Fast Facts on HECM Interest Rates

- The borrower can choose between a fixed interest rate or a monthly-adjusting interest rate
- Monthly-adjusting interest is not capped by the HECM program
- Adjustable rates are composed of an index + a margin
- The lender's margin is controlled by the lenders and their investors and may vary from lender to lender and from week to week until loan closing. However, once it is set for a particular loan, it never changes throughout the life of the loan.
- HECM adjustable-rate loans can be indexed to either the Treasury (CMT) rate or the London Interbank Offered Rate (LIBOR). A given loan must use either Treasury or LIBOR for both the initial and the expected rates.
- The initial rate on a monthly-adjustable loan may use the 1-year CMT, 1-month CMT, or 1-month LIBOR as an index.
- The expected rate on adjustable-rate HECMs may use the 10-year Treasury (CMT) or the 10-year LIBOR swap rate as an index.
- The expected interest rate is used to determine loan amounts; it equals the 10-year Treasury rate or the 10-year LIBOR swap rate + the lender's margin.
- HUD does not specify an index for fixed-rate HECM loans; these rates are determined by lenders and/or their investors.
- For a fixed-rate HECM, the expected rate=the initial rate.
- The total "compounding rate" charged on the loan balance equals the current interest rate being charged on the loan + 1.25%
- The 1.25% is the annual charge for the FHA mortgage insurance premium
- Example: if the 1-year Treasury is 2% and the lender's margin is 3.5%, then the compounding rate is 6.75% (2% + 3.5% + 1.25%)
- The unused portion of the HECM creditline (the amount of credit remaining available to the borrower) grows by the compounding rate, that is, by the same total rate that is currently being charged on the loan balance (e.g., current 1-year Treasury rate + lender's margin + 1.25%)
- HECM creditline growth rates are likely to be greater than money market or CD interest rates. For example, in late April 2009, the creditline growth rate on a monthly adjustable HECM was 4.55% (1-year Treasury rate was 0.55% + 3.5% margin + 1.25%), while a national average bank money market rate was 1.61% and a national average bank 1-year CD rate was 2.08%, according to www.money-rates.com.
- For a fuller discussion of HECM interest rates, go to Tab 8 in the HO111 **Course Manual**