Commonly Used Indexes for ARMs

6-Month CD Rate

This index is the weekly average of secondary market interest rates on 6-month negotiable Certificates of Deposit. The interest rate on 6 month CD indexed ARM loans is usually adjusted every 6 months. Index changes on a weekly basis and can be volatile.

1-year T-Bill

This index is the weekly average yield on U.S. Treasury securities adjusted to a constant maturity of 1 year. This index is used on the majority of ARM loans. With the traditional one year adjustable rate mortgage loan, the interest rate is subject to change once each year. There are additional ARM loan programs available (Hybrid ARMs) for those that would like to take advantage of a low interest rate but would like a longer introductory period. The 3/1, 5/1, 7/1 and 10/1 ARM loans offer a fixed interest rate for a specified time (3,5,7,10 years) before they begin yearly adjustments. These programs will typically not have introductory rates as low as the one year ARM loan, however their rates are lower than the 30-year fixed mortgage. This index changes on a weekly basis and can be volatile.

3-year T-Note

This index is the weekly average yield on U.S. Treasury securities adjusted to a constant maturity of 3 years. This index is used on 3/3 ARM loans. The interest rate is adjusted every 3 years on such loans. This type of loan program is good for those who like fewer interest rate adjustments. The index changes on a weekly basis and can be volatile.

5-year T-Note

This index is the weekly average yield on U.S. Treasury securities adjusted to a constant maturity of 5 years. This index is used on 5/5 ARM loans. The interest rate is adjusted every 5 years on such loans. This type of loan program is good for those who like fewer interest rate adjustments. This index changes on a weekly basis and can be volatile.

Prime

The prime rate is the rate that banks charge their most credit-worthy customers for loans. The Prime Rate, as reported by the Federal Reserve, is the prime rate charged by the majority of large banks. When applying for a home equity loan, be sure to ask if the lender will be using its own prime rate, or the prime rate published by the Federal Reserve or the Wall Street Journal. This index usually changes in response to changes that the Federal Reserve makes to the Federal Funds and Discount Rates. Depending on economic conditions, this index can be volatile or not move for months at a time.

12 Moving Average of 1-year T-Bill

Twelve month moving average of the average monthly yield on U.S. Treasury securities (adjusted to a constant maturity of one year.). This index is sometimes used for ARM loans in lieu of the 1 year TCM rate. Since this index is a 12 month moving average, it is less volatile than the 1 year TCM rate. This index changes on a monthly basisand is not very volatile.

Cost of Funds Index (COFI) - National

This Index is the monthly median cost of funds: interest (dividends) paid or accrued on deposits, FHLB (Federal Home Loan Bank) advances and on other borrowed money during a month as a percent of balances of deposits and borrowings at month end. The interest rate on Cost of Funds (COFI) indexed ARM loans is usually adjusted every 6 months. Index changes on a monthly basis and it not very volatile.

Cost of Funds Index (COFI) - 11th District

This index is the weighted-average interest rate paid by 11th Federal Home Loan Bank District savings institutions for savings and checking accounts, advances from the FHLB, and other sources of funds. The 11th District represents the savings institutions (savings & loan associations and savings banks) headquartered in Arizona, California and Nevada. Since the largest part of the Cost Of Funds index is interest paid on savings accounts, this index lags market interest rates in both uptrend and downtrend movements. As a result, ARMs tied to this index rise (and fall) more slowly than rates in general, which is good for you if rates are rising but not good for you if rates are falling.

LIBOR

L.I.B.O.R stands for the London Interbank Offered Rate, the interest rates that banks charge each other for overseas deposits of U.S. dollars. These rates are available in 1,3,6 and 12 month terms. The index used and the source of the index will vary by lender. Common sources used are the Wall Street Journal and FannieMae. The interest rate on many LIBOR indexed ARM loans is adjusted every 6 months. This index changes on a daily/weekly basis and can be extremely volatile.

National Average Contract Mortgage Rate (NACR)

This index is the national average contract mortgage rate for the purchase of previously occupied homes by combined lenders. This index changes on a monthly basis and it not very volatile.