

Adjustable Rate Mortgages (ARMs)

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Adjustable-rate mortgages can give borrowers a lower rate and monthly payment than a fixed loan. ARMs can be a smart alternative — especially considering that fewer than 10% of borrowers stay in the same mortgage for over seven years. ARMs are also appealing to borrowers interested in short-term loans on investment properties.

DEFINITIONS

Adjustable Rate Mortgage (ARM) or Variable-rate mortgage: A mortgage loan where the interest rate on the note adjusts based on a market index.

Margin: Set by the lender, does not change after closing (located on rate sheet).

- Conventional and Jumbo 5/6, 7/6 and 10/6 product margin is 2.75
- FHA and VA 5/1 and 3/1 product margin is 2.25

Index: The part of the rate that changes, based on the market (located on rate sheet).

- **SOFR** Index: Secured Overnight Financing Rate
 - Average rate at which institutions can borrow USD overnight using US Treasury bonds for collateral
 - Reflects banking transactions that have already happened
 - Used to determine Conventional and Jumbo 5/6, 7/6 and 10/6 rates
 - The index is the 30-day average SOFR

- **CMT Index:** Constant Maturity Treasury Index
 - Based on the average yield of U.S. Treasury securities, adjusted to reflect a specific maturity period
 - Used to determine all fixed rates and FHA and VA 5/1 and 3/1 Government ARM rates

Fully indexed Rate: This rate is equal to the Margin + Index.

- For Conventional ARMs:
 - $2.75 \text{ (Margin)} + 1 \text{ (Index)} = 3.75 \text{ Fully indexed Rate}$
- For FHA and VA ARMs:
 - $2.25 \text{ (Margin)} + 4 \text{ (Index)} = 6.25 \text{ Fully indexed Rate}$

Caps: The max percentage the rate can increase or decrease at different adjustment points (located on rate sheet).

- **Initial adjustment:** The first adjustment after the fixed period expires.
- **Subsequent adjustment:** The adjustments that happen after the initial adjustment.
- **Over the life of the loan:** The most the rate can adjust over the entire term.

Start Rate: Interest rate the loan was initially locked at.

Floor: The lowest the rate can go; this is not lower than the margin.

HOW IT WORKS

- ARMs are eligible for TRAC+
- ARMs are amortized over 30 years
- Once the fixed rate period ends, the loan's rate will adjust every few months or every year, depending on the product selected

EXAMPLE: On a 5/6 ARM, the borrower will have 5 years with a fixed rate, then their rate adjusts every six months for the remaining 25 years.



5/6 ARMS

With 5/6 ARMs, the borrower will have 5 years with a fixed rate, then their rate adjusts every 6 months.

- The adjustment caps for 5/6 ARMs are **2/1/5**
 - 2% = Initial adjustment cap
 - 1% = Subsequent adjustment cap
 - 5% = Lifetime cap
- Qualifies at the greater of the note rate + 2% or the fully indexed rate
- Not eligible for Flex Term

CONVENTIONAL 5/6 ARM

Please refer to the [Conventional ARM Matrix](#) and the [Conventional Elite ARM Matrix](#) for a more detailed list of product parameters.

- Available on purchase, rate/term, and cash-out refinances
 - Primary, second, and investment properties only
- Minimum FICO = 620
- Max LTV = 95%
- Available for conforming, elite, and high balance loan limits
- Eligible for Temporary Rate Buydowns

PRIME JUMBO 5/6 ARM

Please refer to the [Prime Jumbo Released ARMs Matrix](#) for a more detailed list of product parameters.

- Available on purchases, rate/term and cash-out refinances
 - Primary, second, and investment properties only
- Minimum FICO = 660
- Max LTV = 89.99%
- Max DTI = 50%
- Max Loan Amount = \$5,000,000
- One appraisal required for loan amounts up to \$2M

- Two appraisals from two different appraisers required for refinances over \$2M
- Reserve Requirements:
 - Loan amounts between \$2,000,001-\$3,000,000:
 - 12 months subject PITI(a) and
 - Any reserves required by AUS
 - Loan amounts between \$3,000,001-\$5,000,000:
 - 24 months subject PITI(a) and
 - Any reserves required by AUS
- Not eligible for Temporary Rate Buydowns

7/6 ARMS

With 7/6 ARMs, the borrower will have 7 years with a fixed rate, then their rate adjusts every 6 months.

- The adjustment caps for 7/6 ARMs are **5/1/5**
 - 5% = Initial adjustment cap
 - 1% = Subsequent adjustment cap
 - 5% = Lifetime cap
- Qualifies at the note rate
- Not eligible for Flex Term

CONVENTIONAL 7/6 ARM

Please refer to the [Conventional ARM Matrix](#) and the [Conventional Elite ARM Matrix](#) for a more detailed list of product parameters.

- Available on purchase, rate/term, and cash-out refinances
 - Primary, second, and investment properties only
- Minimum FICO = 620
- Max LTV = 95%
- Available for conforming, elite, and high balance loan limits
- Eligible for Temporary Rate Buydowns

PRIME JUMBO 7/6 ARM

Please refer to the [Prime Jumbo Released ARMs Matrix](#) for a more detailed list of product parameters.

- Available on purchases, rate/term and cash-out refinances
 - Primary, second, and investment properties only
- Minimum FICO = 660
- Max LTV = 89.99%
- Max DTI = 50%
- Max Loan Amount = \$5,000,000
- One appraisal required for loan amounts up to \$2M
- Two appraisals from two different appraisers required for refinances over \$2M
- Reserve Requirements:
 - Loan amounts between \$2,000,001-\$3,000,000:
 - 12 months subject PITI(a) and
 - Any reserves required by AUS
 - Loan amounts between \$3,000,001-\$5,000,000:
 - 24 months subject PITI(a) and
 - Any reserves required by AUS
- Not eligible for Temporary Rate Buydowns
- Prime Jumbo Released 7/6 ARMs qualify at the greater of the Fully Indexed Rate or Note Rate

PRIME JUMBO MAX 7/6 ARM

Please refer to the [Prime Jumbo Max ARM Matrix](#) for a more detailed list of product parameters.

- Available on purchases, rate/term and cash-out refinances
 - Primary, second, and investment properties only
- Minimum FICO = 700
- Max LTV = 80%
- Max DTI = 43%
- Max Loan Amount = \$3,000,000
- One appraisal required for loans up to \$1.5M
 - Two appraisals from two different appraisers required for loans over \$1.5M
- For purchase and rate/term refinances
 - For primary purchase loans up to \$3M—6-18 months of reserves required
 - For second home purchase loans up to \$3M —12-18 months of reserves required

- For cash-out refinances
 - For primary cash-out loans up to \$1.5M—12 months of reserves required (up to \$250,000 cash back)
 - For primary cash-out loans greater than \$1.5M—12 months of reserves required (up to \$500,000 cash back)
 - For second home cash-out loans up to \$1.5M—12-18 months of reserves required (up to \$250,000 cash back)
 - For second home cash out loans greater than \$1.5M—18 months of reserves required (up to \$500,000 cash back)
- Not eligible for Temporary Rate Buydowns

10/6 ARMS

With 10/6 ARMs, the borrower will have 10 years with a fixed rate, then their rate adjusts every 6 months.

- The adjustment caps for 10/6 ARMs are **5/1/5**
 - 5% = Initial adjustment cap
 - 1% = Subsequent adjustment cap
 - 5% = Lifetime cap
- Qualifies at the note rate
- Not eligible for Flex Term

CONVENTIONAL 10/6 ARM

Please refer to the [Conventional ARM Matrix](#) and the [Conventional Elite ARM Matrix](#) for a more detailed list of product parameters.

- Available on purchase, rate/term, and cash-out refinances
 - Primary, second, and investment properties only
- Minimum FICO = 620
- Max LTV = 95%
- Available for conforming, elite, and high balance loan limits
- Eligible for Temporary Rate Buydowns

PRIME JUMBO 10/6 ARM

Please refer to the [Prime Jumbo Released ARMs Matrix](#) for a more detailed list of product parameters.

- Available on purchases, rate/term and cash-out refinances



- Primary, second, and investment properties only
- Minimum FICO = 660
- Max LTV = 89.99%
- Max DTI = 50%
- Max Loan Amount = \$5,000,000
- One appraisal required for loan amounts up to \$2M
- Two appraisals from two different appraisers required for refinances over \$2M
- Reserve Requirements:
 - Loan amounts between \$2,000,001-\$3,000,000:
 - 12 months subject PITI(a) and
 - Any reserves required by AUS
 - Loan amounts between \$3,000,001-\$5,000,000:
 - 24 months subject PITI(a) and
 - Any reserves required by AUS
- Not eligible for Temporary Rate Buydowns
- Prime Jumbo Released 10/6 ARMs qualify at the greater of the Fully Indexed Rate or Note Rate

PRIME JUMBO MAX 10/6 ARM

Please refer to the [Prime Jumbo Max ARM Matrix](#) for a more detailed list of product parameters.

- Available on purchases, rate/term and cash-out refinances
 - Primary, second, and investment properties only
- Minimum FICO = 700
- Max LTV = 80%
- Max DTI = 43%
- Max Loan Amount = \$3,000,000
- One appraisal required for loans up to \$1.5M
 - Two appraisals from two different appraisers required for loans over \$1.5M
- For purchase and rate/term refinances
 - For primary purchase loans up to \$3M—6-18 months of reserves required
 - For second home purchase loans up to \$3M —12-18 months of reserves required
- For cash-out refinances
 - For primary cash-out loans up to \$1.5M—12 months of reserves required (up to \$250,000 cash back)

- For primary cash-out loans greater than \$1.5M—12 months of reserves required (up to \$500,000 cash back)
- For second home cash-out loans up to \$1.5M—12-18 months of reserves required (up to \$250,000 cash back)
- For second home cash out loans greater than \$1.5M—18 months of reserves required (up to \$500,000 cash back)
- Not eligible for Temporary Rate Buydowns

5/1 ARMS

With 5/1 ARMs, the borrower will have 5 years with a fixed rate, then their rate adjusts every year. The rate of 5/1 Government ARMs is determined by the CMT Index.

- The adjustment caps for 5/1 ARMs are **1/1/5**
 - 1% = Initial adjustment cap
 - 1% = Subsequent adjustment cap
 - 5% = Lifetime cap
- Qualifies at the note rate
- Not eligible for Texas 50 (a)(6)
- Not eligible for Flex Term

FHA 5/1 ARMS

Please refer to the [FHA ARM Matrix](#) and the [FHA Elite ARM Matrix](#) for a more detailed list of product parameters.

- Available on purchase and refinance transactions
 - Primary residence only
- Minimum FICO = 580
- Max LTV = 97.75%
- Max Loan Amount
 - Conforming = FHA Mortgage Limit
 - Jumbo = \$1 over conforming loan limits
- Available for conforming and jumbo loan limits
- Escrow waivers are not permitted
- Not eligible for Temporary Rate Buydowns

VA 5/1 ARMS

Please refer to the [VA ARM Matrix](#) and the [VA Elite ARM Matrix](#) for a more detailed list of product parameters

- Available on purchase and refinance transactions
 - Primary residences only
- Minimum FICO = 580
- Max LTV = 100%
- Max Loan Amount = \$4,000,000
- Available for conforming and jumbo loan limits
- Not eligible for Temporary Rate Buydowns
- Split entitlement allowed
- Further considerations for Type 1 IRRRLs:
 - If VA fixed to VA ARM transaction, **rate must decrease by at least 2%** compared to rate of existing mortgage
 - If VA fixed to VA ARM transaction and charging discount points greater than 1% of loan amount, **LTV is limited to 90%**
 - If VA fixed to VA ARM transaction, **appraisal is required**
 - If VA ARM to VA ARM transaction, rate must decrease by at least 0.25%, **only** if this is the sole net tangible benefit
- Further considerations for IRRRLs:
 - If VA fixed to VA ARM transaction, **rate must decrease by at least 2%** compared to rate of existing mortgage
 - If VA fixed to VA ARM transaction and charging discount points equal to or less than 1% of loan amount, **max LTV is 100%**
 - If VA fixed to VA ARM transaction and charging discount points greater than 1% of loan amount, **the LTV is limited to 90%**
 - If VA ARM to VA ARM transaction, **rate of the transaction must decrease**, but not by a specific percentage
 - If VA fixed to VA ARM transaction, an **appraisal is required** when discount points are charged

VA 5/1 ARM APPRAISAL REQUIREMENTS

For VA IRRRL 5/1 ARMs an appraisal may be required.

- If VA fixed to VA Type 1 Cash-Out 5/1 ARM transaction, **appraisal is required**
- For VA IRRRL ARM transactions, an **appraisal is required** when discount points are charged
 - If discount points are removed after the appraisal has been ordered, the appraisal must be reviewed and used to determine LTV
 - If discount points are removed prior to the appraisal being ordered, an appraisal will no longer be required
 - SFR or Condos require Exterior Only
 - Manufactured homes, 2-4 unit homes require full appraisal
- Appraisal must be ordered new; re-use of an appraisal is not permitted
- Appraisals cannot be ordered through the VA portal or Appraisal Direct

3/1 ARMS

With 3/1 ARMs, the borrower will have 3 years with a fixed rate, then their rate adjusts every year. The rate of 3/1 Government ARMs is determined by the CMT Index.

- The adjustment caps for 3/1 ARMs are **1/1/5**
 - 1% = Initial adjustment cap
 - 1% = Subsequent adjustment cap
 - 5% = Lifetime cap
- Qualifies at the note rate
- Not eligible for Texas 50 (a)(6)
- Not eligible for Flex Term

FHA 3/1 ARMS

Please refer to the [FHA ARM Matrix](#) and the [FHA Elite ARM Matrix](#) for a more detailed list of product parameters.

- Available on purchase and refinance transactions
 - Primary residence only
- Minimum FICO = 580
- Max LTV = 97.75%
- Max Loan Amount
 - Conforming = FHA Mortgage Limit
 - Jumbo = \$1 over conforming loan limits
- Available for conforming and jumbo loan limits
- Escrow waivers are not permitted
- Not eligible for Temporary Rate Buydowns

VA 3/1 ARMS

Please refer to the [VA ARM Matrix](#) and the [VA Elite ARM Matrix](#) for a more detailed list of product parameters

- Available on purchase and refinance transactions
 - Primary residences only

- Minimum FICO = 580
- Max LTV = 100%
- Max Loan Amount = \$4,000,000
- Available for conforming and jumbo loan limits
- Not eligible for Temporary Rate Buydowns
- Split entitlement allowed
- Further considerations for Type 1 IRRRLs:
 - If VA fixed to VA ARM transaction, **rate must decrease by at least 2%** compared to rate of existing mortgage
 - If VA fixed to VA ARM transaction and charging discount points greater than 1% of loan amount, **LTV is limited to 90%**
 - If VA fixed to VA ARM transaction, **appraisal is required**
 - If VA ARM to VA ARM transaction, rate must decrease by at least 0.25%, **only** if this is the sole net tangible benefit
- Further considerations for IRRRLs:
 - If VA fixed to VA ARM transaction, **rate must decrease by at least 2%** compared to rate of existing mortgage
 - If VA fixed to VA ARM transaction and charging discount points equal to or less than 1% of loan amount, **max LTV is 100%**
 - If VA fixed to VA ARM transaction and charging discount points greater than 1% of loan amount, **the LTV is limited to 90%**
 - If VA ARM to VA ARM transaction, **rate of the transaction must decrease**, but not by a specific percentage
 - If VA fixed to VA ARM transaction, an **appraisal is required** when discount points are charged

VA 3/1 ARM APPRAISAL REQUIREMENTS

For VA IRRRL 3/1 ARMs an appraisal may be required.

- If VA fixed to VA Type 1 Cash-Out 3/1 ARM transaction, **appraisal is required**
- For VA IRRRL ARM transactions, an **appraisal is required** when discount points are charged
 - If discount points are removed after the appraisal has been ordered, the appraisal must be reviewed and used to determine LTV
 - If discount points are removed prior to the appraisal being ordered, an appraisal will no longer be required
 - SFR or Condos require Exterior Only
 - Manufactured homes, 2-4 unit homes require full appraisal
- Appraisal must be ordered new; re-use of an appraisal is not permitted
- Appraisals cannot be ordered through the VA portal or Appraisal Direct

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