



PRODUCT TRAINING

Adjustable Rate Mortgages

April 2022

GMFS ARM Product Offering

GMFS is pleased to offer a Conforming and Jumbo Conventional Adjustable Rate Mortgage (ARM).

- We will offer a 5/6, 7/6, and 10/6 SOFR ARM
 - 30 day average SOFR Index
 - 2/1/5 on 5/6 SOFR ARM
 - 5/1/5 on 7/6 and 10/6 SOFR ARM
 - 2.75% margin

Let's get into the details...

ARM PRODUCT ARM Terms

Not to be confused with the Term on the Mortgage! When you are talking to clients and/or entering the loan in Optimal Blue, your Loan Term is still a 30-year fixed. Your ARM Term can be the following:

- **5/6** – Which means the interest rate is fixed for 60 months before it can adjust for the first time.
- **7/6** – The interest rate is fixed for 84 months before it can adjust.
- **10/6** – The interest rate is fixed for 120 months before it can adjust.

There are shorter adjustments in the marketplace, but GMFS will offer these terms because they are the most liquid, common, and competitive for your borrower.

ARM loans are tied to an index. There are many indices including: CMT, Treasury Bill, MTA, COSI, COFI, and much more. Some of the indices are weekly, 6-month, or yearly. GMFS offers the SOFR because it is the most widely used in the industry and therefore allows us to offer the most competitive price.

SOFR stands for Secured Overnight Financing Rate.

ARM PRODUCT ARM Caps

All of the ARMs that GMFS offers today have a “2/1/5” on the 5/6 ARM and a “5/1/5” on the 7/6 and 10/6 ARM. This means a 2% initial adjustment on the 5-year and a 5% initial adjustment on the 7- and 10-year. All of them have a 1% subsequent adjustment and a 5% total life adjustment.

Let's use a 5/6 ARM to look at how these interest rate caps would be applied. For example, assume that you close a 5/6 ARM at a 4% rate.

- After 60 months the loan will adjust. The most it can adjust is 2% on the first adjustment over the initial note rate. So worse case scenario the loan could move up to 6% on the first adjustment, or best case down to 2.75%.*
- Every six months after that it can adjust up or down 1% from the current interest rate.
- Over the lifetime of the loan it can never move up or down more than 5% from the initial interest rate.*

- The margin GMFS will use is 2.75%. You may see other margins in the marketplace, but this is the most common. The margin is what is added to your index to determine the new interest rate when the loan adjusts. It is also your floor — you can never go below 2.75% interest rate regardless of where your loan started.
- For example, if your 5/6 loan was ready to adjust, you would add the 30-day SOFR rate (.23) to the margin (2.75) and round to the nearest .125%. So your new rate would be 3.00% in this example.

Other ARM Characteristics

- **Look Back Period** — This is used to determine which index figure to use on each change date. GMFS will use one that was published 45 days prior to the change date. This is typical and allows time for the servicer of the loan to get the new payment and paperwork to the borrower.
 - So for example, if your payment was due to change on October 1st, we would use the August 15th SOFR rate to calculate your next payment due. That payment will be fixed for a year, until it is time to do it again.
- These loans cannot be converted to fixed rates at any time.
- GMFS will not offer an Interest Only ARM.