

**DEPARTMENT OF HOUSING AND  
URBAN DEVELOPMENT**

[Docket No. FR-3724-N-04]

**Office of the Assistant Secretary for  
Housing-Federal Housing  
Commissioner; Interest Rate for the  
Section 235(r) Mortgage Insurance  
Program**

**AGENCY:** Office of the Assistant  
Secretary for Housing-Federal Housing  
Commissioner, HUD.

**ACTION:** Notice of change in interest rate.

**SUMMARY:** This notice announces a change in the maximum interest rate for mortgages to be insured under section 235(r) of the National Housing Act. The section 235(r) maximum interest rate is to be determined by the Secretary of HUD and published in the Federal Register. Mortgage market conditions now dictate that the Secretary decrease the section 235(r) maximum rate from 8.50 percent to 8.00 percent. There is no change being made in the maximum margin of additional percentage points that may be added to the maximum rate if the established conditions are met. Therefore, the maximum for the premium section 235(r) interest rate will be 9.50 percent (8.00 percent for the rate of interest and 1.50 percent for the margin of additional percentage points).

**EFFECTIVE DATE:** November 6, 1995.

**FOR FURTHER INFORMATION CONTACT:** John N. Dickie, Director, Program Evaluation Division, Room B-133, Department of Housing and Urban Development, 451 Seventh Street, SW., Washington, DC 20410; telephone (202) 755-7470, Ext.

117; (TDD) (202) 708-4594. (These are not toll-free numbers.)

**SUPPLEMENTARY INFORMATION:** Section 235(r) of the National Housing Act (12 U.S.C. 1715z) authorizes the Secretary to insure mortgages that refinance existing mortgages insured under section 235. The purpose of the program is to reduce the interest rate insured and assisted under section 235 in order that the assistance payments the Department pays on behalf of mortgagors may be reduced. The regulations implementing the program are contained in subpart H of 24 CFR part 235—refinancing of mortgages under section 235(r).

The interest rate for these loans is set by the Secretary and published in the Federal Register as authorized by 24 CFR 235.1202(b)(3). The previous section 235(r) interest rate of 8.50 percent was published in the Federal Register on July 5, 1995 (60 FR 35040). The Department has determined that market conditions dictate a change in the section 235(r) interest rate. The change will take effect on the date of publication of this notice.

The most recent HUD survey of Mortgage Market conditions (i. e., Secondary Market Prices and Yields), an OMB-designated Principal Federal Indicator, found that the dominant national FHA rate being quoted to potential homebuyers for "lock-in" commitments of 90 days or more was 8.00 on August 1, 1995, with an average of .33 points, and an effective interest rate of 8.05 percent.

Most FHA mortgages are funded in the GNMA mortgage-backed securities market. There is a 50 basis point spread

between FHA contract interest rates and GNMA coupon rates (this covers the GNMA guarantee fee and servicing cost). On August 24, 1995, the GNMA 7.50 percent coupon securities (8.00 percent FHA loans) were priced in the two month forward market at less than a 1 point discount. On the other hand, the 8.00 percent GNMA coupons (8.50 percent FHA mortgages) traded at between 1 and 2 points over par (i.e., premium), while the 7.00 percent GNMA coupons (7.50 percent FHA mortgages) traded at about 3 points below par.

Adjusting the section 235(r) rate to 8.00 percent will bring this rate back into line with the rest of the FHA current production loans. Therefore, the maximum rate for section 235(r) mortgages is 8.00 percent beginning with the publication date of this notice. The maximum margin of additional percentage points that may be added to the maximum rate under 24 CFR 235.1202(b)(3)(i)(B) will remain at 1.50 percent.

The subject matter of this notice is categorically excluded from HUD's environmental clearance procedures, in accordance with 24 CFR 50.20(l). For that reason, no environmental finding has been prepared for this notice.

Dated: September 11, 1995.

James E. Schoenberger,  
*Associate General Deputy Assistant Secretary  
for Housing—Federal Housing Commissioner.*  
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