

Understanding Adjustable-Rate Mortgages (ARMs)

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Enact Mortgage Insurance Corporation and Enact Mortgage Insurance Corporation of North Carolina
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ARM Characteristics

- Adjustable Rate Mortgages, or ARM's, have an interest rate that increases or decreases over the life of the loan, based upon the interest rate environment.
- Characteristics of an ARM include:
 - A starting interest rate that is generally lower than the rate offered on a fixed rate mortgage
 - An interest rate that is tied to a particular index
 - Caps that are established for the:
 - Adjustment period (interest rate cap)
 - Life of the loan (lifetime cap)
 - Payment (payment cap)
 - These caps limit the amount the interest rate and/or payment may change
 - Uncertainty for the borrower who does not know how much their payment will change at each adjustment
 - Potential for increased delinquencies, due to payment adjustments
 - Various types of ARM's are available, depending on the adjustment period.
 - For example, a 1-year ARM adjusts yearly where a 5/1 adjusts every year after a 5-year fixed period.

ARM Components

Index	Changes in the interest rate are governed by a financial index. The lender chooses an index for each ARM product that is out of their influence. Common indexes include Treasury Securities, Costs of Funds or the SOFR index.
Margin	This is a predetermined amount that is added to the index to determine the fully indexed interest rate. Margins are generally fixed for the term of the loan.
Fully Indexed Accrual Rate (FIAR)	This is the index plus the margin. This is how we calculate what the rate is at the time of adjustment.
Discount/Short Fall	A one-time reduction to make the initial rate competitive. The result is also called the “teaser rate.” This is the Start Rate. The amount of the discount is decided by the investor.
Initial Rate/Start Rate Teaser Rate	What the lender charges for the first period of the ARM. It is the FIAR minus the discount.
Initial Adjustment Cap	This limits the amount the interest rate can adjust up or down on the <i>first adjustment</i> . Usually, 5% or 6%. Not all loans have a different Initial adjustment cap than the periodic adjustment cap.
Periodic Adjustment Cap	This limits the amount the interest rate can adjust up or down from one adjustment period to the next after the first adjustment. Also known as the subsequent adjustment cap. Usually 1% or 2%.
Lifetime Cap	Limits the amount of upward interest rate adjustment over the full term of the loan. Usually, 5% or 6%.
Negative Amortization	Occurs when the interest on a loan is accruing at a faster rate than it is being repaid.

ARM Features

Conversion Clause

- A provision in some ARM's that allows the consumer to change the ARM to a fixed-rate loan at some point during the term. Conversion is usually allowed at the end of the first adjustment period. At the time of the conversion, the new fixed rate is generally set at one of the rates then prevailing for fixed-rate mortgages. The conversion feature may be available at extra cost.

Assumable ARM loan

- An assumable mortgage loan is a type of financing arrangement whereby an outstanding mortgage and its terms are transferred from the current owner to a buyer. By assuming the previous owner's remaining debt, the buyer can avoid having to obtain their own mortgage. This feature may be available on some ARM products. Generally, an ARM that has been assumed is not eligible for conversion to a fixed-rate mortgage

https://s3.amazonaws.com/files.consumerfinance.gov/f/documents/cfpb_charm_booklet.pdf

<https://selling-guide.fanniemae.com/Selling-Guide/Origination-thru-Closing/Subpart-B2-Eligibility/Chapter-B2-1-Mortgage-Eligibility/Section-B2-1-4-Loan-Amortization-Types/1032991911/B2-1-4-02-Adjustable-Rate-Mortgages-ARMs-12-16-2020.htm>

<https://www.consumerfinance.gov/consumer-tools/mortgages/key-terms/>

ARM Indexes

One-Year Treasury Index – H15 – Federal Reserve

The One Year Treasury Bill is one of the primary borrowing or debt instruments of the Treasury Department of the United States. This Bill is used for short term borrowing or financing by the Treasury Department for the United States Government. This is the most common index in the Eastern U.S.

1 Year MTA

This index is an average of the monthly one-year treasury adjusted to constant maturity for the past 12 months. Yields on Treasury Securities at constant maturity are determined by the U.S. Treasury from the daily yield curve, which is based on the closing market-bid yields on actively traded Treasury securities in the over-the-counter market.

SOFR

The Secured Overnight Financing Rate (SOFR), is based on actual transactions in the Treasury repurchase (repo) market, one of the largest markets in the world. This is the market where investors offer borrowers overnight loans backed by their U.S. Treasury bond assets. The Alternative Reference Rates Committee (ARRC) has selected SOFR as the preferred alternate index for U.S. dollar-denominated LIBOR contracts. SOFR is based on actual transactions in a market where extensive trading happens every day, whereas LIBOR is based on an average of estimates of interbank borrowing rates in the London market provided by a panel of global banks surveyed by the Intercontinental Exchange. SOFR complies with the governance standards of the International Organization of Securities Commissions (IOSCO).

https://sf.freddiemac.com/content/assets/resources/pdf/fact-sheet/sofr_arms_fact_sheet.pdf

Fannie Mae ARM Plans



Fannie Mae®

ARM Plans Supported by DO/DU

Updated: Jan 10th, 2022

Foreword

The Fannie Mae ARM Plan spreadsheet provides a list of ARM Plan numbers and corresponding ARM product descriptions available in Desktop Originator® (DO®) and Desktop Underwriter® (DU®).

About ARM Plans

The Product Plan Number is required for all Fannie Mae ARMs and needs to be sent in the PID-040 of the 1003 file (version 3.2) or the FNM Product Plan Identifier attribute in the MISMO AUS file (version 2.3.1) or the DU MISMO 3.4 field InvestorProductPlanIdentifier (UID:12.0053)

Note: Fannie Mae offers a comprehensive list of ARM plans for use with Loan Delivery that is separate from this list of ARM plans to be used with DO/DU. If you don't find an ARM plan valid for DO/DU listed in the DU-LD ARM Plan Matrix tab, you will need to use a Generic ARM plan instead when submitting for underwriting.

Freddie Mac's SOFR ARMs Fact Sheet





https://sf.freddiemac.com/content/assets/resources/pdf/fact-sheet/sofr_arms_fact_sheet.pdf

ARM Indexes

Current Indexes for Adjustable Rate Mortgages		
Last update: 06/13/2022		
	Week ending	Month of
	<u>06/10/22</u>	<u>May 22</u>
1 Year Treasury Security	2.34%	2.06%
3 Year Treasury Security	3.00%	2.79%
5 Year Treasury Security	3.07%	2.87%
10 Year Treasury Security	3.05%	2.90%
Moving Treasury Average (MTA)	May 22	0.6442%
Federal Cost of Funds	Apr 22	0.963%
30-day SOFR, as of	06/10/22	0.78290%
Prime Rate, as of	03/16/20	3.25%

Source: www.hsh.com

<https://www.hsh.com/index.html>

SOFR Academy					
Insights How We Help Who We Help About Us Market Data Enterprise Demo SOFR 1.45%  					
Rate	Latest	Date	Today's Change	1 Week Ago	1 Month Ago
SOFR	1.45	17-June-2022	0.00	0.70	0.66
30 - Day Average SOFR	▲ 0.88096	21-June-2022	0.08872	0.10172	0.34785
90 - Day Average SOFR	▲ 0.57907	21-June-2022	0.05151	0.08344	0.27707
180 - Day Average SOFR	▲ 0.32247	21-June-2022	0.03121	0.04996	0.14678
SOFR Index	▲ 1.04404	21-June-2022	0.00016	0.00027	0.00081

<https://sofracademy.com/current-sofr-rates/>

The Adjustment Period

Depending on the type of ARM loan, the interest rate and monthly payment will change based on the type.

The period between rate changes is called the adjustment period.

- A 1-Year ARM that adjusts every year
- A 3/3 ARM in which the initial interest rate lasts for three years and then is adjusted again every three years
- A 5/5 ARM in which the initial interest rate lasts for five years and then is adjusted again every five years

See next slide for Hybrid ARM adjustments

The Servicer must notify the Borrower regarding the first rate adjustment at least seven months before the new payment at the adjusted interest rate. Every subsequent rate/payment change must be disclosed 60 days prior to the change.

https://s3.amazonaws.com/files.consumerfinance.gov/f/documents/cfpb_charm_booklet.pdf

Hybrid ARMs

A Hybrid ARM

- This loan is a hybrid of a fixed-rate period and an adjustable-rate period
- The interest rate is fixed for a short-term period, then the rate may adjust annually
- A 3/1 ARM will have a 3-year fixed rate period, after that may adjust annually for the remaining term
- A 3/1, 5/1, 7/1, 10/1
 - The first number indicates how long the fixed interest-rate will be; and
 - The second indicates how often the rate will adjust after the initial period
- **A SOFR 5/6, 7/6, 10/1**
 - *The first number indicates how long the fixed interest-rate will be; and*
 - *The second indicates how often the rate will adjust after the initial period which in this example indicates a potential adjustment every 6 months rather than the historical 1 -adjustment period.*

QM Definition- (iv) been underwritten using the maximum interest rate that may apply during the first 5 years (and with amortizing monthly payments),

ARM Caps

Adjustable-rate mortgages (ARM's) typically include several kinds of caps that control how your interest rate can adjust.

There are three kinds of caps:

- **Initial adjustment cap:** This cap says how much the interest rate can increase the first time it adjusts, after the fixed-rate period expires. It's common for this cap to be either two or five percent – meaning that at the first rate change, the new rate can't be more than two (or five) percentage points higher than the initial rate during the fixed-rate period.
- **Subsequent adjustment cap:** This cap says how much the interest rate can increase in the adjustment periods that follow. This cap is most commonly two percent, meaning that the new rate can't be more than two percentage points higher than the previous rate.
- **Lifetime adjustment cap:** This cap says how much the interest rate can increase in total, over the life of the loan. This cap is most commonly five percent, meaning that the rate can never be five percentage points higher than the initial rate. However, some lenders may have a higher cap.

https://s3.amazonaws.com/files.consumerfinance.gov/f/documents/cfpb_charm_booklet.pdf

ARM Caps

Adjustable-rate mortgages (ARM's) typically include several kinds of caps that control how your interest rate can adjust. An ARM may have different cap structures.

A 10/1 ARM has a 10-year fixed rate period, after that may adjust annually for the remaining term and different lenders may offer different Cap Options.

As an example, a 10/1 Arm may offer:

- 2/6 Caps
 - The first number indicates the initial interest and the subsequent annual adjustment rate caps
 - The second number indicates the lifetime rate cap
- 5/2/6 Caps
 - The first number indicates the initial interest rate cap
 - The second number indicates the subsequent adjustment rate cap annually
 - The third number indicates the lifetime adjustment rate cap

Example Of A 10/1 ARM With 2/6 Caps

- Index 1 Year MTA : **1.375%**
- Discount: **1.00%**
- Margin: **2.75%**

- Annual Adjustment Cap: **2.00%**
- Lifetime Adjustment Cap **6.00%**
- * **11th year Index:** **2.25%**

A. Calculate the Fully Indexed Rate:

Index	1.375
+Margin	2.75
Fully Indexed Rate	4.125%

B. Calculate the Starter/Teaser Rate:

Index	1.375
+Margin	2.75
-Discount	1.00%
Starter/Teaser Rate	3.125%

C. Calculate Maximum 11th Year Rate:

Starter Rate	3.125%
+Annual Adj. Cap	2.00%
Max 1st Year Rate	5.125%

D. Calculate 11th Year FIAR:

(New Current*) Index	2.25%*
+Margin	2.75%
*New FIAR	5.00%

*New FIAR is the maximum new adjusted Rate if lower than the Max adjusted capped Rate calculation

Example Of A 10/1 ARM With 2/6 Caps

•Index 1 Year MTA :	1.375%	• Annual Adjustment Cap:	2.00%
•Discount:	1.00%	• Lifetime Adjustment Cap	6.00%
•Margin:	2.75%	* 11th year Index:	2.25%

C. Calculate Maximum 11th Year Rate:

Starter Rate	3.125%
+Annual Adj. Cap	2.00%
Max 1st Year Rate	5.125%

D. Calculate 11th Year FIAR:

(New Current*) Index	2.25%*
+Margin	2.75%
*New FIAR	5.00%

**New FIAR is the maximum new adjusted Rate if lower than the Max adjusted capped Rate calculation*

**If the Index on year 11 is 2.25 (as used in the example above)
What is the Interest Rate that would be charged to the customer?**

5%

Maximum allowable Rate or the **FIAR whichever is lower!

**New FIAR is the maximum new adjusted Rate if lower than the Max adjusted capped Rate calculation*

*** The FIAR is typically rounded to the nearest 1/8 if being using as the interest rate*

Example Of A SOFR 10/6 ARM With 5/1/5 Caps

Index:	1.0%	Periodic Adjustment Cap:	1.000%
Discount:	1.00%	Initial Adjustment Cap:	5.000%
Margin:	2.750%	Lifetime Adjustment Cap:	5.000%
		11th year Index: 2.25%	

A. Calculate the Fully Indexed Rate:

Index	1.00
+Margin	2.75
<hr/>	
Fully Indexed Rate	3.75%

B. Calculate the Starter/Teaser Rate:

Index	1.00
+Margin	2.75
-Discount	1.00%
<hr/>	
Starter/Teaser Rate	2.75%

C. Calculate Maximum 11th Year Rate:

Starter Rate	2.75%
+Initial Adj. Cap	5.00%
<hr/>	
Max 1st payment Change Rate	7.75%

D. Calculate 11th Year FIAR:

(New Current*) Index	2.25%*
+Margin	2.75%
<hr/>	
*New FIAR	5.00%

*New FIAR is the maximum new adjusted Rate if lower than the Max adjusted capped Rate calculation

Example Of A SOFR 10/6 ARM With 5/1/5 Caps

Index:	.750%	Periodic Adjustment Cap:	1.000%
Discount:	1.00%	Initial Adjustment Cap:	5.000%
Margin:	2.750%	Lifetime Adjustment Cap:	5.000%
		11th year Index: 2.25%	

C. Calculate Maximum 11th Year Rate

Starter Rate	2.75%
+Initial Adj. Cap	5.00%
Max 1st Year Rate	7.75%

D. Calculate 11th Year FIAR:

(New Current*) Index	2.25%*
+Margin	2.75%
*New FIAR	5.00%

**If the Index on year 11 is 2.25 (as used in the example above)
What is the Interest Rate that would be charged to the customer?**

5%

Maximum allowable Rate or the **FIAR whichever is lower!

Because this is a 10/6 ARM the FIAR will be calculated every 6 months and may cause a rate change for the consumer

**New FIAR is the maximum new adjusted Rate if lower than the Max adjusted capped Rate calculation*

*** The FIAR is typically rounded to the nearest 1/8 if being using as the interest rate*

ARM Loan Estimate (LE)

FICUS BANK
4321 Random Boulevard • Somers, CT 06250 Save this Loan Estimate to compare with your Closing Disclosure.

Loan Estimate

DATE ISSUED: 2/15/2018
 APPLICANTS: Michael Jones and Mary Stone
 123 Anywhere Street
 Anytown, ST 12345
 PROPERTY: 456 Somewhere Avenue
 Anytown, ST 12345
 SALE PRICE: \$240,000

LOAN TERM: 30 years
 PURPOSE: Purchase
 PRODUCT: 5 Year Interest Only, 5/3 Adjustable Rate
 LOAN TYPE: Conventional FHA VA
 LOAN ID #: 123456789
 RATE LOCK: NO YES, until 4/16/2018 at 5:00 p.m. EDT. Before closing, your interest rate, points, and lender credits can change unless you lock the interest rate. All other estimated closing costs expire on 3/4/2018 at 5:00 p.m. EDT.

Loan Terms	Can this amount increase after closing?	
Loan Amount	\$211,000	NO
Interest Rate	4%	YES • Adjusts every 3 years starting in year 6 • Can go as high as 12% in year 15 • See AIR Table on page 2 for details
Monthly Principal & Interest <i>See Projected Payments below for your Estimated Total Monthly Payment</i>	\$703.33	YES • Adjusts every 3 years starting in year 6 • Can go as high as \$2,068 in year 15 • Includes only interest and no principal until year 6 • See AP Table on page 2 for details
Prepayment Penalty	NO	
Balloon Payment	NO	

Does the loan have these features?

Projected Payments	Years 1-5	Years 6-8	Years 9-11	Years 12-30
Payment Calculation				
Principal & Interest	\$703.33 <i>only interest</i>	\$1,028 min \$1,359 max	\$1,028 min \$1,604 max	\$1,028 min \$2,068 max
Mortgage Insurance	+ 109	+ 109	+ 109	+ —
Estimated Escrow <i>Amount can increase over time</i>	+ 0	+ 0	+ 0	+ 0
Estimated Total Monthly Payment	\$812	\$1,137–\$1,468	\$1,137–\$1,713	\$1,028–\$2,068
Estimated Taxes, Insurance & Assessments <i>Amount can increase over time</i>	\$533 a month	This estimate includes <input checked="" type="checkbox"/> Property Taxes <input checked="" type="checkbox"/> Homeowner's Insurance <input type="checkbox"/> Other: <i>See Section G on page 2 for escrowed property costs. You must pay for other property costs separately.</i>		In escrow? NO NO

Costs at Closing

Estimated Closing Costs	\$8,791	Includes \$5,851 in Loan Costs + \$2,940 in Other Costs – \$0 in Lender Credits. See page 2 for details.
Estimated Cash to Close	\$27,791	Includes Closing Costs. See Calculating Cash to Close on page 2 for details.

Visit www.consumerfinance.gov/mortgage-estimate for general information and tools.
 LOAN ESTIMATE PAGE 1 OF 3 • LOAN ID # 123456789

Loan Terms		Can this amount increase after closing?
Loan Amount	\$211,000	NO
Interest Rate	4%	YES • Adjusts every 3 years starting in year 6 • Can go as high as 12% in year 15 • See AIR Table on page 2 for details
Monthly Principal & Interest <i>See Projected Payments below for your Estimated Total Monthly Payment</i>	\$703.33	YES • Adjusts every 3 years starting in year 6 • Can go as high as \$2,068 in year 15 • Includes only interest and no principal until year 6 • See AP Table on page 2 for details

Adjustable Payment (AP) Table

Interest Only Payments?	YES for your first 60 payments
Optional Payments?	NO
Step Payments?	NO
Seasonal Payments?	NO
Monthly Principal and Interest Payments	
First Change/Amount	\$1,028 – \$1,359 at 61st payment
Subsequent Changes	Every three years
Maximum Payment	\$2,068 starting at 169th payment

Adjustable Interest Rate (AIR) Table

Index + Margin	MTA + 4%
Initial Interest Rate	4%
Minimum/Maximum Interest Rate	3.25%/12%
Change Frequency	
First Change	Beginning of 61st month
Subsequent Changes	Every 36th month after first change
Limits on Interest Rate Changes	
First Change	2%
Subsequent Changes	2%

ARM Disclosure

Adjustable Rate Mortgage Disclosure

(This is neither a contract nor a commitment to lend.)

Lender

Branch Banking and Trust Company

Adjustable Rate Mortgage (ARM) Program: C 7/1 YR ARM LBR 5/2/5 NCVT

This disclosure describes the features of the ARM loan you are considering. Information on other ARM programs is available upon request.

How Your Interest Rate and Payment Are Determined

- Your interest rate will be based on an index plus a margin.
- This ARM loan has a discount feature, and your initial interest rate will not be based on the index used for later adjustments. Please ask about our current discount or premium amount.
- This type of ARM loan carries a provision for a change in the Interest Rate and Monthly Payment.
- Your payment will be based on the interest rate, loan balance and loan term.
- The index used to determine your initial interest rate and/or all adjustments is: *the average of interbank offered rates for one-year U.S. dollar-denominated deposits in the London market (LIBOR).*
NOTE: If the index for your ARM loan is no longer available, the Lender will choose a new index which is based on comparable information.
- Information about the index can be found: *published daily in the Wall Street Journal.*
- Your interest rate will be equal to the index rate plus our margin rounded to the nearest .125%, unless your interest rate caps limit the amount of change in the interest rate.
- Ask us for our current interest rate and margin.

How Your Interest Rate Can Change

- Your interest rate can change in 84 Months, and every year thereafter.
- Your interest rate cannot increase more than 5 percentage point(s) at the initial adjustment.
- Your interest rate cannot decrease more than 5 percentage point(s) at the initial adjustment.
- Your interest rate cannot increase more than 2 percentage point(s) at each periodic adjustment.
- Your interest rate cannot decrease more than 2 percentage point(s) at each periodic adjustment.
- Your interest rate cannot increase more than 5 percentage point(s) over the term of the loan.
- Your interest rate will never be less than 2.250% over the term of the loan.
- Your interest rate will be rounded off to the nearest .125% at each adjustment.

How Your Payment Can Change

- Your monthly payment can increase or decrease substantially based on yearly changes in the interest rate.
- You will be notified at least 210, but no more than 240, days before the first payment at the adjusted level is due after the initial interest rate adjustment of the loan. This notice will contain information about the adjustment, including the interest rate, payment amount, and loan balance.
- You will be notified at least 60, but no more than 120, days before the first payment at the adjusted level is due after any interest rate adjustment resulting in a corresponding payment change. This notice will contain information about the adjustment, including the interest rate, payment amount, and loan balance.

- Any increase in interest will take the form of a higher payment amount.

EXAMPLE: On a \$10,000, 30 year loan with an initial interest rate of 2.875% in effect in June, 2016, the maximum amount that the interest rate can rise under this program is 5 percentage points, to 7.875%, and the monthly payment can rise from a first-year payment of \$41.49 to a maximum of \$65.74 in the eighth year.

To see what your payments would be, divide your mortgage amount by \$10,000; then multiply the monthly payment by that amount. (For example, the monthly payment for a mortgage amount of \$100,000.00 would be: $\$100,000.00 / \$10,000 = 10$; $10 \times \$41.49 = \414.90 per month.)

Additional Features of Your ARM Program

- Someone buying this property may assume, subject to lender's conditions, the remaining balance due under original mortgage terms.
- This ARM Program does not have a Demand Feature.

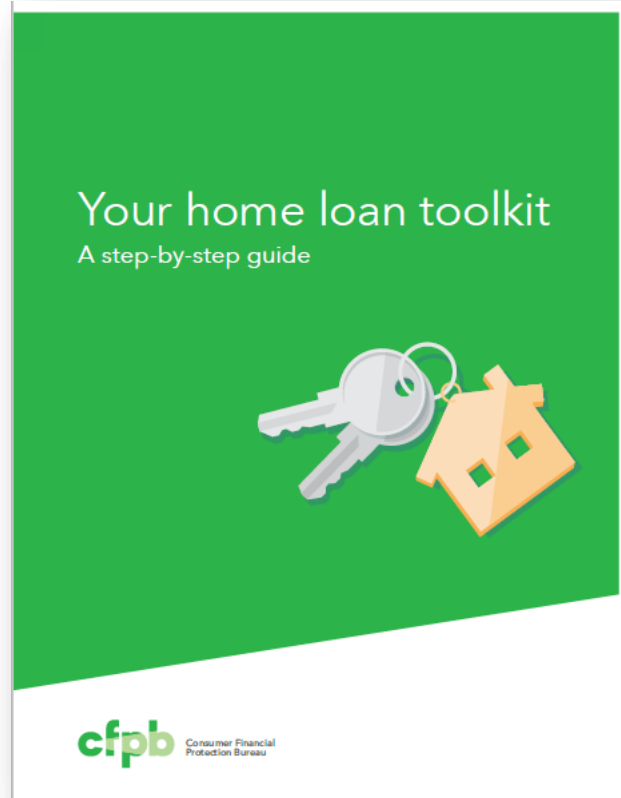
I/We hereby acknowledge receipt of this ARM disclosure and a copy of the *Consumer Handbook on Adjustable Rate Mortgages* on the date indicated below.

Borrower

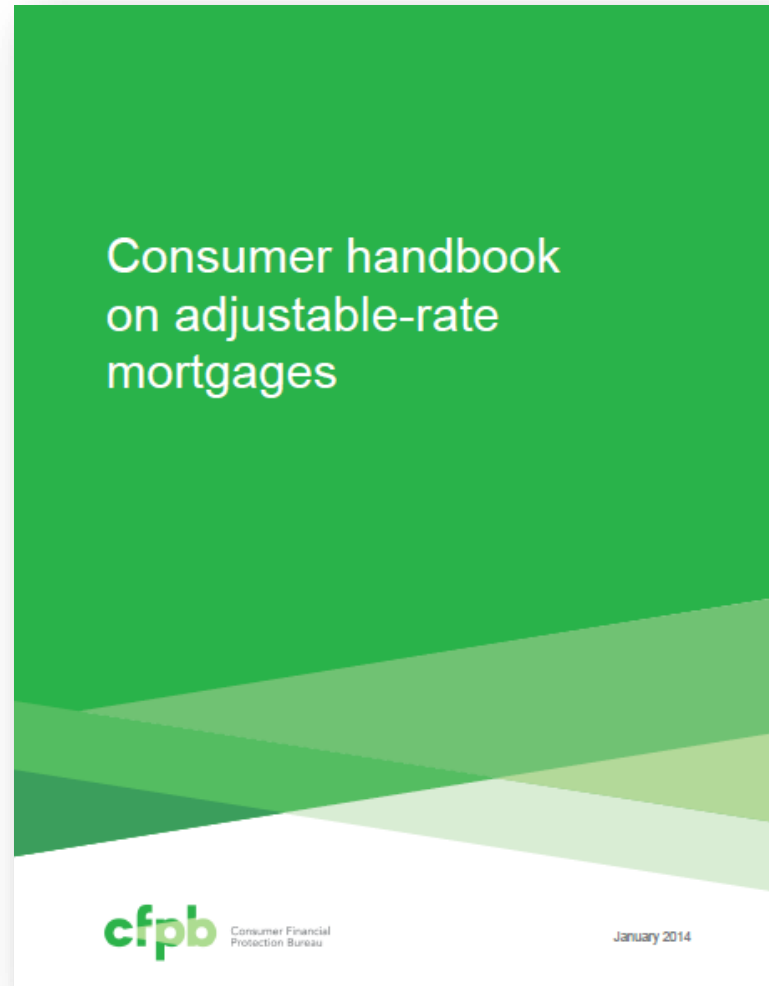
Sample Sample

Date

CFPB Disclosures



https://files.consumerfinance.gov/f/201401_cfpb_booklet_charm.pdf



Agency Guidelines For Adjustable Rate Mortgages

Fannie Mae ARM's

B2-1.4-02, Adjustable-Rate Mortgages (ARMs) (06/01/2022)

ARM Payment Shock

ARMs that provide for low initial payments based on fixed introductory rates that expire after a short period of time and then adjust to a variable rate for the remaining term of the mortgage loan have the potential for payment shock. “Payment shock” refers to the impact on the borrower’s ability to continue making the mortgage payments once the introductory rate expires. After the rate and payment increase, the borrower is subsequently faced with a large increase in monthly PITIA.

Lenders must limit the impact of any potential payment shock on an ARM with an initial fixed-rate period of five years or less by qualifying borrowers based on the qualifying rate described in [B3-6-04, Qualifying Payment Requirements](#).

<https://selling-guide.fanniemae.com/1032991911>

Fannie Mae ARM's



B3-6-04, Qualifying Payment Requirements (04/06/2022)

Introduction

Qualifying Interest Rate Requirements	
Transaction Type	DU and Manual Underwriting
Fixed-rate mortgages	Note rate
ARMs with initial fixed-rate period of three years or less	The maximum interest rate that could apply during the first five years after the first payment is due.
ARMs with initial fixed-rate period of five years	Greater of <ul style="list-style-type: none"> the maximum rate that could apply during the first five years after the first payment date (note rate plus first rate change cap), or the fully indexed rate
ARMs with an initial fixed-rate period of greater than five years	Greater of the note rate or the fully indexed rate

5-Year ARMs (60 months)	FM GENERIC, 5 YR	5 year SOFR (2/1/5)	Greater of fully indexed rate or note rate plus 2%
7 and 10-Year ARMs (84 and 120 months respectively)	FM GENERIC, 7 YR	7 year SOFR (5/1/5)	Greater of fully indexed rate or note rate
	FM GENERIC, 10 YR	10 year SOFR (5/1/5)	
Any	Submission of an ARM plan number that is not recognized by DU (referred to as "Lender ARM Plan")	NA	<ul style="list-style-type: none"> Qualifying rate entered in the ARM Qualifying Rate field in DU If the ARM Qualifying Rate field is not entered, DU will use the note rate plus 5%

Fannie Mae ARM's- Desktop Underwriter

Mortgage Information			
Loan Type	Conventional	Loan Amount	\$156,350.00
Amortization Type	Fixed Rate	Financed MI Amount	\$0.00
Balloon	No	Total Loan Amount	\$156,350.00
Community Lending	No	Sales Price (purchase transactions)	\$165,000.00
Payment Frequency	Monthly	Actual/Estimated Appraised Value	\$165,000.00
Lien Type	First Mortgage	P&I	\$702.08
Amt. Subordinate Fin.	\$0.00	Note Rate	3.500%
Loan Purpose	Purchase	Qualifying rate	3.500%
Refi Purpose		Bought Down rate	0.000%
Owner Existing Mtg		Term (Months)	360
Buy Down	No		
LTV/CLTV/HCLTV	95.00% / 95.00% / 95.00%		

- Qualifying rate entered in the ARM Qualifying Rate field in DU
- If the ARM Qualifying Rate field is not entered, DU will use the note rate plus 5%

Freddie Mac ARM's

The screenshot displays the Freddie Mac Single-Family Guide website. The top navigation bar includes links for Guide Home, Seller/Servicer Relationship, Selling, and Servicing. The main heading is "THE SINGLE-FAMILY SELLER/SERVICER GUIDE" with a search bar below it containing the text "Search the Guide" and a search icon. The search bar has a placeholder text "What can we help you find?". Below the search bar, there are four tabs: BROWSE THE GUIDE (which is selected), RECENT BULLETINS, FORMS & DOCUMENTS, and UPCOMING CHANGES. The breadcrumb trail reads: Guide Home > Selling > Series 4000 : Mortgage Eligibility > Topic 4400 : Special Mortgage Eligibility Requirements > Chapter 4401 : ARM's. The main content area shows a list of items under the heading "Chapter 4401 ARM's":

- 4401.1 Eligible ARM's
- 4401.2 Eligible ARM products

<https://guide.freddiemac.com/app/guide/chapter/4401>

Freddie Mac Qualifying Requirements

Freddie Mac Home Single-Family Division Multifamily Division Capital Markets Division

Freddie Mac Single-Family Seller/Service Guide

Guide Home Seller/Service Relationship **Selling** Servicing

within 90 days preceding the Note Date, rounded to the nearest one-eighth of 1% (0.125%).

(b) ARM qualifying rates

For all SOFR ARMs, the Borrower must be qualified as follows:

SOFR ARM Type	Borrower Qualified at no less than the:
3/6-Month ARM ¹	Note Rate + Life Cap (5%)
5/6-Month ARM ¹	Greater of the Note Rate plus two percentage points or the fully-indexed rate
7/6-Month ARM 10/6-Month ARM	<ul style="list-style-type: none">Note Rate for Mortgages that are not Higher-Priced Covered Transactions (HPCTs) or Higher-Priced Mortgage Loans (HPMLs)Greater of the Note Rate or the fully-indexed rate for Mortgages that are HPCTs or HPMLs

¹The qualifying rate must, at a minimum, equal the maximum interest rate that may apply during the first five years after the date on which the first regular periodic payment will be due, based on the loan amount over the loan term. If the ARM qualifying rate requirements above are more restrictive, those requirements must be satisfied.

Freddie Mac ARM's- Loan Product Advisor

Mortgage Details

PRODUCT TYPE 30 Year Fixed Rate	AMORTIZATION TYPE Fixed	AMORTIZATION MONTHS 360	LOAN AMOUNT \$110,000.00	INTEREST RATE 5.0000%
LOAN PURPOSE Purchase	PURCHASE PRICE \$140,000.00	ESTIMATED PROPERTY VALUE N/A	APPRAISED PROPERTY VALUE \$140,000.00	NUMBER OF UNITS 1
PROPERTY TYPE Site Built	OCCUPANCY Primary Residence	REFINANCE TYPE N/A	CASHOUT AMOUNT N/A	NEW CONSTRUCTION N/A
OFFERING IDENTIFIER N/A	INTEREST RATE BUYDOWN No	SALES CONCESSIONS N/A	ARM QUALIFYING RATE N/A	ARM QUALIFYING PITI N/A
AFFORDABLE SECOND N/A	SECONDARY FINANCING \$0.00	HELOC BALANCE N/A	HELOC LIMIT AMOUNT N/A	LENDER SUBMITTED RESERVES N/A

The people, business, addresses and all other information within these documents are fictional.

#1. ARM Quiz- 5/6 ARM with 5/1/5 caps

Index:	.750%	Periodic Adjustment Cap:	1.000%
Discount:	.250%	Initial Adjustment Cap:	5.000%
Margin:	2.50%	Lifetime Adjustment Cap:	5.000%
		6 th year Index:	3.000%

1. What is the initial Fully Indexed Accrual Rate (FIAR)?
2. What is the start/teaser rate?
3. What is the Qualifying Rate?
4. What is the FIAR in year 6?
5. Does this amount exceed the cap? If yes, what is the maximum rate allowed?

#1. ARM Quiz- 5/6 ARM with 5/1/5 caps

Index:	.750%	Periodic Adjustment Cap:	1.000%
Discount:	.250%	Initial Adjustment Cap:	5.000%
Margin:	2.50%	Lifetime Adjustment Cap:	5.000%
		6 th year Index:	3.000%

Answers

1. What is the initial Fully Indexed Accrual Rate (FIAR)?

Index .75 + Margin 2.50 = FIAR 3.25

2. What is the start/teaser rate?

FIAR 3.25 – Discount .25 = Start Rate (teaser rate) 3.0%

3. What is the Qualifying Rate?

3.25 or 3.0 + 5 = (*8.0) Requirement on ARM's with adjustment periods of 6 months-5 years. Qualifying rate = *The greater of the FIAR or note rate + first rate change cap

4. What is the FIAR on year 6?

Index 3.00 + Margin 2.50 = FIAR 5.50

5. Does this amount exceed the cap? If yes, what is the maximum rate allowed?

NO! Start Rate 3.0 + Initial Cap 5 = 8.0%

#2. ARM Quiz- 5/6 ARM with 2/1/5 caps

Index:	.750%	Periodic Adjustment Cap:	1.000%
Discount:	.250%	Initial Adjustment Cap:	5.000%
Margin:	2.50%	Lifetime Adjustment Cap:	5.000%
		6 th year Index:	3.000%

1. What is the initial Fully Indexed Accrual Rate (FIAR)?
2. What is the start/teaser rate?
3. What is the Qualifying Rate?
4. What is the FIAR in year 6?
5. Does this amount exceed the cap? If yes, what is the maximum rate allowed?

#2. ARM Quiz- 5/6 ARM with 2/1/5 caps

Index:	.750%	Periodic Adjustment Cap:	1.000%
Discount:	.250%	Initial Adjustment Cap:	5.000%
Margin:	2.50%	Lifetime Adjustment Cap:	5.000%
		6 th year Index:	3.000%

Answers

1. What is the initial Fully Indexed Accrual Rate (FIAR)?

Index .75 + Margin 2.50 = FIAR 3.25

2. What is the start/teaser rate?

FIAR 3.25 – Discount .25 = Start Rate (teaser rate) 3.0%

3. What is the Qualifying Rate?

3.25 or 3.0 + 2 = (*5.0) Requirement on ARM's with adjustment periods of 6 months-5 years. Qualifying rate = *The greater of the FIAR or note rate + first rate change cap

4. What is the FIAR on year 6?

Index 3.00 + Margin 2.50 = FIAR 5.50

5. Does this amount exceed the cap? If yes, what is the maximum rate allowed?

YES! Start Rate 3.0 + Initial Cap 2 = 5.0%

#3. ARM Quiz- 7/6 ARM with 5/1/5 caps

Index:	.750%	Periodic Adjustment Cap:	1.000%
Discount:	.250%	Initial Adjustment Cap:	5.000%
Margin:	2.50%	Lifetime Adjustment Cap:	5.000%
		8 th year Index:	3.000%

1. What is the initial Fully Indexed Accrual Rate (FIAR)?
2. What is the start/teaser rate?
3. What is the Qualifying Rate?
4. What is the FIAR in year 8?
5. Does this amount exceed the cap? If yes, what is the maximum rate allowed?

#3. ARM Quiz- 7/6 ARM with 5/1/5 caps

Index:	.750%	Periodic Adjustment Cap:	1.000%
Discount:	.250%	Initial Adjustment Cap:	5.000%
Margin:	2.50%	Lifetime Adjustment Cap:	5.000%
		8 th year Index:	3.000%

Answers

1. What is the initial Fully Indexed Accrual Rate (FIAR)?

Index .75 + Margin 2.50 = FIAR 3.25

2. What is the start/teaser rate?

FIAR 3.25 – Discount .25 = Start Rate (teaser rate) 3.0%

3. What is the Qualifying Rate?

3.25 or 3.0 = (*3.25) Requirement on 7 and 10 year ARM's -Qualifying rate = *The greater of the FIAR or note rate

4. What is the FIAR on year 8?

Index 3.00 + Margin 2.50 = FIAR 5.50

5. Does this amount exceed the cap? If yes, what is the maximum rate allowed?

NO! Start Rate 3.0 + Initial Cap 5 = 8.0%



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Enact Underwriting Guidelines

The screenshot shows the Enact website's navigation bar with links for TRAINING, OUR BLOG, a search bar, and LOG IN. Below the navigation is the Enact logo and a menu with GET A QUOTE, UNDERWRITING, SOLUTIONS, RESOURCES, and ABOUT US. The main heading is "Enact MI Underwriting Guidelines". The introductory text states: "One of the most important documents on our website! Download the Enact MI Underwriting Guidelines for details on how we evaluate loans submitted for mortgage insurance. You can also access Credit Policy updates, LTV recaps, and information about our Peak Portfolio program." Below this is a section titled "Underwriting Guidelines and Credit Policy Updates" with a sub-heading "Underwriting Guidelines and Credit Policy Updates". The text reads: "Looking for a specific guidelines like Jumbo loans? Construction to permanent? For specific guidelines, try searching within the document or use the linked Table of Contents. For more underwriting resources, check out our selection of underwriting courses in Training Resources." At the bottom, there are two PDF links: "Underwriting Guidelines" (Effective Date 1-10-2022, ARCHIVE) and "Credit Policy Bulletin 2022-02" (Effective Date 2-10-2022). On the right side, there are two promotional boxes: "Our COVID-19 Responses and Resources" with a "Check it out" button, and "UNDERWRITING TIPS" (Best practices for reducing file errors) with a "Get info" button. A "Feedback" button is also visible at the bottom right.

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Enact MI Underwriting Guidelines

One of the most important documents on our website! Download the Enact MI Underwriting Guidelines for details on how we evaluate loans submitted for mortgage insurance. You can also access Credit Policy updates, LTV recaps, and information about our Peak Portfolio program.

Underwriting Guidelines and Credit Policy Updates

Looking for a specific guidelines like Jumbo loans? Construction to permanent? For specific guidelines, try searching within the document or use the linked Table of Contents. For more underwriting resources, check out our selection of underwriting courses in Training Resources.

Underwriting Guidelines
Effective Date 1-10-2022 ARCHIVE

Credit Policy Bulletin 2022-02
Effective Date 2-10-2022

Our COVID-19 Responses and Resources
Check it out

UNDERWRITING TIPS
Best practices for reducing file errors
Get info

Feedback

Enact Training Resources

The screenshot shows the Enact MI Training Catalog website. At the top left is the Enact logo. The navigation menu includes: Getting Started, My Progress, Catalog, Live Calendar, Calculators, and EnactMI.com. On the right, there is a search bar with a magnifying glass icon and a 'Log In' link. The main banner features the text 'Enact MI Training Catalog' in green, with a background image of hands typing on a green laptop keyboard and several green plus signs floating to the right. Below the banner are four category cards, each with a green plus sign icon and a title: 'Assets' (orange background with small plus signs), 'Income' (teal background with small dots), 'Credit/Liabilities' (white background with a grid of dashed lines and small plus signs), and 'Appraisal/Collateral' (yellow background with horizontal lines).

Enact Training Resources

The screenshot shows the Enact website's navigation bar with links for TRAINING, OUR BLOG, and a search bar. Below the navigation is the Enact logo and links for GET A QUOTE, UNDERWRITING, SOLUTIONS, and RESOURCES. The main content area features a large heading: "Self-Employed Borrower Tools by Enact MI". Below the heading is a paragraph: "We get it, mental math is hard. That's why Enact provides a collection of downloadable calculators and reference guides to help you analyze a self-employed borrower's average monthly income and expenses." This is followed by a note: "Please note that these tools offer suggested guidance, they don't replace instructions or applicable guidelines from the GSEs." A grey box contains a warning: "Due to various internet browser versions, please download and save PDF before entering data. Please note, calculators are updated periodically." Below this are three calculator options, each with a calculator icon and a file format icon: 1. "UPDATED Fannie Mae Form 1084 Calculator (2021-2020)" with a PDF icon and the text "Calculate and analyze". 2. "Fannie Mae Form 1084 Calculator XLS (2019-2020)" with an XLSX icon and the text "Calculate and analyze cash flow to help you". 3. "UPDATED Freddie Mac Form 91 Calculator (2021-2020)" with a PDF icon.

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Self-Employed Borrower Tools by Enact MI

We get it, mental math is hard. That's why Enact provides a collection of downloadable calculators and reference guides to help you analyze a self-employed borrower's average monthly income and expenses.

Please note that these tools offer suggested guidance, they don't replace instructions or applicable guidelines from the GSEs.

Due to various internet browser versions, please download and save PDF before entering data. Please note, calculators are updated periodically.

 PDF	UPDATED Fannie Mae Form 1084 Calculator (2021-2020) Calculate and analyze	 XLSX	Fannie Mae Form 1084 Calculator XLS (2019-2020) Calculate and analyze cash flow to help you	 PDF	UPDATED Freddie Mac Form 91 Calculator (2021-2020)
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Your Enact Resources

- ActionCenter® : 800 444.5664
- Your Local Enact Regional Underwriter
- Your Enact Sales Representative

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