

Instructions: Sample Calculation of Rate Spread Home Loan

To determine if a loan is a rate spread loan the lender or broker will need to keep abreast of the market rates being offered. Therefore it is suggested that one should check the published rates and then determine if the rate being quoted exceeds the base rate.

To be deemed a rate spread loan, a loan must meet or exceed two triggers:

- Trigger 1. HMDA Rate Spread Trigger; *and*
- Trigger 2. Conventional Mortgage Rate Trigger.

HYPOTHETICAL: Assume a loan application for a first mortgage loan is taken on the 15th of September and is for a 30 year loan.

Step 1. HMDA Rate Spread Trigger:

To meet the first trigger, the APR on the loan must be equal to or greater than 3% over U.S. Treasuries with comparable periods of maturity for first liens and 5% over comparable Treasuries for second liens as of the 15th day of the month prior to the application.

Go to <http://www.federalreserve.gov/releases/h15/data.htm>, and look at the “Business Day” index for 30 year “Treasury constant maturities.” Look to the 15th day of the month prior to the application of the loan, in this case August. On August 15, 2007, the applicable rate was 5.00%. By adding 3.00% for first mortgages, we know that the HMDA Rate Spread Trigger will be 8.00%.

Step 2. Conventional Mortgage Rate Trigger

To meet the second trigger, the APR on the loan must be equal to or greater than 1.75% over conforming prime rate for first liens and 3.75% over conforming prime rate for junior liens. For comparison purposes, you must examine the most recent conforming prime rate for the week preceding the week in which the rate on the loan is set.

Presuming for the sake of the hypothetical that the borrower’s rate is set on September 21, 2007, go to <http://www.federalreserve.gov/releases/h15/data.htm>, and look at the “Weekly (Thursday)” index for “Conventional mortgages.” Mortgage contract rates for the prior weekly (09/13/2007) were 6.31%. By adding 1.75%, we know that the Conventional Mortgage Rate Trigger will be 8.06%

Step 3. Analysis

Any loan with an APR equal to or exceeding 8.06% will be deemed a rate spread loan.