TABLE 5 30-YEAR FIXED-RATE POOL WITH A 330-MONTH WARM PRICES AS A PERCENT OF THE UNDERLYING MORTGAGE BALANCE AS OF SEPTEMBER 30, 1994

20 year time band benchmark			
Coupon	Interest rate scenario		
	-200 bp	0 bp	+200 bp
$\leq 6.75\%$ $6.76\% - \leq 7.25\%$ $7.26\% - \leq 7.75\%$ $7.76\% - \leq 8.25\%$ $8.26\% - \leq 8.75\%$ $8.76\% - \leq 9.25\%$ 0.000	97.78 100.13 101.87 103.36 104.77 106.20	86.20 89.33 92.07 94.73 97.36 99.97	75.61 78.66 81.46 84.33 87.33 90.52
9.26% − ≤9.75%	107.67 110.67	102.49 106.91	93.80 100.15

III. Treatment of Adjustable-Rate Mortgages and Derivation of Risk Weights

Adjustable-rate mortgage loans and securities (ARMS) 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 caps and periodic 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.

A review of ARM price behavior reveals that 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 would be reported by institutions with significant ARM holdings. Benchmark mortgages representative of the ARM market have been identified and are used to assign risk weights. Supplemental reporting schedules were also developed to capture the effect of these characteristics on the price of ARMs.

A. Benchmark ARM Instruments

The coupon ranges provided in Schedule 4 were chosen to be

representative of the ARM securities outstanding. In an effort to maintain consistency with the risk weights applied to the non-mortgage products and FRM holdings in Schedule 1, a 7.5% WAC was selected for all of the benchmark ARM instruments in Schedule 1 as well as for Schedule 3.

1. Benchmark Instruments for Schedule 1

The benchmark instruments for Schedules 1, 3, and 4 represent the characteristics of the ARM mortgages most prevalent in the market place according to reported index, margin, periodic cap, and distance to lifetime cap. Schedules 1 and 3 are based on instruments with 7.5% WACs and share other common characteristics, hence, all of the benchmark instruments and risk weights used for Schedule 1 may be found in Schedule 3. However, the benchmark WACs in Schedule 4 do not necessarily fall precisely on a 7.5 percent WAC. To obtain the 7.5 percent WAC sensitivity for Schedules 1 and 3 an additional interpolation was used. The interpolation used was the following:

(1) for the 6-month and 1-year ARMs: $P_{7.5}=1/3[P_{8.5}-P_{7.0}]+P_{7.0}$;

(2) for the 3-year ARMs: P_{7.5}=1/3[P_{9.5}-P_{7.5}]+P_{6.5}.

Where as P_x =Price_{WAC(X)}

The benchmark instruments for Schedule 1 are as follows:

(1) Reset Frequency—0 to 6 Months: Six month Constant Maturity Treasury (CMT) index, 275 basis point margin, four month reset period, 100 basis point periodic cap and 500 basis points to the lifetime cap;

(2) Reset Frequency—6 Months to 1 Year: One year CMT, 275 basis point margin, six month reset period, 200 basis point periodic cap and 500 basis points to the lifetime cap;

(3) Reset Frequency—Greater than 1 Year: Three year CMT, 275 basis point margin, 18 month reset period, 200 basis point periodic cap and 500 basis points to the lifetime cap;

(4) Reset Frequency—Near Lifetime Cap: One year CMT, 275 basis point margin, six month reset period, no periodic cap and 200 basis points from the lifetime cap.

2. Benchmark Instruments for Schedule 3

The benchmark instruments for Schedule 3 represent the characteristics of the ARM mortgages most prevalent in the market place according to reported index, margin, periodic cap, and distance to lifetime cap. Banks are required to report their ARM holdings by reset frequency, periodic interest rate cap levels, and distance from the lifetime cap in Schedule 3. The benchmark instruments for each reset frequency and lifetime cap are summarized in Table 6.