§ 206.21 Interest rate.

(a) Fixed interest rate. A fixed interest rate is agreed upon by the mortgagor and mortgagee.

(b) Adjustable interest rate. An initial interest rate is agreed upon by the mortgagor and mortgagee. The interest rate shall be adjusted in one of two ways depending on the option selected by the mortgagor. Whenever an interest rate is adjusted, the new interest rate applies to the entire mortgage balance. The difference between the initial interest rate and the index figure applicable when the firm commitment is issued shall equal the margin used to determine interest rate adjustments.

(1) A mortgagee offering an adjustable interest rate shall offer a mortgage with an interest rate cap structure that limits the periodic interest rate increases and decreases as provided in §203.49(a), (b), (d), and (f) of this chapter, except that reference to mortgagor’s first debt service payment in §203.49(d) shall mean closing, and references in §203.49(f)(1) to one percentage point shall mean two percentage points.

(2) If a mortgage meeting the requirements of paragraph (b)(1) of this section is offered, the mortgagee may also offer a mortgage which provides for a mortgagee with an interest rate features of a mortgage. The explanation must include the following items:

(i) The circumstances under which the rate may increase;

(ii) Any limitations on the increase; and

(iii) The effect of an increase.

(2) Compliance with pre-loan disclosure provisions of 12 CFR part 226 (Truth in Lending) shall constitute full compliance with paragraph (c)(1) of this section.

(d) Post-loan disclosure. At least 25 days before any adjustment to the interest rate may occur, the mortgagee must advise the mortgagor of the following:

(1) The current index amount;

(2) The date of publication of the index; and

(3) The new interest rate.

§ 206.23 Shared appreciation.

(a) Additional interest based on net appreciated value. Any mortgage for which the mortgagee has chosen the shared premium option (§206.107) may provide for shared appreciation. At the time the mortgage becomes due and payable or is paid in full, whichever occurs first, the mortgagor shall pay an additional amount of interest equal to a percentage of any net appreciated value of the property during the life of the mortgage. The percentage of net appreciated value to be paid to the mortgagee, referred to as the appreciation margin, shall be no more than twenty-five percent, subject to an effective interest rate cap of no more than twenty percent.

(b) Computation of mortgagee share. The mortgagee’s share of net appreciated value is computed as follows:

(1) If the mortgage balance at the time the mortgagee’s share of net appreciated value becomes payable is less than the appraised value of the property at the time of loan origination, the mortgagee’s share is calculated by subtracting the appraised value at the