

Supporting Statement for Paperwork Reduction Act Submissions

Disclosure of Adjustable Rate Mortgage (ARM) Rates OMB Control Number 2502-0322

Forms: None

A. Justification

- 1. Explain the circumstances that make the collection of information necessary. Identify any legal or administrative requirements that necessitate the collection. Attach a copy of the appropriate section of each statute and regulation mandating or authorizing the collection of information.**

FHA insures mortgages for single-family dwellings under various provisions of the National Housing Act. The Housing and Urban-Rural Recovery Act of 1983 (HURRA), P.L. 98-181, amended the National Housing Act to permit FHA to insure Adjustable Rate Mortgages (ARMs). An ARM is a mortgage loan that permits a lender to periodically adjust the effective rate of interest charged to the borrower. Regulations at 24 CFR 203.49 outline the requirements for adjustable rate mortgages.

A pre-loan ARM Disclosure must be provided by lenders (mortgagees) to borrowers before closing an adjustable rate mortgage, describing how the interest rate can change, how often the rate can change and how the change will affect the monthly payment on the mortgage. The disclosure also presents the rules for how future interest rate changes will be calculated, generally based on an index, margin, and limitations on the percent of change. The contents of the disclosure must be consistent with requirements under the Truth in Lending Act, 15 U.S.C. 1601 et seq.

Lenders can adjust the mortgage interest rate after the loan closes. Regulations at 203.49 (h) require lenders to disclose information to the borrower at least 25 days before making changes to a borrower's mortgage. The disclosure must advise the borrower of the new mortgage interest rate, the amount of the new monthly payment, the current index interest rate value and how the payment adjusted was calculated.

- 2. Indicate how, by whom, and for what purpose the information is to be used. Except for a new collection, indicate the actual use the agency has made of the information received from the current collection.**

Prior to closing an adjustable rate mortgage, the lender provides the borrower with a pre-loan ARM disclosure. HURRA and 24 CFR 203.49(h) requires a lender to provide the borrower with a written explanation of the ARM's features at the time of loan application (or pre-loan). Information provided in the pre-loan ARM disclosure must be consistent with the disclosure requirements applicable to the variable rate mortgages secured by a principal dwelling under the Truth in Lending Act, 15 U.S.C, 1601 et seq.

After closing an adjustable rate mortgage, the lender must disclose to the borrowers any adjustment it intends to apply to the mortgage interest rate. Regulations at 24 CFR 203.49 (h) require lenders to disclose this information to the borrower at least 25 days before adjusting the interest rate on their mortgage. The disclosure must advise the borrower of the new mortgage interest rate, the amount of the new monthly payment, the current index interest rate value and how the payment adjusted was calculated.

FHA does not collect records of ARM Disclosures issued after closing, unless the loan is selected for HUD's post endorsement quality review, or the lender sends the file to HUD for claim. HUD may accept the lenders historical system records (electronic) showing information about the ARM disclosures it issued to the borrower.

There are currently 108,556 active ARM loans that require periodic ARM Disclosures. This is a decrease of 55,891 loans from the number of ARM loans described in the prior PRA. The decrease in the number of ARM loans is reasonably expected since fixed interest rates have been low, and borrowers can lock a low fixed rate for the life of their mortgage. Borrowers have steered away from an adjustable interest rate term that can lead to higher monthly payments in the future.

- 3. Describe whether, and to what extent, the collection of information involves the use of automated, electronic, mechanical, or other technological collection techniques or other forms of information technology, e.g., permitting electronic submission of responses, and the basis for the decision for adopting this means of collection. Also describe any consideration of using information technology to reduce burden.**

Lenders generate the ARM Disclosures electronically and generally provide these disclosures on paper to their borrowers.

For adjustable rate ARM mortgages, lenders include the ARM disclosure in the case binder it submits to FHA for insurance endorsement.

FHA does not collect records of ARM Disclosures issued after closing, unless the loan is selected for HUD's post endorsement quality review or the lender sends the file to HUD for claim. HUD may accept the lenders historical system records (electronic) showing information about the ARM disclosures it issued to the borrower, the dates disclosures were issues, new interest rate and related changes.

- 4. Describe efforts to identify duplication. Show specifically why any similar information already available cannot be used or modified for use for the purposes described in Item 2 above.**

An ARM Disclosure is unique to each individual mortgage and therefore not duplicative.

- 5. If the collection of information impacts small businesses or other small entities (Item 5 of OMB Form 83-I), describe any methods used to minimize burden.**

The reporting burdens for small business participants are not materially affected, as the disclosures are generated by the same computers that calculate other loan terms for the lender.

- 6. Describe the consequence to Federal program or policy activities if the collection is not conducted or is conducted less frequently, as well as any technical or legal obstacles to reducing burden.**

The disclosure requirements at loan application and at the annual anniversary dates are one-time "on occasion" types, and therefore no reduction in frequency is possible. Failure to provide the required disclosure violates the Federal Reserves Truth-in-Lending ("Regulation Z") regulations.

- 7. Explain any special circumstances that would cause an information collection to be conducted in a manner:**
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- **requiring respondents to report information to the agency more often than quarterly;**

Respondents are required to report information more than quarterly. The reporting burden is loan-specific and, thus, cannot be conducted less frequently than on every loan submitted to FHA for insurance endorsement.

- **requiring respondents to prepare a written response to a collection of information in fewer than 30 days after receipt of it;**

Respondents are not required to prepare a written response in less than 30 days;

- **requiring respondents to submit more than an original and two copies of any document;**
Respondents are not required to submit more than an original and two copies of any document;

- **requiring respondents to retain records, other than health, medical, government contract, grant-in-aid, or tax records, for more than three years;**

Respondents are required to retain records for the duration of the mortgage;

- **in connection with a statistical survey, that is not designed to produce valid and reliable results that can be generalized to the universe of study;**

Respondents are not required to provide a statistical survey;

- **requiring the use of a statistical data classification that has not been reviewed and approved by OMB;**

Respondents are not required to use statistical data not approved by OMB;

- **that includes a pledge of confidentiality that is not supported by authority established in statute or regulation, that is not supported by disclosure and data security policies that are consistent with the pledge, or which unnecessarily impedes sharing of data with other agencies for compatible confidential use; or**

Respondents are not required to submit information that includes a pledge of confidentiality that is not supported by authority established in a statute or regulation, that is not supported by disclosure and data security policies that are consistent with the pledge, or which unnecessarily impedes sharing of data with other agencies for compatible confidential use; or

- **requiring respondents to submit proprietary trade secrets, or other confidential information unless the agency can demonstrate that it has instituted procedures to protect the information's confidentiality to the extent permitted by law.**

Respondents are not required to submit proprietary trade secrets or other confidential information unless the agency can demonstrate that it has instituted procedures to protect the information's confidentiality to the extent permitted by law.

8. **If applicable, provide a copy and identify the date and page number of publications in the Federal Register of the agency's notice, required by 5 CFR 1320.8(d), soliciting comments on the information collection prior to submission to OMB. Summarize public comments received in**
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response to that notice and describe actions taken by the agency in response to these comments. Specifically address comments received on cost and hour burden. Describe efforts to consult with persons outside the agency to obtain their views on the availability of data, frequency of collection, the clarity of instructions and recordkeeping, disclosure, or reporting format (if any), and on the data elements to be recorded, disclosed, or reported. Consultation with representatives of those from whom information is to be obtained or those who must compile records should occur at least once every 3 years – even if the collection of information activity is the same as the prior periods. There may be circumstances that may preclude consultation in a specific situation. These circumstances should be explained.

This is a renewal of a currently approved collection. HUD regularly receives comments and input on its information collection requirements from lending institutions, the home construction industry, insurance companies, appraisers, and service companies. This is not inconsistent with the guidelines in 5 CFR 1320.6. The agency notice soliciting comments on the information collection for OMB #2502-0322 was published in the Federal Register on Friday, January 17, 2020 (Volume 85, Number 12, pages 3069). Comments were not received.

9. Explain any decision to provide any payment or gift to respondents, other than remuneration of contractors or grantees.

There are no gifts or other types of payments made to respondents.

10. Describe any assurance of confidentiality provided to respondents and the basis for the assurance in statute, regulation, or agency policy.

The Privacy Act of 1974 protects respondents who meet these information-reporting requirements. There are no confidential issues involved.

11. Provide additional justification for any questions of a sensitive nature, such as sexual behavior and attitudes, religious beliefs, and other matters that are commonly considered private. This justification should include the reasons why the agency considers the questions necessary, the specific uses to be made of the information, the explanation to be given to persons from whom the information is requested, and any steps to be taken to obtain their consent.

This information collection does not contain any questions of a sensitive nature.

12. Provide estimates of the hour burden of the collection of information. The statement should:

- **Indicate the number of respondents, frequency of response, annual hour burden, and an explanation of how the burden was estimated. Unless directed to do so, agencies should not conduct special surveys to obtain information on which to base hour burden estimates. Consultation with a sample (fewer than 10) of potential respondents is desirable. If the hour burden on respondents is expected to vary widely because of differences in activity, size, or complexity, show the range of estimated hour burden, and explain the reasons for the variance. Generally, estimates should not include burden hours for customary and usual business practices.**
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- **If this request for approval covers more than one form, provide separate hour burden estimates for each form and aggregate the hour burdens in Item 13 of OMB Form 83-I.**
- **Provide estimates of annualized cost to respondents for the hour burdens for collections of information, identifying and using appropriate wage rate categories. The cost of out or paying outside parties for information collection activities should not be included here. Instead, this cost should be included in Item 13.**

Estimate of public burden.

Information Collection	Number of Respondents	Frequency of Responses	Total Annual Responses	Hours Per Response	Total Annual Hours	Hourly Cost	Total Annual Cost
Annual Notification	2,440	44.49	108,555.60	.05	5,427.78	\$40.00	\$217,111.20

1. The total number of respondents is 2,440. This figure represents the total number of lenders approved to originate and submit loans for FHA insurance, as per Office of Lender Activities and Program Compliance, Lender Approval and Recertification Division.
2. The total number of annual responses is 108,556. This number represents the total number of active ARMs per records in SF Data Warehouse. This figure includes recently originated ARMs.
3. The hourly cost of \$40.00 is based on a national estimate for the mean hourly wage of a Credit Analyst (rounded up to the nearest dollar), reported by the Department of Labor, and includes the cost of overhead, staff support, recordkeeping, etc. See occupation 13-2041 Credit Analyst at: https://www.bls.gov/oes/current/oes_nat.htm#13-0000

13 Provide an estimate for the total annual cost burden to respondents or recordkeepers resulting from the collection of information. (Do not include the cost of any hour burden shown in Items 12 and 14).

There are no additional costs to respondents or recordkeepers resulting from the collection of information. Costs associated with total capital and start-up component (annualized over its expected useful life) and total operation and maintenance and purchase of services component are customary and a standard part of the lender’s business.

- **The cost estimate should be split into two components: (a) a total capital and start-up cost component (annualized over its expected useful life) and (b) a total operation and maintenance and purchase of services component. The estimates should take into account costs associated with generating, maintaining, and disclosing or providing the information. Include descriptions of methods used to estimate major cost factors including system and technology acquisition, expected useful life of capital equipment, the discount rate(s), and the time period over which costs will be incurred. Capital and start-up costs include, among other items, preparations for collecting information such as purchasing computers and software; monitoring, sampling, drilling and testing equipment; and record storage facilities.**

For a lender’s disclosure of ARM rates, there are no costs for (a) a total capital and start-up cost component (annualized over its expected useful life) and (b) a total operation and maintenance and

purchase of services component. Costs for these items are a customary standard part of the lender's business.

- **If cost estimates are expected to vary widely, agencies should present ranges of cost burdens and explain the reasons for the variance. The cost of purchasing or contracting out information collections services should be a part of this cost burden estimate. In developing cost burden estimates, agencies may consult with a sample of respondents (fewer than 10), utilize the 60-day pre-OMB submission public comment process and use existing economic or regulatory impact analysis associated with the rulemaking containing the information collection, as appropriate.**

Since there are no additional costs for a lender's disclosure of ARM rates, there are no reportable cost estimates that may be expected to vary widely.

- **Generally, estimates should not include purchases of equipment or services, or portions thereof, made: (1) prior to October 1, 1995, (2) to achieve regulatory compliance with requirements not associated with the information collection, (3) for reasons other than to provide information or keep records for the government, or (4) as part of customary and usual business or private practices.**
- Since there are no additional costs for a lender's disclosure of ARM rates, there are no reportable estimates that include purchases or equipment or services or a portion thereof. Costs for these items are a customary and usual business practice.

14. Provide estimates of annualized costs to the Federal government. Also, provide a description of the method used to estimate cost, which should include quantification of hours, operational expenses (such as equipment, overhead, printing, and support staff), and any other expense that would not have been incurred without this collection of information. Agencies may also aggregate cost estimates from Items 12, 13, and 14 in a single table.

The annualized cost to the Federal government is estimated at 10% of the total burden hours or 543 hours (rounded up). The Federal burden includes compliance reviews related to the loans. The annualized cost to the Federal government assumes a \$40.00 per hour estimate based on a national estimate for the mean hourly wage of a Credit Analyst (rounded up to the nearest dollar), reported by the Department of Labor.

Total Burden Hours: 5,427; x 10 percent= 542.70 x (\$40.00) = Annualized Cost of \$21,708.

15. Explain the reasons for any program changes or adjustments reported in Items 13 or 14 of the OMB Form 83-I.

This is an extension of a currently approved burden package. There have not been any program changes.

There are currently 108,556 active ARM loans, which require periodic ARM Disclosures. This is a decrease of 55,891 loans from the number of ARM loans described in the prior PRA. The decrease in the number of ARM loans is reasonably expected since interest rates are low and borrowers can lock a low rate for the life of their mortgage. Borrowers have steered away from a temporary adjustable interest rate that can increase and lead to higher monthly payments in the future.

16. For collections of information whose results will be published, outline plans for tabulation and publication. Address any complex analytical techniques that will be used. Provide the time schedule

for the entire project, including beginning and ending dates of the collection of information, completion of report, publication dates, and other actions.

This information collection does not include results that will be published.

17. If seeking approval to not display the expiration date for OMB approval of the information collection, explain the reasons that display would be inappropriate.

HUD is not seeking approval to avoid displaying the expiration date for the OMB approval.

18. Explain each exception to the certification statement identified in Item 19, "Certification for Paperwork Reduction Act Submissions," of OMB Form 83-I.

There are no exceptions to the certification statement identified in item 19 of the OMB 83-I.

B. Collections of Information Employing Statistical Methods

The agency should be prepared to justify its decision not to use statistical methods in any case where such methods might reduce burden or improve accuracy of results. When Item 17 on the Form OMB 83-I is checked, "Yes," the following documentation should be included in the Supporting Statement to the extent that it applies to the methods proposed:

This information collection does not employ statistical methods.

1. Describe (including a numerical estimate) the potential respondent universe and any sampling or other respondent selection methods to be used. Data on the number of entities (e.g., establishments, State and local government units, households, or persons) in the universe covered by the collection and in the corresponding sample are to be provided in tabular form for the universe as a whole and for each of the strata in the proposed sample. Indicate expected response rates for the collection as a whole. If the collection had been conducted previously, include the actual response rate achieved during the last collection.

This information collection does not employ statistical methods, there is no potential respondent universe, or any sampling or other respondent selection methods.

2. Describe the procedures for the collection of information including:

- * Statistical methodology for stratification and sample selection,**
- * Estimation procedure,**
- * Degree of accuracy needed for the purpose described in the justification,**
- * Unusual problems requiring specialized sampling procedures, and**
- * Any use of periodic (less frequent than annual) data collection cycles to reduce burden.**

Since this information collection does not employ statistical methods, there are no procedures for the collection that involve:

- * Statistical methodology for stratification and sample selection,**
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- * Estimation procedure,
- * Degree of accuracy needed for the purpose described in the justification,
- * Unusual problems requiring specialized sampling procedures, and
- * Any use of periodic (less frequent than annual) data collection cycles to reduce burden.

3. Describe methods to maximize response rates and to deal with issues of non-response. The accuracy and reliability of information collected must be shown to be adequate for intended uses. For collections based on sampling, a special justification must be provided for any collection that will not yield "reliable" data that can be generalized to the universe studied.

Since this information collection does not employ statistical methods, there are no methods to maximize response rates and to deal with issues of non-response

4. Describe any tests of procedures or methods to be undertaken. Testing is encouraged as an effective means of refining collections of information to minimize burden and improve utility. Tests must be approved if they call for answers to identical questions from 10 or more respondents. A proposed test or set of test may be submitted for approval separately or in combination with the main collection of information.

5. Provide the name and telephone number of individuals consulted on statistical aspects of the design and the name of the agency unit, contractor(s), grantee(s), or other person(s) who will actually collect and/or analyze the information for the agency.

The collection of information does not employ statistical methods.
