortization] ARM will most successfully stabilize the net interest margins while minimizing the threat of severe underwriting losses in periods of high rates."

3. "Assuming annual appreciation in home prices of just 2 percent, the loan-to-value ratio on the ARM with a negative amortization feature never rises!"
4. After examining one ARM lender's foreclosure rates over a five-year period when interest rates peaked, this study concluded that the negative amortization ARM lender would experience a foreclosure rate **four times lower** than lenders who offer ARMs without negative amortization.

However, for borrowers who do not wish to accept the option of deferred interest, Great Western does offer ARM loans with six-month payment and interest adjustments, no payment cap and no deferred interest or possibility of negative amortization.

Most buyers do not want to face the possibility of extraordinary increases in monthly payments because such increases could cause them to lose their homes. To limit the impact of sharp interest rate increases on a borrower's monthly payment, the Great Western ARM offers the best protection available — the option of deferred interest — in loans with interest rates that are generally below the rates for fixed rate mortgages.

RE-AMORTIZATION

Every 10 years these Great Western ARMs are recast or re-amortized to assure that all principal will be repaid over the 30- or 40-year term of the loan.

Re-amortization corrects for distortions in repayment that can result from years of capped payment changes. Interest rate adjustments beyond those covered by payment caps may generally correct themselves over time — when interest rates stabilize and subsequent years' caps compensate for earlier shifts.

At least two factors tend to minimize the amount of correction required when a Great Western ARM is re-amortized:

1. Great Western ARMs are tied to the historically most stable index used for ARMs, the monthly 11th District Cost of Funds. The stability of this index minimizes the interest rate changes not accommodated by regular payment adjustments.
2. Interest rates rarely drop or rise continuously over a period of several years. This tendency of rates to correct themselves would tend, over time, to keep interest charges on ARMs within payment cap ranges.

APPEAL TO CUSTOMERS

Many factors are attractive to consumers of adjustable rate mortgages even in times when interest rates are low. Here are a few that Great Western customers have observed:

- ARMs allow home buyers to benefit from declining interest rates without renegotiating all the terms of their mortgages and incurring additional refinancing costs, which can add up to thousands of dollars for the average home owner.
- In a falling rate environment, ARM borrowers have generally built their home equity more rapidly than borrowers with either so-called no-negative amortization ARMs or fixed rate loans.
- Interest rates available to ARM borrowers have been lower than those for fixed rate mortgages at all times except those at the very bottom of the interest rate cycle.
- There are no prepayment fees charged when Great Western ARM customers prepay all or part of their loans.
- Great Western ARMs allow borrowers to choose their method of dealing with higher interest — they can defer it or pay it. Some borrowers wait until the end of the year, calculate the tax effects, and then make their decision.
- Consumers who stay in their homes for less than 10 years — and the average American moves once every five years according to the U.S. Census Bureau — tend to benefit from ARMs because initial closing costs and fees are generally lower, introductory rates save more money, and ARMs tend to be assumable, which can be an incentive when a home is sold.

What to Look for in Home Financing

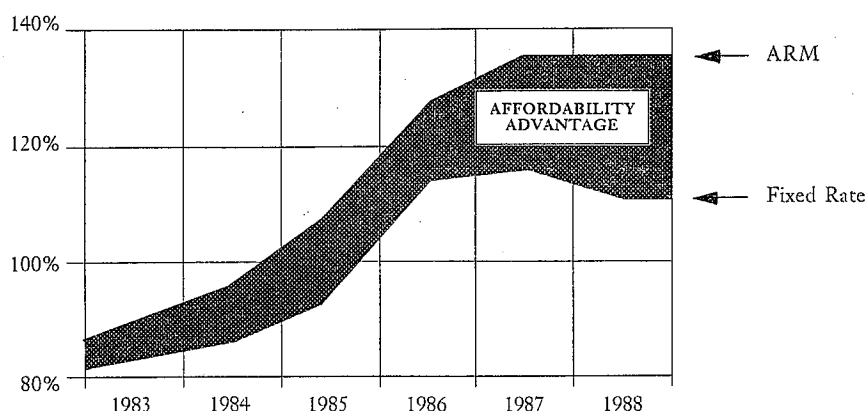
"If we would have new knowledge we must get a whole world of new questions."

— Susan K. Langer

Even Great Western doesn't advocate its most popular ARM for every customer, as **there is no single best loan option for everyone**. Family incomes and housing requirements vary significantly, and these differences must be considered when decisions are made about home financing. That's why, in addition to cost of funds-indexed ARMs, Great Western offers a full range of mortgage loan products, including T-bill ARMs, 15-year fixed rate mortgage loans, 30-year fixed rate mortgage loans, second mortgages or trust deeds, and home equity lines of credit.

But ARMs most often provide greater affordability to borrowers than fixed rate loans. The following chart, based on information compiled each month by the National Association of REALTORS® (NAR), illustrates how ARMs, when compared to the 30-year fixed rate mortgage, make homes affordable for more people.

ARM Affordability Advantage



Housing Affordability Index

At the 100 percent level, median income equals 100 percent of the amount needed to qualify for a home at the median price

Source: National Association of REALTORS®

The NAR's popular Housing Affordability Index clearly shows that ARMs play a crucial role in closing the affordability gap, helping more people to qualify for home loans. At the 100 percent level of the index, the median income equals 100 percent of the amount needed to qualify for a home at the median price.

Another ARM advantage is that ARMs also are more likely to be assumable without an assumption fee to the buyer. This can make selling a home easier and provide a savings for the buyer.

Finally, for buyers who believe they will want to pay off their loans early, a particular concern for buyers who will move within five years, ARMs typically do not carry a prepayment fee as do many fixed rate loans.

There are, however, cases in which buyers should probably take fixed rate loans. A retiree with a fixed income, for instance, should probably choose to lock in a long-term flat payment. Similarly, the rare buyer who is almost certain to live in a home for the full 30- or 40-year term of a mortgage may get the greatest benefit from the higher closing cost and fixed interest payment in a traditional mortgage loan if rates are in the lower end of the interest rate cycle.

QUESTIONS FOR EVERY HOME BUYER

Because ARMs are relatively new products, and because they require careful explanation, some mortgage lenders have become better at explaining their various loan features to customers. But the variety of mortgage loans available — and the effects of their various features — can be confusing.

A borrower should ask several questions about each home loan that they consider. The three areas that should be considered are payments, amortization, and assumability.

Here are some questions consumers should ask when selecting home financing:

Interest

- ☐ What is the (initial) interest rate on the loan?
- ☐ When is the rate first adjusted?
- ☐ How often is it adjusted?
- ☐ What is the annual percentage rate (APR) on the loan?
- ☐ How does the APR compare to that of a fixed rate loan, or other ARMs offered?
- ☐ Is there an annual monthly payment cap?
- ☐ Is there an annual interest rate cap per adjustment period?
- ☐ What is the highest interest rate possible; what is the lowest interest rate possible?

Index

- ☐ To what index is the ARM tied?
- ☐ How stable or volatile has the index been?
- ☐ How does its performance compare, historically, to other indices?
- ☐ What is the margin (the difference between the index rate and the interest rate on the ARM)?
- ☐ What is the index presently, and when and where is it published?
- ☐ If the index remains constant, what will be the contract interest rate on the ARM at the first interest rate adjustment?

Payments

- ☐ What will the initial monthly payments be?
- ☐ How long is this schedule in effect?
- ☐ When does the first payment change occur, and how often thereafter?
- ☐ Is there a payment cap for each adjustment?
- ☐ At the first payment adjustment, what could the payment be?
- ☐ What are the initial costs or loan fees?
- ☐ Does the lender provide you with literature describing a "worst case" scenario?
- ☐ What is the minimum down payment required?

Amortization

- ☐ Does this loan allow deferred interest?
- ☐ If so, how will this affect the monthly payment, if at all?
- ☐ Does the monthly statement detail separately deferred interest, allowing the amount to be paid in full, at the borrower's option, to avoid interest being added to the principal?
- ☐ Can you pay part, or all, of the loan balance at any time without a prepayment fee?
- ☐ When is the loan first re-amortized? How often thereafter?

Assumability

- ☐ Is the ARM assumable?
- ☐ Are there any prepayment fees?
- ☐ Are there any assumption fees?
- ☐ Can the interest rate or caps change upon assumption?

ARM Outlook

"Under all is the land. Upon its utilization and widely allocated ownership depend the survival and growth of free institutions and of our civilization."

— Preamble to the Code of Ethics of the
National Association of REALTORS®

ARMs were developed and introduced primarily as a response to the sharply higher interest rates of 1981 and 1982. Six years later, the prime rate was at one-third the level of its peak — but ARMs were still a major force in the housing market. Great Western believes there are good economic reasons for this.

First, the "affordability gap" in housing is a continuing concern. According to a Salomon Brothers report published in 1984, an additional 6.7 to 9.6 million more U.S. households could qualify for home loans at an 11 percent interest rate than at rates between 13 and 14 percent. Because ARMs are usually priced lower than fixed rate loans, ARMs are the best means to assure that the largest possible number of families is able to buy homes.

Second, without ARM portfolios, thrifts — the most dependable source of home loans in all phases of the interest rate cycle — would be vulnerable to the same structural problems that caused the losses of 1981 and 1982: assets yielding less than the cost of liabilities. Analysts evaluating thrift stocks have generally urged investors to prefer the stock of savings institutions like Great Western, whose ARM strategies will protect them if interest rates do rise in the future.

A third reason for continued emphasis on marketing ARMs is sensible business practice. Most other investments — including savings accounts and bonds — either have market-adjusting rates or are sold at discounts reflecting current interest rates. It makes no sense to treat mortgages differently since ARMs can be designed to protect adequately home buyers' interests.

MORE ARM OPTIONS

Great Western's commitment to its ARM lending products has grown stronger as ARMs have proven their appeal even in states with generally modest housing prices. While the ARM continues to be strongest in California and many northeastern markets where housing prices are among the nation's highest, other markets with lower home prices have also readily accepted the ARM — even when interest rates were at record lows for fixed rate loans. A good example is Florida, where Great Western operates more than a dozen home loan offices and is one of the state's

leading mortgage originators. More than 90 percent of Great Western's Florida residential loan volume is in ARMs.

Great Western believes that an emphasis on ARMs as it expands its mortgage lending business is the most responsible way to provide home financing for consumers and to assure that it will be a mortgage lender throughout the 1990s and beyond.

GREAT WESTERN GLOSSARY OF MORTGAGE TERMS

Adjustable Rate Mortgage (ARM): A mortgage in which the interest rate is adjusted periodically according to a pre-selected index.

Amortization: The systematic and continuous payment of the principal balance on an obligation through installments until the debt has been paid in full.

Annual Percentage Rate (APR): A term used in the Truth-In-Lending Act to represent the percentage relationship of the total finance charge to the amount of the loan. The APR reflects the cost of your mortgage loan as a yearly rate. It may be higher than the interest rate stated on the note because it includes, in addition to the interest rate, points and fees.

Application: A printed form used by a mortgage lender to record necessary information concerning a prospective borrower.

Application Fee: A sum of money paid toward estimated initial mortgage processing expenses.

Appraisal: A report made by a qualified person setting forth an opinion and estimate of value. The term also refers to the process by which this estimate is obtained.

Appreciation: An increase in value of property due to economic or related causes that may prove to be temporary or permanent.

As Separate Property: Ownership in real property that is to be specifically excluded from community property.

Assessed Valuation: The value that a taxing authority places on real or personal property for the purpose of taxation.

Assessment: The valuation of property for the purpose of levying a tax or the charge against a property in the amount of the tax levied. This may take the form of a levy for a special purpose or a tax in which the property owner pays a share of the cost of community improvements according to the valuation of his or her property.

Borrower: A person (also known as mortgagor) who receives funds in the form of a loan with an obligation to repay principal with interest.

Broker: A person employed on a fee or commission basis as agent to bring parties together and assist in negotiating contracts between them.

Closing: The consummation of a real estate transaction. The closing includes the delivery of a deed, financial adjustments, the signing of notes and the disbursement of funds necessary to the close the loan transaction.

Closing Costs: Money paid by the borrower in connection with the closing of a mortgage loan. This generally involves an origination fee, appraisal, credit report, title insurance and prepaid items such as taxes and insurance escrow payments.

Closing Statement: A form used at closing that gives an account of the funds received and paid at the closing, including the escrow deposits for taxes, hazard insurance and mortgage insurance.

Co-borrower: Additional borrower(s) whose income contributes to qualifying for a loan and name(s) appears on all documents with equal legal obligations.

Collateral: Property pledged as security for a debt, such as real estate pledged as security for a mortgage.

Commitment (Loan): A binding promise made by the lender to make a loan, usually at a stated rate within a given period of time for a given purpose subject to the prior compliance of the borrower to meet stated conditions.

Commitment (Loan) Fee: A fee paid by a potential borrower to a lender for the lender's promise to lend money at a specified rate and within a given time.

Conventional Mortgage: A mortgage not obtained under a government insured or guaranteed program (such as FHA or VA).

Cooperative (Co-op): A form of real estate ownership through which a corporation holds title to the property and grants each shareholder the right to occupy a particular apartment or unit by means of a proprietary lease.

Coupon Rate: The stated annual interest rate on a debt instrument. The term is used to describe the contract interest rate on the face of the mortgage note.

Creative Financing: A general term referring to seller-assisted financing, or a loan in which the seller does not receive all cash.

Credit Report: A report detailing an person's credit history.

Deed of Trust: An instrument used in many states in place of a mortgage. A lien or title to the property is transferred to a trustee by the borrower (trustor), in favor of the lender (beneficiary) and reconveyed upon payment in full.

Default: The failure to perform an obligation as agreed in a contract.

Delinquency: Any loan amount that is overdue.

Depreciation: A loss of value in real property brought about by any number of factors, such as age, physical deterioration, functional or economic obsolescence, economic conditions, and supply and demand.

Discounted Loan: An amount is deducted in advance from the principal before the borrower receives the funds.

Downpayment: The difference between the sales price of real estate and the mortgage amount.

Earnest Money: A portion of the downpayment delivered to the seller or an escrow agency by the purchaser of real estate with a purchase offer as evidence of a good faith and desire to proceed with the transaction.

Equal Credit Opportunity Act (ECOA): A federal law requiring lenders and other creditors to make credit equally available without discrimination based on race, color, religion, national origin, sex, age, marital status, receipt of income from public assistance programs or past exercising of rights under Consumer Credit Protection Act.

Equity: The interest or value an owner has in real property over and above the liens against it.

Escrow: A neutral third party who administers legal documents and funds on behalf of a seller and a buyer or a lender and a borrower during a transfer of ownership.

Fair Credit Reporting Act (FCRA): A law that requires, among other things, a lender, who is rejecting a loan request because of adverse credit information, to inform the borrower of the source of such information.

Federal Home Loan Mortgage Corporation - (FREDDIE MAC):

A corporation authorized by Congress. It purchases residential mortgages insured by the Federal Housing Administration or guaranteed by the Veterans Administration as well as conventional home mortgages. It sells participation certificates whose principal and interest are guaranteed by Freddie Mac.

Federal National Mortgage Association - (FANNIE MAE):

A tax-paying corporation created by Congress to support the secondary mortgage market. It purchases and sells residential mortgages insured by the Federal Housing Administration or guaranteed by the Veterans Administration as well as conventional home mortgages.

Fee Simple: The greatest possible ownership interest a person can have in real estate. A term used to describe ownership in real estate, meaning that the person owning fee simple has the first rights to the use of the property, including the right to dispose of the property or pass it on to one's heirs.

First Mortgage: A real estate loan that has priority over any subsequently recorded mortgage.

Fixed Interest Rate: An interest rate that does not change during the loan term.

Foreclosure: A legal procedure in which property mortgaged as security for a loan is sold to pay the defaulting borrower's debt.

Gift: Something given voluntarily without charge or repayment obligation. Can be considered as an asset.

Gift Letter: A written explanation signed by the individual giving the gift stating, "This is a bona fide gift and there is no obligation expressed or implied to repay this sum at any time." Often used as an asset and for a down payment.

Gross Monthly Income: Total monthly income earned before deductions.

Hazard Insurance: A contract in which an insurer, for a premium, undertakes to compensate the insured for loss on a specific property due to certain specified property hazards, such as fire, windstorm and water damage.

High-Ratio Loan: Typically mortgage loans in excess of 80 percent of the lower of the sales price or appraised value.

Homeowners Association Dues: The fees imposed by a condominium or homeowners association for maintenance of common areas.

HUD: The U.S. Department of Housing and Urban Development, established by the Housing and Urban Development Act of 1965. It is responsible for the implementation and administration of government housing and urban development programs.

Index: When talking about adjustable rate mortgages, the index is usually expressed as a composite of interest rates. Often these interest rates are the rates for the 11th District Cost of Funds or U.S. Treasury Securities. Changes in the index determine how the interest rate will change on an adjustable rate mortgage.

Insured Loan: A loan insured by FHA or a private mortgage insurance company to protect the lender against a specified amount of loss following borrower default.

Interest: Consideration in the form of money paid for the use of money. Also a right, share or title in property.

Interest Rate: The percentage of an amount of money that is paid for its use for a specified time.

Investment Property: Real estate owned with the intent of supplementing income and not intended solely for owner occupancy.

Joint Tenancy: Undivided ownership of real property by two or more persons with rights of survivorship. That is, if one owner dies, his or her interest passes to the remaining owner(s) and not to the heirs of the deceased. All joint tenants own equal interest and have equal rights in the property.

Legal Description: A property description recognized by law that is sufficient to locate and identify the property without oral testimony.

Level Payment Mortgage: A mortgage that provides for a fixed sum to be paid periodically during the term of the loan. Part of the fixed payment is credited to interest and the remainder is used to reduce the principal balance of the loan.

Lien: A form of restriction against property as security for a debt, an obligation or a duty.

Loan-To-Value Ratio: The ratio between the amount of a mortgage loan and the sales price or appraised value, whichever is lower.

Margin: With respect to adjustable rate mortgages, the margin is the amount the lender adds to the index value to calculate the new interest rate at each adjustment. The margin reflects the lender's cost of doing business and can provide a profit.

Market Value: The price that a buyer, willing but not compelled to buy, would pay, and the seller, willing but not compelled to sell, would accept for the purchase and sale of any property.

Maturity: The termination or due date on which final payment of all sums owing on a loan must be paid in full.

Monthly Payment: Usually, the amount of principal interest, taxes and insurance (PITI) paid each month on a mortgage loan.

Mortgage: The conveyance of an interest in real property given as security for the repayment of a loan.

Mortgage Banker: A firm or individual who originates loans for sale to other investors. The mortgage banker generally continues to service the loan.

Mortgage Banking: The origination and packaging of mortgage loans secured by real property to be sold to a permanent investor.

Mortgagee: The lender in a mortgage transaction.

Mortgage Insurance Premium (MIP): The consideration paid by a mortgagor (borrower) for mortgage insurance — either to the FHA or to a private mortgage insurer for the benefit of the lender.

Mortgage Note: A written promise to pay a sum of money at a stated interest rate during a specified term. The note contains a complete description of the conditions under which the loan is to be repaid and when it is due. It usually contains all items required to be a negotiable (transferable) instrument.

Mortgagor: The borrower in a mortgage transaction who pledges property as security for a debt.

Net Worth: The value of all assets less total liabilities. It is often used as an underwriting guideline to indicate credit worthiness and financial strength.

Occupancy: The taking of possession and use of property either by the title holder (owner-occupancy) or by another party through a formal agreement (rental).

Occupancy Type: The borrower(s)' intended use of the property being financed. A primary residence would be the borrower(s)' full time residence, a second home would include a vacation home and an investment property would be rental property.

Origination Fee: The amount charged for services performed by the company handling the initial application and processing of the loan.

PITI (Principal, Interest, Taxes, and Insurance): The most common components of a monthly mortgage payment.

Point: The amount equal to one percent of the loan amount. Points are one-time charges assessed at closing by the lender.

Preliminary Title Report: The results of a title search by a title company prior to issuing a title binder or commitment to insure title.

Prepayment Privilege: The right given a borrower to pay all or part of a debt prior to its maturity. Unless expressed in the contract, such right does not exist unless specified by law or statute.

Primary Residence: A residence that the borrower intends to occupy as a principal residence.

Principal Balance: The unpaid balance due on a loan.

Private Mortgage Insurance: Insurance written by a private company protecting the mortgage lender against a specified loss resulting from a mortgage default.

Processing: The preparation of a mortgage loan application and supporting documentation for consideration by a lender or insurer.

Property Type: A description of property that classifies it according to the number of living units and type of structure (e.g. townhouse, condominium single family, multi-family, commercial etc.).

Real Assets: Real estate or real property owned by an individual or business.

Real Estate Settlement Procedures Act (RESPA): A federal law requiring lenders, in connection with their financing of the purchase of 1-4 units, to provide home mortgage borrowers with information on known or estimated settlement costs. It also establishes guidelines for escrow account balances and the disclosure of settlement costs.

Real Property: Land and that which is affixed to it.

Refinancing: The repayment of a mortgage loan from the proceeds of a new mortgage loan using the same property as security.

Rehabilitation: To repair or improve a declining structure or neighborhood.

Satisfaction of Mortgage: The recordable instrument issued by the lender verifying full payment of a mortgage debt.

Second Home (Vacation Home, Weekend Home): A residence, other than the borrower's primary residence, that the borrower intends to occupy for a portion of each year. Must be suitable for year-round occupancy. Generally, no rental income from the property will be allowed to qualify the applicant for a loan against the purchase of a second home.

Secondary Residential Mortgage Market: Existing residential mortgages are bought and sold to investors providing a source of new funds for lenders.

Security: In lending, the collateral given, deposited or pledged to secure the repayment of a debt.

Survey: The measurement and description of land by a registered surveyor.

Tenants in Entirety: Ownership of real property by husband and wife with equal rights of possession. No disposition of any interest can take place without the consent of both. The property passes to the survivor in the event of the death of one of them.

Term: The time limit within which a loan must be repaid.

Title: The legal evidence of ownership rights to real property.

Title Insurance Property: A contract in which an insurer, usually a title insurance company, agrees to pay the insured party a specific amount for any loss caused by defects of title on real estate in which the insured has an interest as purchaser, or mortgagee.

Truth-In-Lending Act: A federal law requiring a disclosure of credit terms using a standard format. This is intended to facilitate comparisons between the lending terms of financial institutions.

Underwriting: An analysis of risk that sets an appropriate rate and terms of a mortgage on a given property for given borrowers.

HISTORICAL PERFORMANCE OF COMMON ARM INDICES

	Change From Prev. Mo. (11th. Dist.)	FHLB 11th Dist. Index	Prime Rate	1-Year Treasury Constant Maturities	5-Year Treasury Constant Maturities
Jan-79		7.253	11.750	10.410	9.200
Feb-79	0.67	7.922	11.750	10.240	9.130
Mar-79	-0.50	7.418	11.750	10.250	9.200
Apr-79	0.25	7.666	11.750	10.120	9.250
May-79	0.00	7.665	11.750	10.120	9.240
Jun-79	0.10	7.762	11.650	9.570	8.850
Jul-79	-0.08	7.684	11.540	9.640	8.900
Aug-79	0.09	7.774	11.910	9.980	9.060
Sep-79	0.13	7.909	12.900	10.840	9.410
Oct-79	-0.12	7.794	14.390	12.440	10.630
Nov-79	0.63	8.424	15.550	12.390	10.930
Dec-79	0.22	8.646	15.300	11.980	10.420
Jan-80	0.11	8.758	15.250	12.060	10.740
Feb-80	0.89	9.647	15.630	13.920	12.600
Mar-80	-0.79	8.857	18.310	15.820	13.470
Apr-80	0.97	9.822	19.770	13.300	11.840
May-80	0.58	10.405	16.570	9.390	9.950
Jun-80	-0.33	10.077	12.630	8.160	9.210
Jul-80	-0.41	9.667	11.480	8.650	9.530
Aug-80	-0.28	9.392	11.120	10.240	10.840
Sep-80	-0.10	9.292	12.230	11.520	11.620
Oct-80	-0.18	9.113	13.790	12.490	11.860
Nov-80	0.41	9.518	16.060	14.150	12.830
Dec-80	0.11	9.632	20.350	14.880	13.250
Jan-81	0.82	10.451	20.160	14.080	12.770
Feb-81	0.71	11.156	19.430	14.570	13.410
Mar-81	-0.21	10.951	18.050	13.710	13.410
Apr-81	0.19	11.144	17.150	14.320	13.990
May-81	0.28	11.428	19.610	16.200	14.630
Jun-81	0.71	12.139	20.030	14.860	13.950
Jul-81	-0.29	11.848	20.390	15.720	14.790
Aug-81	0.18	12.029	20.500	16.720	15.560
Sep-81	0.30	12.325	20.080	16.520	15.930
Oct-81	-0.03	12.293	18.450	15.380	15.410
Nov-81	0.18	12.469	16.840	12.410	13.380
Dec-81	-0.29	12.182	15.750	12.850	13.600
Jan-82	-0.23	11.950	15.750	14.320	14.650
Feb-82	0.39	12.341	16.560	14.730	14.540
Mar-82	-0.20	12.140	16.500	13.950	13.980
Apr-82	0.03	12.168	16.500	13.980	14.000
May-82	0.00	12.167	16.500	13.340	13.750

	Change From Prev. Mo. (11th. Dist.)	FHLB 11th Dist. Index	Prime Rate	1-Year Treasury Constant Maturities	5-Year Treasury Constant Maturities
Jun-82	0.51	12.673	16.500	14.070	14.430
Jul-82	-0.44	12.234	16.260	13.240	14.070
Aug-82	-0.28	11.957	14.390	11.430	13.000
Sep-82	-0.19	11.766	13.500	10.850	12.250
Oct-82	-0.48	11.286	12.520	9.320	10.800
Nov-82	-0.24	11.042	11.850	9.160	10.380
Dec-82	0.05	11.093	11.500	8.910	10.220
Jan-83	-0.63	10.462	11.160	8.620	10.030
Feb-83	-0.04	10.423	10.980	8.920	10.260
Mar-83	-0.55	9.873	10.500	9.040	10.080
Apr-83	-0.07	9.807	10.500	8.980	10.020
May-83	-0.18	9.626	10.500	8.900	10.030
Jun-83	0.20	9.824	10.500	9.660	10.630
Jul-83	-0.15	9.676	10.500	10.200	11.210
Aug-83	0.29	9.969	10.890	10.530	11.630
Sep-83	0.03	9.996	11.000	10.160	11.430
Oct-83	0.00	9.997	11.000	9.810	11.280
Nov-83	0.03	10.030	11.000	9.940	11.410
Dec-83	0.16	10.192	11.000	10.110	11.540
Jan-84	-0.16	10.032	11.000	9.900	11.370
Feb-84	0.14	10.172	11.000	10.040	11.540
Mar-84	-0.19	9.982	11.210	10.590	12.020
Apr-84	0.15	10.133	11.930	10.900	12.370
May-84	0.13	10.260	12.390	11.660	13.170
Jun-84	0.17	10.434	12.600	12.080	13.480
Jul-84	0.28	10.712	13.000	12.030	13.270
Aug-84	0.14	10.857	13.000	11.820	12.680
Sep-84	0.18	11.039	12.970	11.580	12.530
Oct-84	-0.04	10.994	12.580	10.900	12.060
Nov-84	-0.10	10.891	11.770	9.820	11.330
Dec-84	-0.37	10.520	11.060	9.330	11.070
Jan-85	-0.30	10.217	10.610	9.020	10.930
Feb-85	-0.06	10.160	10.500	9.290	11.130
Mar-85	-0.18	9.976	10.500	9.860	11.520
Apr-85	-0.10	9.872	10.500	9.140	11.010
May-85	-0.17	9.704	10.310	8.460	10.340
Jun-85	-0.14	9.565	9.780	7.800	9.600
Jul-85	-0.20	9.365	9.500	7.860	9.700
Aug-85	-0.09	9.273	9.500	8.050	9.810
Sep-85	-0.14	9.129	9.500	8.070	9.810
Oct-85	-0.10	9.027	9.500	8.010	9.690
Nov-85	0.01	9.036	9.500	7.880	9.280
Dec-85	-0.17	8.867	9.500	7.670	8.730

	Change From Prev. Mo. (11th. Dist.)	FHLB 11th Dist. Index	Prime Rate	1-Year Treasury Constant Maturities	5-Year Treasury Constant Maturities
Jan-86	-0.10	8.770	9.500	7.730	8.680
Feb-86	0.19	8.964	9.500	7.610	8.340
Mar-86	-0.22	8.744	9.100	7.030	7.460
Apr-86	-0.16	8.585	8.830	6.440	7.050
May-86	-0.14	8.441	8.500	6.650	7.530
Jun-86	-0.07	8.374	8.500	6.730	7.640
Jul-86	-0.18	8.196	8.160	6.270	7.060
Aug-86	-0.18	8.018	7.900	5.930	6.800
Sep-86	-0.12	7.901	7.500	5.770	6.920
Oct-86	-0.18	7.717	7.500	5.720	6.830
Nov-86	-0.11	7.602	7.500	5.800	6.760
Dec-86	-0.09	7.509	7.500	6.870	6.670
Jan-87	-0.11	7.396	7.500	5.780	6.640
Feb-87	0.05	7.448	7.500	5.960	6.790
Mar-87	-0.13	7.314	7.750	6.030	6.790
Apr-87	-0.07	7.245	7.750	6.500	7.570
May-87	-0.02	7.223	8.140	7.000	8.260
Jun-87	0.05	7.274	8.250	6.800	8.020
Jul-87	0.00	7.275	8.250	6.680	8.010
Aug-87	0.00	7.277	8.250	7.030	8.320
Sep-87	0.12	7.394	8.700	7.670	9.260
Oct-87	0.05	7.444	9.070	7.590	9.080
Nov-87	0.12	7.562	8.780	6.960	8.330
Dec-87	0.08	7.645	8.750	7.170	8.450
Jan-88	-0.03	7.615	9.850	6.990	8.180
Feb-88	0.03	7.647	8.510	6.640	7.710
Mar-88	-0.14	7.509	8.500	6.710	7.830
Apr-88	0.01	7.519	8.500	7.010	8.190
May-88	-0.02	7.497	8.840	7.400	8.580
Jun-88	0.12	7.618	9.00	7.490	8.490
Jul-88	-0.03	7.593	9.29	7.750	8.660
Aug-88	0.07	7.659	9.84	8.770	8.940
Sep-88	0.19	7.847	10.00	8.090	8.690
Oct-88	-0.02	7.828	10.00	8.110	8.510
Nov-88	0.09	7.914	10.05	8.480	8.790
Dec-88	0.11	8.022	10.50	8.990	9.090
Jan-89	0.10	8.125	10.50	9.050	9.150
Feb-89	0.22	8.346	10.93	9.250	9.270
Mar-89	0.08	8.423	11.50	9.570	9.510
Apr-89	0.23	8.648	11.50	9.360	9.300
May-89	0.15	8.797	11.50	8.980	8.910
Jun-89	0.13	8.923	11.07	8.440	8.290
Jul-89	-0.08	8.844	10.98	7.890	7.830
Aug-89	-0.08	8.763	10.50	8.180	8.090

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