



Correspondent Seller

iQM ARM Disclosures and Interest Rate Qualification for ARMs

April 20, 2017

iQM ARM Disclosures:

The iQM Early ARM Disclosures that are required for both Interest Only ARMs and non-Interest Only ARMs have been updated with changes to the Demand Feature paragraph. Look for updated disclosures on the Impac Correspondent website under Forms and Resources.

- Additionally, an updated *Quick Reference for iQM Documentation Requirements* has been posted that removes references to a prepayment penalty, which is no longer available.

Interest Rate Qualification for ARMs:

Clarification for calculating the interest rate for qualification purposes for the iQM ARM loan products is addressed below. Updated program guidelines with this information will follow shortly.

ARM qualifying rate:

ARMs are qualified at the **greater** of the Fully Indexed Rate or the Note Rate.

Calculate the fully indexed rate by adding the appropriate margin to the current index.

- **Round the result to the nearest one-eighth of one percentage point (0.125%).**

Depending on market conditions and individual loan pricing, the fully indexed rate may be higher or lower than the Note Rate.

Example 1:

Loan Amount = \$100,000

ARM Type = 5/1 ARM

1-Year LIBOR Index = 1.790%

Margin = 3.5%

Start Rate/Note Rate = 6.25%

Calculate Fully Indexed Rate:

Margin + Index: 3.5% + 1.790% = 5.29%

Round 5.29% to the nearest 1/8 (.125%) = 5.25%

Fully Indexed Rate = 5.25%

- Since the Note Rate is greater than the Fully Indexed Rate, the Note Rate of 6.25% is used for qualification purposes.

Interest Only ARM Qualification:

Use the remaining scheduled amortization term *after* the interest only period expires. For a 5/1 Interest Only ARM, the remaining term is 25 years (i.e., 30 – 5 = 25). Using the Start Rate/Note Rate in **Example 1**: \$100,000 @ 6.25%, 25 year amortization = \$659.67 monthly qualifying payment for an Interest Only loan.

Example 2:

Loan Amount = \$100,000

ARM Type = 5/1 ARM

1-Year LIBOR Index = 1.820%

Margin = 4.125%

Start Rate/Note Rate = 4.50%

Calculate Fully Indexed Rate:

Margin + Index: 4.125% + 1.820% = 5.945%

Round 5.945% to the nearest 1/8 (.125%) = 6.00%

Fully Indexed Rate = 6.00%

- Since the Fully Indexed Rate is greater than the Note Rate, the Fully Indexed Rate of 6.00% is used for qualification purposes.
- Using the Fully Indexed Rate in **Example 2**: \$100,000 @ 6.00%, 25 year remaining term for amortization = \$644.31 monthly qualifying payment for an Interest Only loan.

We thank you for your continued business. If you have any questions, contact your Relationship Manager at 888-850-0259 Option 1 or your Account Executive.