



**Business and Customer support hours: 6:00 AM to 5:30 PM PST (Mon. – Fri.)  
Web Entry & Web Delivery - Computers on-line 24/7**

## NEWSLETTER

### Money rates for end of month February, 2002 as reported in the Wall Street Journal

Prime	4.75%
6 month Libor	2.0300%

### Federal Reserve Statistical release H.15 for February 15, 2002 (For Section 32 purpose)

Treasury Securities	
5 Yr.	4.85%
10 Yr.	5.59%
15 Yr.	5.59%
25 years or more	6.05%

## What do I do when...

A new feature appearing in the ICC newsletter, "WHAT do I do when..." Our first offering is: what do I do when...

## Premium Rate ARM Loans – Why is the APR less than start rate?

One of the most frequent calls to ICC customer service regarding the APR happens when ARM loans have a Premium start rate. Since the industry traditionally offers a discounted start rate, the correct computation may look funny.

For the sake of this discussion we will define three terms:

- **Fully Indexed Rate** is the sum of the index (at the time the loan is made) and the margin.
- **Discounted Rate:** a start rate that is below the fully indexed rate.
- **Premium Rate:** a start rate greater than the fully indexed rate.

Truth in lending instructs us to produce a payment stream on an ARM loan that assumes the index does not change for the life of the loan and then

Compute an APR from this payment stream. On a **Discounted ARM loan the payment stream will**

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**show increases** because the initial payment is based on the discounted rate and then the payments grow within the limits of the caps to the payment based on the fully indexed rate.

The same premise applies to the **Premium Rate ARM** loan i.e. the initial payment is based on the premium rate and then adjusts within the limits of the caps down to the Fully Indexed rate (lower than the start rate). **This payment stream declines and therefore, most often will produce an APR lower than the initial start rate.**

### Sample payment stream for Premium Rate ARM

Start rate:	6.500%
Fully Indexed Rate	4.654%
Margin	2.750%
Index	1.895%
APR	4.882%
6 Payments @ \$1,264.14	Computed at 6.500%
6 Payments @ \$1,136.89	Computed at 5.500%
348 Payments @ \$1,031.88	Computed at 4.875%

Lenders internal audit procedures generally call for a visual check to see to it that the APR is greater than the start rate. When the APR is less, it looks funny and is often questioned. The first thing ICC's customer service department does when we get an APR-related call, is look for is a premium start rate and a declining payment stream. Then we offer the above explanation.

**"Following Truth in Lending procedures sometimes produce strange numbers and this is one of those times." – Mike**

## RESPA REVISITED: 90 DAYS OF SUSPENSE...

Secretary Mel Martinez of HUD informally stated that there is probably a 90-day window until we can see HUD's final recommendations on the RESPA overhaul. Even though these regulations may be soon forthcoming, they still have to be published in the

Federal Register and, in all probability, there will be a transition period between the current regulations and the newer statutes. The time for implementation may also be increased while the Federal Reserve works out the interpretation and application guidelines.

## **SARBANES WANTS PREDATORY LENDING LOOPHOLE CLOSED**

Paul Sarbanes, the Chairman of the Senate Banking committee is going farther than expected in dealing with matters such as predatory lending and the yield-spread premium. He wants to prevent state-licensed lenders from using the "Alternative Mortgage Transaction Parity Act" to avoid compliance with state predatory lending requirements. The 1982 MTPA was designed to preempt state restrictions that conflict with lending regulations promulgated by the Office of Thrift Supervision (OTS). The example used by Senator Sarbanes is that state-licensed lenders can often avoid state limits on prepayment penalties because the OTS does not restrict or regulate prepayment penalties at this time. OTS is quite concerned over the issue of using the MTPA to avoid regulation and will take the matter up in conference with the Senator's staff. We expect the Senator to introduce his regulation in the near future...even though it might not be passed in the current session of Congress.

**PREDATORY LENDING WATCH** ...More and more states are adopting their own versions of predatory lending legislation. Currently this legislation is comprised of three components: the trigger values, the disclosure mandated, and the penalties for violation of the regulations. ***It can't hurt to have ICC pre-program these trigger settings into your document setups to issue warnings in the form of a cover-sheet message stating that a "trigger value" has been reached.*** There is no charge associated with this service. You may design your own form and/or specify the trigger-values by loan product, by investor, by state or any other criteria you wish.

## **MISMO HANGS A LEFT...**

Mismo, the Mortgage Banking Industry Consortium for the development of XML standards has apparently taken a new path. To reduce file size and increase the compatibility with existing legacy systems, MISMO has departed from their original version 1.0 standard and has decided that they will

base their new model on a transactional basis, much like that of the older EDI standard. This allows a service requestor to send an XML request to a service provider and, in return, receive an XML response. In addition, Version 2 of the current specification features more enumerated codes (0=FHA, 1=HUD) will be used than was originally allowed in Version 1 where longer individual name tags were originally used. Unfortunately, time waits for no man and a Version 3 will soon be required to move from the older DTD (Document Type Definition) to the newer and more modern SCHEMA representation. Technical details aside, the work in-progress goes on... in its usual bureaucratic fashion. When completed the XML project will allow both service requestors and service providers to use the same set of core elements thus improving compatibility between dissimilar systems. The savings in reducing that amount of programming for new features can then be passed along to the customer a service cost reduction or transported instantly to the service provider's bottom line.

Due to the flexibility of ICC's programming platform, ICC is technically capable of providing data in any current XML format within a very short time frame. If you wish to discuss the current conversion of your data into an XML format, please contact ICC's director of technical services, Patrick Straziuso for further details.

## **WHAT EVER HAPPENED TO THE THIRTY-YEAR BOND?**

The US Treasury announced that it will stop selling the 30-year bond because it no longer needs this long bond to manage its borrowing needs. Since very few lenders use the 30-year bond as an indexing mechanism and most of the comparison yield data is related to collateralized mortgage-backed securities, there is very minimal impact on document preparation activities.

At ICC, we appreciate and value your business. Feel free to call us toll-free at (888) 437-3627 or e-mail me at [mike@iccdocs.com](mailto:mike@iccdocs.com) with your suggestions –Mike