VA Lenders Handbook (VA Pamphlet 26-7), Chapter 7, Topic 6 — Adjustable Rate Mortgages

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6. Adjustable Rate Mortgages Change Date March 11, 2019 • This chapter has been revised in its entirety. a. General Information Concerning ARMs An ARM loan offers adjustable interest rates based on negotiated initial fixed interest rates coupled with periodic adjustments to the interest rate over time. Hybrid ARMs have longer initial fixed rates of 3, 5, 7, or 10 years, while a “traditional” ARM allows for an annual adjustment after 1 year. b. Interest Rate Adjustments Traditional ARMs: Interest rate adjustments occur on an annual basis. The annual interest rate adjustments are limited to a maximum increase or decrease of one percentage point. Additionally, interest rate increases are limited to a maximum of five percentage points over the life of the loan. Hybrid ARMs: If the initial contract interest rate remains fixed for less than 5 years, the initial adjustment is limited to a maximum increase, or decrease of one percentage point and the interest rate increase over the life of the loan is limited to five percentage points. If the initial contract interest rate remains fixed for 5 years or more, the initial adjustment will be limited to a maximum increase or decrease of two percentage points and the interest rate increase over the life of the loan will be limited to six percentage points. c. Underwriting an ARM ARM loans that may adjust after 1 year must be underwritten at one percentage point above the initial rate. Hybrid ARMs with a fixed period of 3 or more years may be underwritten at the initial interest rate. VA Pamphlet 26-7 Revised Chapter 7: Loans Requiring Special Underwriting, Guaranty, and Other Considerations 7-30

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