



U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT  
WASHINGTON, DC 20410-8000

ASSISTANT SECRETARY FOR HOUSING-  
FEDERAL HOUSING COMMISSIONER

**MORTGAGEE LETTER 2007-13**

October 12, 2007

**TO: ALL APPROVED MORTGAGEES**

**SUBJECT: Adjustable Rate Mortgages—Addition of LIBOR Index**

The Federal Housing Administration is pleased to announce that the Department of Housing and Urban Development published a final rule in the Federal Register at 72 FR 40048 amending regulations at 24 CFR 203.49(b) to permit FHA to insure all forward adjustable rate mortgage (ARM) loan products using the 1-Year London Interbank Offered Rate (LIBOR) as an acceptable index option.

In addition, this final rule amended HUD's regulation at 24 CFR 206.3 to add the use of both the 1-Month LIBOR index and the 1-Month Constant Maturity Treasury (CMT) index for calculating the interest rate adjustments on the monthly adjusting Home Equity Conversion Mortgage (HECM). The final rule also permits the 1-Year LIBOR index for calculating the interest rate adjustments on the annually adjusting HECM. The 10-Year LIBOR swap rate shall be used to calculate the Expected Interest Rate on LIBOR-indexed HECMs.

These new options are effective for mortgages insured on or after the date of this Mortgagee Letter. While FHA expects that the market will determine the degree of usage of the LIBOR indices, the existing CMT indices will remain acceptable for 1-, 3-, 5-, 7-, and 10-Year forward ARMs, and for HECM ARMs.

**Index Consistency**

The two index types, CMT and LIBOR, cannot be commingled. As an example, under the HECM program, when a particular index type (LIBOR or CMT) is chosen to calculate the Expected Interest Rate, it must also be used to calculate the periodic interest rate changes. Below is a matrix showing eligible index types for HECM and forward ARM product offerings.

**Instructions**

To provide clarity, instructions for using the indices have been separated into two sections: (1) Forward ARMs, and (2) HECM ARMs.

## **Forward ARMS**

<b>Eligible Index Types</b>		
<b>Forward ARMs</b>	<b>LIBOR</b>	<b>CMT</b>
1-, 3-, 5-, 7-, 10-Year	1-Year LIBOR	1-Year CMT

### **Index Availability and Utilization**

The source of the 1-Year LIBOR indices used to calculate periodic adjustments to the note interest rate is *The Wall Street Journal* as published on the first business day of each week, which is typically a Monday, or Tuesday if Monday is a non-publishing day. Should the Federal Reserve begin publishing these LIBOR indices in H.15, then lenders must use the H.15 as the source for these LIBOR rates. The LIBOR indices are effective the day they are published, until such day the indices are published the following week. The published LIBOR index figure shall be rounded to three digits to the right of the decimal point. To foster uniformity in the market, use of alternative LIBOR sources is not allowed. As noted in the preamble, the 1-Year CMT will remain an acceptable index.

As a reminder, the index used for the adjustment is that which is in effect 30 days before the change as provided in the note.

## **HECM ARMS**

<b>Eligible Index Types</b>		
<b>HECM ARMs</b>	<b>Periodic Adjustments</b>	<b>Expected Average Mortgage Interest Rate</b>
Monthly Adjustable	1-Month CMT	10-Year CMT
	1-Year CMT	10-Year CMT
	1-Month LIBOR	10-Year LIBOR swap
Annually Adjustable	1-Year CMT	10-Year CMT
	1-Year LIBOR	10-Year LIBOR swap

### **Index Availability**

The new regulation permits the use of the 1-Month CMT for calculating interest rate adjustments on monthly adjusting HECM ARMS. The weekly averages of the 1-Month, 1-Year, and 10-Year CMT indices and the 10-Year LIBOR swap rate are published Mondays (or the following business day if a holiday) in the Federal Reserve Board Statistical Release H.15 at <http://www.federalreserve.gov/releases/h15/current>. The weekly averages of the 1-Month and 1-Year CMT are available in the “Treasury constant maturities” section of the H.15 while the 10-Year LIBOR swap rate is available in the “Interest rate swaps” section.

The source of the 1-Month and 1-Year LIBOR indices is *The Wall Street Journal* as published on the first business day of each week, which is Monday, or Tuesday if Monday is a non-publishing day. Should the Federal Reserve begin publishing these 1-Month and 1-Year LIBOR indices in H.15, then lenders must use the H.15 as the source for these LIBOR rates. However, unless and until the 1-Month and 1-Year LIBOR indices are issued in the H.15, *The Wall Street Journal*, as published on the first business day of each week (Monday, or Tuesday if Monday is a non-publishing day) is the source for these LIBOR indices. **The published LIBOR index figure shall be rounded to three digits to the right of the decimal point.**

### **Calculating the Expected Interest Rate, Initial Interest Rate, and Principal Limit Locks: Pre-closing**

When locking-in the Expected Interest Rate, calculating Principal Limits, establishing the Initial (accrual) Interest Rate, or closing a HECM loan, the CMT indices and the weekly average of the 10-Year LIBOR swap rate as shown in the H.15 release are effective the next day after they are published, until the day after the H.15 is published the following week. The 1-Month and 1-Year LIBOR rates as published in *The Wall Street Journal* on the first business day of each week are effective the next day after they are published, until the day after the rates are published the following week.

Lenders may continue to offer the lock-in features described in Mortgagee Letter 06-22, however, if a borrower chooses or is offered an index and/or a margin different from that chosen or offered at application, the Expected Interest Rate used to calculate the Principal Limit shall be the new margin chosen or offered, plus the index as applicable, as of the application date or the date of closing, whichever is lower.

### **Calculating Periodic Adjustments: Post-closing**

The weekly average of the applicable CMT index is effective immediately upon release of the H.15 by the Federal Reserve. Typically, this will occur on Monday afternoon at approximately 2:30 p.m. EST, or Tuesday afternoon if Monday is a holiday. That index figure is valid until the next release of the H.15.

The applicable LIBOR index is that index published in *The Wall Street Journal* on Monday, or Tuesday if Monday is a non-publishing day. That index figure is valid until a new figure is published the following Monday, or Tuesday if Monday is a non-publishing day. In all cases, the applicable index must correspond to the indices indicated in the H.15 or *The Wall Street Journal*, as applicable, in accordance with the look-back provisions of the loan notes and related documents.

### **Documents**

Existing model notes and security instruments currently reflect only the 1-Year CMT index. Therefore, when LIBOR rates are chosen or the 1-Month CMT rate is chosen, the adjustable rate notes and other related documents must reflect the applicable LIBOR or 1-Month CMT index.

If you should have any questions concerning this Mortgagee Letter, call 1-800-CALLFHA.

Sincerely,

Brian D. Montgomery  
Assistant Secretary for Housing-  
Federal Housing Commissioner

