

2. Adjustable-Rate Residential Mortgages: Adjustable-rate mortgage loans and securities have price sensitivities that are substantially different than fixed-rate mortgage assets primarily due to their coupon reset features. The coupon adjustments are generally limited by caps and floors both for the life of the mortgage and also at their reset period. These caps are known as lifetime and period caps. In general, there are three factors that most influence the price sensitivity of an ARM: the reset frequency, the periodic cap, and the lifetime cap. The relationship between the periodic and lifetime caps and the effect of that relationship on ARM prices is complex and varies based upon the likelihood that either cap will become binding.

Consequently, information on both the periodic cap and the lifetime cap will be collected from banks with significant ARM holdings.

A bank with ARM holdings greater than 10% but less than 25% of its total assets will through its Call Report submissions, provide additional information on those holdings (Schedule 3). The bank will report its ARM balances by the ARM's reset frequency, the nature of its periodic cap, and the distance to its lifetime cap. ARM balances will be reported for the three reset frequencies (6 months or less, over 6 months but less than or equal to 1 year, and over 1 year). The three reset frequencies are divided by whether or not the ARM carries a periodic cap, and in the over 6 months

to 1 year column, by the size of the periodic cap. The distance to the lifetime cap is stratified into four groups:

- (1) ARMs that are within 200 basis points of their lifetime caps;
- (2) ARMs that are 201 to 400 basis points from their lifetime caps;
- (3) ARMs that are 401 to 600 basis points from their lifetime caps;
- (4) ARMs that are more than 600 basis points from their lifetime caps.

A bank whose ARM holdings exceed 25% of its total assets will provide further information on its ARM balances, including information on the ARM's index type and weighted average coupon, as illustrated by Schedule 4.

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