

### **Index for Adjustable-Rate Mortgage (ARM) Products**

1. **Purpose.** The purpose of this Circular is to remind lenders of Department of Veterans Affairs (VA) regulations establishing the Constant Maturity Treasury (CMT) rate as the only approved index for Adjustable Rate Mortgage (ARM) products, as codified at [38 CFR 36.4312\(d\)\(1\)](#), and to supplement the VA Lenders Handbook, M26-7, Chapter 7 to reflect this guidance.

2. **Background.** With the pending retirement of London Inter-Bank Offered Rate (LIBOR) sometime after 2021, U.S. mortgage industry participants continue to deliberate on the future industry standard for its replacement. During this time of continued discourse, it is prudent for VA to remind lenders of existing regulations that address this matter, and to clarify policy requirements in M26-7

3. **Action.** Lenders must ensure that all ARMs submitted to VA for guaranty comply with [38 CFR 36.4312\(d\)\(1\)](#) in the use of CMT. Alternative indexes are not authorized and ineligible for guaranty.

a. VA incorporates the following guidance into section b, *Interest Rate Adjustments*, of Chapter 7, Topic 6, *Adjustable Rate Mortgages*, of VA Pamphlet M26-7: “Only ARM products indexing with CMT rate are eligible for guaranty. All other indexes are not approved for use with the VA Home Loan Guaranty program.”

b. Lenders with ARM loans that do not comply with VA regulations must immediately report these loans by email to the Regional Loan Center (RLC) of jurisdiction, based upon the lender’s corporate address. The email addresses for each of the RLCs are available at: [https://www.benefits.va.gov/HOMELOANS/contact\\_rlc\\_info.asp](https://www.benefits.va.gov/HOMELOANS/contact_rlc_info.asp). The RLCs will work with lenders to determine requisite cure measures.

4. **Loan Instruments.** VA does not have a specific note, or mortgage form that lenders must use for VA-guaranteed loans. VA regulations at [38 CFR 36.4337](#) provide that loan instruments used by a lender, which are inconsistent with VA regulations in effect on the date the loan is closed will be considered amended, and supplemented to conform to the regulations. VA does not specify requisite ARM index-related language in loan documents, nor provide templates. Lenders should continue to conduct the necessary due diligence to comply with all VA regulations, including [38 CFR 36.4312](#).

5. **Additional Questions.** For additional questions, please contact VA at 1-877-827-3702 within the hours of operation between 8am to 6pm EST.

6. Rescission: This Circular is rescinded April 1, 2021.

By Direction of the Under Secretary for Benefits

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