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To: Clients and Friends

From: David F. Dulock

Subject: FHA Adjustable Rate Mortgage Interest Rate Adjustment and Notification Regulations under the FHA Single Family Mortgage Insurance Program are Revised Effective January 10, 2015

In the August 26, 2014, Federal Register (79 FR 50838), the Federal Housing Administration (FHA) published a final rule (click here) that revises two FHA single family adjustable rate mortgage (ARM) regulations. The final rule revises §203.49(d)(2) to require that an interest rate adjustment resulting in a corresponding change to the mortgagor's monthly payment for a FHA-insured ARM have a 45-day look-back period. The final rule revises §203.49(h) to require that the mortgagee of an FHA-insured ARM comply with the disclosure and notification requirements of §1026.20(c) and (d) of Regulation Z, including at least a 60-day but no more than 120 day advance notice of an adjustment to a mortgagor's monthly payment. This change to FHA ARM regulations is to align FHA interest rate adjustment and notification regulations with the requirements for notifying mortgagors of ARM adjustments, as required by §1026.20(c) and (d) of Regulation Z.

Effective January 10, 2015, the final rule revises FHA's ARM regulations in 24 CFR §203.49(d)(2) and (h) as follows: (Note: We have underlined the final rule revisions.)

§203.49 Eligibility of adjustable rate mortgages.

(d)(2) To set the new interest rate, the mortgagee will determine the change between the initial (i.e., base) index figure and the current index figure, or will add a specific margin to the current index figure. The initial index figure shall be the most recent figure available before the date of mortgage loan origination. The current index figure shall be the most recent index figure available 30 days before the date of each interest rate adjustment, except that for forward mortgages originated on or after January 10, 2015, 30 days shall mean 45 days.

(h) Disclosures. The mortgagee of an adjustable rate mortgage shall provide mortgagors with the disclosures in the timing, content, and format required by the regulations implementing the Truth in Lending Act (15 U.S.C. 1601 et seq.) at 12 CFR 1026.20(c) and (d). (Note: The text of existing subsection (h) is deleted by the final rule.)

Effective January 10, 2015, the above revisions to the FHA ARM rules in §203.49(d)(2) and (h) will require applicable revisions to your FHA-insured mortgage ARM policies and procedures, forms, and TILA disclosures.

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