HMDA – Rate Spread Calculations

In October 2008, final amendments to Regulation C were approved. These amendments revise the rules for reporting price information on higher priced mortgage loans. The rules are being conformed to the definition of "higher-priced mortgage loan" adopted by the Federal Reserve under Regulation Z in July of 2008.

Alert Date:	August 24, 2010
Status:	Effective October 1, 2009
Links:	Federal Register - HMDA Final Rule Oct 2009 FFIEC HMDA Rate Spread Calculators

Prior to October 1, 2009, the Home Mortgage Disclosure Act (HMDA) rules required the reporting of the rate spread on loans covered by Regulation Z where the spread between the loan rate and the comparable T-Bill rate was 3% for first lien and 5% for subordinate lien loans. This rule has changed.

As of the effective dates described below, the rate used to calculate the spread is the one used to define higher priced mortgage loans in Regulation Z. The calculator on the FFIEC website has been updated to reflect the new calculation requirement.

How is the rate spread calculated?

Under the revised rule, a financial institution will report the spread between the loan's annual percentage rate (APR) and the average prime offer rate that is published by the Federal Reserve if the spread is:

- Equal to or greater than 1.5 percentage points for a first-lien loan; or
- Equal to or greater than 3.5 percentage points for a subordinate-lien loan.

The average prime offer rate is an annual percentage rate derived from average interest rates, points, and other loan pricing terms offered to consumers by a representative sample of creditors for mortgage transactions with low-risk pricing characteristics. The average prime offer rate is published weekly by the Federal Reserve and can be found through the link above to the FFIEC rate spread calculator.

When is the new rate spread effective?

The old and new rate spread calculations must be applied as follows:

- For applications received on or after October 1, 2009, the new rate spread must be reported;
- For applications received prior to October 1, 2009, but for which action is not taken until on or after January 1, 2010, the new rate spread must be reported; and
- For all other applications received in 2009, use the old rate spread reporting method.

Recommendations for Next Steps

1. Develop procedures to implement the new rate spread reporting for covered applications taken on or after October 1, 2009.

2. Develop procedures to use the new rate spread rule for all applications taken prior to October 1, 2009, but for which the institution does not take action until after January 1, 2010.

3. Revise all review procedures, including monitoring and audit procedures, to take this rule into account.