

## MEMORANDUM

TO: Board of Selectmen

CC: Maureen Valente, Town Manager

FROM: Andrea Terkelsen, Finance Director/Treasurer/Collector

DATE: July 1, 2011

RE: Senior Tax Deferral Rate Request for FY12

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### **Vote Request**

That the Board of Selectmen approves a Senior Deferral interest rate for FY12 of **2.5%**.

### **Background**

On an annual basis, the Board of Selectmen votes to set the Senior Tax Deferral Interest rate for the coming fiscal year. At this time, I come before the Board to provide my recommendation as shown above. The rate you choose will be charged against any new taxes deferred in FY12 in accordance with M.G.L. Chapter 59, Section 5 (41A) and as amended by Sudbury's Special Act of 2002. This rate will remain in effect for the life of the FY12 deferred amount. Any rate changes made in subsequent years will not be applied to any deferral amounts for FY 2012. My primary reasons for this recommendation are;

1. The expected duration of Senior Tax Deferrals is at least 15-20 years (*see report, charts 1 & 2 on page 5*), so they are considered long term maturities. In the last 12 months, our longer-term benchmarks have shown only a small decline of .22% for 10-year CMT and .14% for 20-year CMT rates, respectively. The 10-year to 20-year CMT rates provides us with an acceptable, conservative range for determining a deferral rate each year. CMT (Constant Maturity Treasury) rates are relatively constant and remain much lower than consumer credit rates. The maturity timeframe and rate of return assumed by the CMT indexes adequately represent what is a reasonable investment horizon and rate of return for the Town (*see report table 6 on page 11*).
2. The rate for the past 7 years has been 2.5% (see report table 3 on page 8). Maintaining the same deferral interest rate from one year to the next allows us to run the program similar to a fixed rate mortgage contract. Maintaining the same rate reduces the administrative cost of running the program and reduces any complications for the taxpayer in dealing with mortgagees, financial or estate planners, or when simply trying to ascertain their tax deferral liability over the next several years.
3. This rate continues to allow Sudbury to provide a balanced program (see report page 6-7 for revenue impact), in that participants are charged a rate that matches us well with longer term maturity rates, and thus over the long term does not burden other taxpayers by providing this program, while minimizing the potential short term harm to Sudbury's financial position by an overall financial liability that has grown from 1.66% of our total annual tax receipts to 3.16% in the last 7 years, an amount

that far surpasses any other community of our size (see report page 8 for “other communities”).

4. This rate keeps our rate below that charged by those communities that are considered our closest peers: Concord, Wayland, Weston and Lincoln charge 4% for participation in their program (see report table 4 on page 9). Those communities that have charged lower amounts tend to be those with large reserves and large commercial bases, and thus have an ability to absorb an ongoing loss of liquidity better than Sudbury.
5. This rate keeps the commitment to voters who authorized this program at the 2002 Annual Town Meeting, who voted to support a program that recovered its costs, but would still offer a deferral program with an interest rate below the state mandated 8% (see report page 1 for “timeline”).
6. Considers equity issues among different groups of taxpayers in Sudbury. Seniors are not the only taxpayers in town that are facing financial difficulties. However, anyone that does not qualify for the deferral program must pay their taxes, or else face 14-16% statutory interest as well as risk of foreclosure.

Over the past 10 years, Sudbury has been a recognized leader and has probably accomplished more in the area of Senior Tax Relief than any other town or city in the Commonwealth (see list below). Now we are waiting to see if our Special Act becomes enacted by the state legislature. If it is, we can then ascertain what impact it may have on the deferral program, other relief options and the tax levy process, in general. Doing so may avoid costly or difficult changes to what thus far by all accounts has been a successful and well-received option for Sudbury seniors.

A report is attached which provides further data for your review and consideration. I first presented this report to you last year, and have updated much of the data.

- ✓ Passing groundbreaking legislation (Special Act of 2003)
- ✓ Adopting every local option available
- ✓ Maximizing most senior exemption dollar amounts (see report table 1 for recent history)
- ✓ Maximizing income requirements
- ✓ Expanding on newer options (i.e. Senior Work Off and Clause 18 Hardship Exemptions)
- ✓ Maintaining an excellent low-cost, safe alternative option to mortgage, reverse mortgage or other consumer credit lending situations to seniors by offering deeply discounted interest rate deferrals.
- ✓ **\*New\*** Submitting a Special Act for local Senior Tax Exemption which is currently under consideration by the Massachusetts’ Legislature

# REPORT – SUDBURY'S SENIOR TAX DEFERRAL PROGRAM DETAILS

## PROGRAM REVIEW FOR FISCAL YEAR 2011

### TIMELINE FOR SENIOR TAX DEFERRAL PROGRAM

Governances – M.G.L. Chapter 59, Section 5 (Clause 41A) and all updates relative thereto from Legal Acts, general or special.

**1993** Sudbury's *first long-term tax deferral* is granted. Program administered under regular State criteria; mandated interest rate of 8%.

**1998** Sudbury's long-term tax deferrals increase to *two*. Program administered under regular State criteria; mandated interest rate of 8%.

**2002** Town successfully submitted special legislation to expand the existing eligibility parameters for Senior Tax Deferrals. This allows the Board of Selectmen to set the deferral rate at their discretion annually, not to exceed statutory 8%. Sudbury has **5 tax deferrals**.

**2003** Town lowers interest rate from 8% to 4%. Participation in program doubles again from **5 to 10 deferrals**.

**2005** Town sets interest rate at 2.5% primarily based on 1-year Constant Maturity Treasury Bill rates. Participation in program continues to increase; **quadruples to 20** since passing special act 2002.

**2006** State allows all communities to lower interest rate based on Town Meeting vote to anything between 8% and zero. This does not affect the Town's program under special act 2002. **49 tax deferrals**.

**2008** State allows all communities to further increase qualifying gross receipts limitation by a fixed amount or as a percentage of circuit breaker level to increase annually. This does not affect the Town's program under special act 2002. **65 tax deferrals**.

**2010** Town maintains 2.5% interest rate based on longer-term Constant Maturity Treasury rates. Longer horizon for rate setting chosen to bypass volatility of short-term economic markets and realize a reasonable rate of return for receivable payoff horizon of 10-20 years. **77 active tax deferrals. Total of 92 parcels in deferral, total receivable increases to \$1.74M.**

**2011** Town submits new Special Act for Senior Tax Exemption. Act is still being considered by Massachusetts' Legislature. Town maintains 2.5% interest rate based on longer-term Constant Maturity Treasury rates. **76 active tax deferrals. Total of 93 parcels in deferral, total receivable increases to \$2.13M (see table 2 statistics).**

## LOCAL OPTIONS, LOCAL IMPACTS

As mentioned in our previous report, very little has been done since in the way of senior tax relief legislation at the State-level except to shift options (along with the financial consequences) onto local municipalities. Recent Circuit-Breaker legislation is the one exception that stands to benefit both seniors and local communities by offering a real estate credit that the State essentially pays for. The Special Act of 2011 that was submitted to establish a Senior Tax exemption in Sudbury is unique as to methodology and use within the DOR's existing tax rate setting process however, the impact or cost associated with this new program would once again be borne entirely at the local level.

***How does property tax relief administered at the local level impact Sudbury as a whole?*** From an overall revenue perspective, senior tax relief programs a) reduce the amount of taxes collected (exemptions), b) defers collection of taxes (senior and temporary hardship deferrals) for years or decades beyond the time such taxes are appropriated against and spent, or c) as would be the case with our Special Act of 2011 shifts the burden of one segment of taxpayers onto the rest of the residential tax base.

Simply put, exemptions (which are largely unfunded mandates) eliminate tax revenues. Deferrals significantly reduce the collection of tax revenues for an extended period of time. As either type of tax relief program grows, so does the gap between available funds and our ability to pay for all appropriations on an ongoing basis (see chart 4 & 5). What level of exemptions and deferrals could prove to be the tipping point for our overall financial stability is yet to be determined. The following sections and exhibits are meant to provide a sense of where we are now.

## RECENT USAGE OF SUDBURY SENIOR EXEMPTIONS AND DEFERRALS

Sudbury has embraced many local options over the years that have expanded the tax relief opportunities for its seniors. These options include lowering age and income requirements in addition to maximizing the dollar amount of exemptions granted. Sudbury has greatly reduced the Senior Tax Deferral program's interest rate from the State mandated 8% (see table 4). In most ways, we continue to meet or exceed other communities throughout the State in our efforts to provide as much senior tax relief as possible.

Sudbury's senior tax relief options as of 2012 (relating strictly to age and income factors) are as follows:

1. Clause 41C. Elderly person over age 64. Exemption of \$1,000.
2. Clause 17E. Elderly person over age 70 or surviving spouse. Exemption of \$273.56
3. CPF Surcharge Exemption. Exemption up to 100% of surcharge. (Automatic 100% exemption for Senior Deferral program participants).
4. Clause 41A. Senior Tax Deferral. Deferral allowance up to 100% of tax. 2.5% simple interest. Payback only at sale or transfer of property.
5. Clause 18. Hardship Exemption. Exemption amount given at discretion of Board of Assessors.
6. Clause 18A Deferral. Temporary Hardship Deferral. Deferral allowance up to 100% of tax for 3 years. 8% statutory interest. 2 year grace period before payback.

7. Tax Work-Off Program. Relief of \$750 property tax per year. May be combined with other program benefits.

**Table 1 Sudbury's Four-Year History of Age/Income Restricted Exemptions and Deferrals**

The following table provides a four-year history of all age-based tax relief options provided. Note that exemptions are applied against the Town's Tax Overlay account. Like abatements, these exemptions represent a write-off (reduction) of taxes levied. Consequently, they represent tax dollars that we commit but will *not* receive.

	2008	2009	2010	2011	4-YR TOT	4-YR AVG
<u>Exemptions:</u>						
41C	60,026	53,264	56,833	58,044	228,167	57,042
17E	7,401	4,758	4,572	4,578	21,309	5,327
CPF	23,643	35,033	38,195	37,186	134,057	33,514
18	20,895	15,500	16,752	11,670	64,817	16,204
Work-Off	36,094	33,343	36,236	35,104	140,777	35,194
	148,059	141,898	152,588	146,583	589,128	147,282
<u>Deferrals:</u>						
Temp Hardship Deferral	19,589	33,427	12,870	13,040	78,926	19,731
Senior Deferral	322,677	343,617	435,354	463,571	1,565,219	391,305
	342,266	377,044	448,224	476,611	1,644,145	411,036

The exemption process eliminates taxes rather than shift them to other taxpayers. This is unlike other tax strategies such as a **Residential Exemption** or a **Split Tax Rate**, where taxes levied is shifted from one group or segment of taxpayers to another. At present, no such *shifting* mechanism exists which directly reduces the amount of taxes to be paid strictly based on *age requirements*, to other property owners. A residential exemption may favorably benefit seniors to the extent they qualify for the shift based on lower valued home assessment. However, this may not always be the case, which raises the issue that we could ultimately be increasing the taxes on existing Senior Deferral Program participants, not to mention all taxpayers above a certain residential property value.

Residential Exemption is "An option that allows a community to grant an exemption to owner occupied residential properties of up to 20 percent. The exemption shifts a portion of the tax burden, within the residential class, away from lower valued, single-family homes to multi-family properties, apartment buildings and non-resident property owners".

To a certain extent, the Town can estimate tax exemptions and abatements each year. We are able to budget to receive less than the taxes levied; thereby reduce appropriations elsewhere in the operating budget. As overlay usage grows the amount of taxes we collect declines. Deferrals affect our budgeting process differently. While uncollected property taxes do not create revenue deficits (requiring us to raise such balances on subsequent tax levies), they do create very real revenue **shortfalls**. We budget against one level of taxes for a fiscal year but may not receive a significant amount of those funds until several years from now. Simply put, we end up having fewer available funds to invest, to pay for ongoing appropriations and to hold in reserve for future use.

In downward revenue cycles, the more uncollected taxes we carry, the more we are at risk of depleting our reserves completely. Deferred tax revenues are eventually paid to the Town. However, until they are paid off, they have a negative impact on available cash flow and reserves. Why? The Town ends up spending more in appropriations each year than the monies it receives during the same timeframe.

## STATISTICS FOR SUDBURY'S SENIOR TAX DEFERRAL PROGRAM

**Table 2 Senior Tax Deferral Receivable Balance Information as of June 2011.**

	<b>Curr Parcel Count</b>	<b>Tot Bal</b>	<b>Avg Bal</b>	<b>Max Bal</b>
1993	1	3,165	3,165	3,165
1994	1	3,189	3,189	3,189
1995	1	3,262	3,262	3,262
1996	1	3,495	3,495	3,495
1997	1	3,645	3,645	3,645
1998	2	5,412	2,706	3,645
1999	2	8,061	4,030	4,766
2000	3	10,853	3,618	5,311
2001	3	12,896	4,299	5,829
2002	4	13,718	3,429	6,402
2003	9	36,597	4,066	6,915
2004	14	61,328	4,381	6,809
2005	18	76,738	4,263	6,812
2006	37	161,501	4,365	7,427
2007	52	240,542	4,626	9,701
2008	56	273,446	4,883	10,210
2009	59	298,759	5,064	9,176
2010	73	423,010	5,795	16,055
2011	73	447,506	6,130	16,029
<b>Grand Total</b>	<b>410</b>	<b>2,087,123</b>	<b>5,091</b>	<b>16,055</b>

(Above from left to right – Current count of parcels in deferral, total receivable balance, average balance, and maximum deferral balance outstanding.)

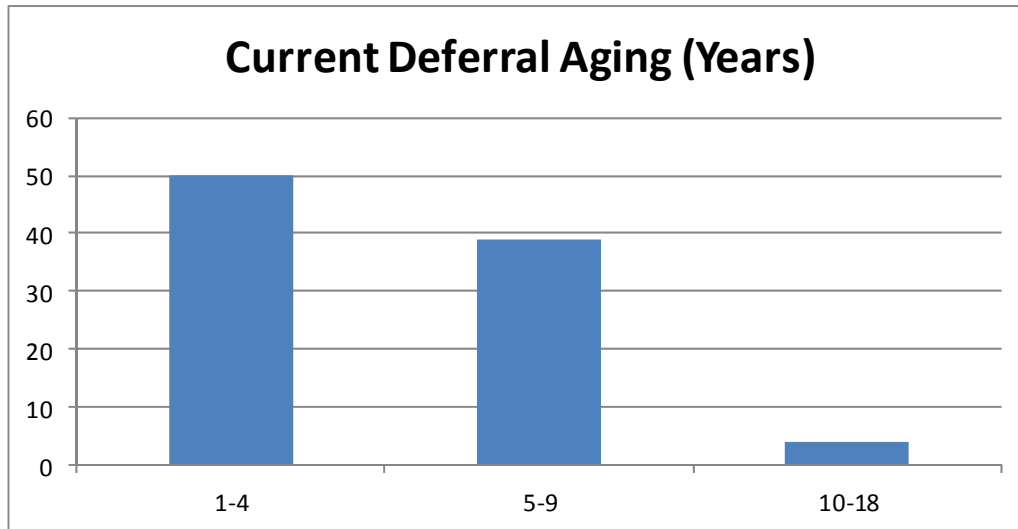
The Town currently has deferral receivables dating all the way back to 1993. In FY11, 77 new Senior Tax Deferrals were created, totaling a record-breaking \$463,571. The majority of this activity consisted of full tax deferral, meaning that the program participant chose to defer 100% of their tax liability for the year. Prior to June 30, 2011 three of the new deferral bills were paid off which results in a net addition of deferrals for the year of \$447,506.

It has been 19 years since deferrals came into being; 10 years since we dramatically changed our program parameters, and still we see additions to deferral receivable that far exceed payoffs. In FY11, a total of 8 ongoing or one-time deferrals were paid off resulting in reduction in receivable balance of \$113,917.

Even with an unusually high number of payoffs, the net increase to our tax deferral receivable balance was \$331,280. It is highly unlikely that we will ever reach a point where the monies paid back in a given year meets or exceeds the amount of new deferral dollars even once participation levels off.

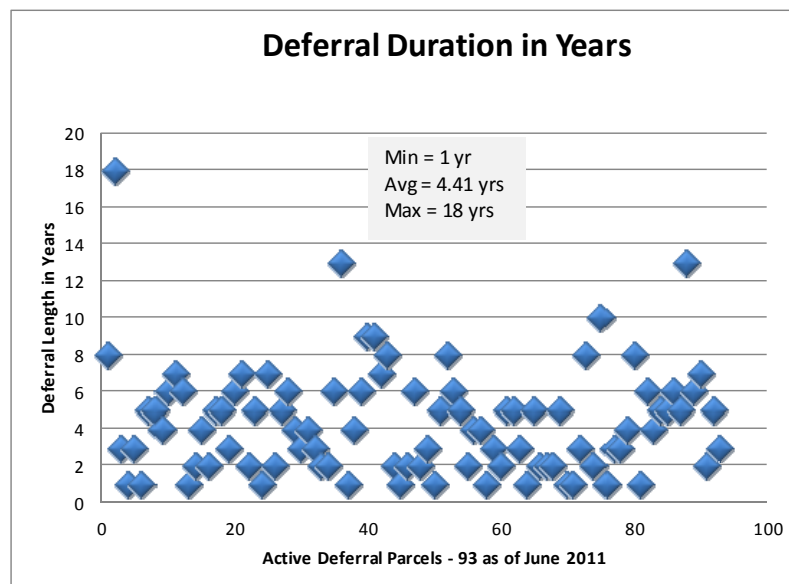
### **Chart 1 Senior Tax Deferral Receivable Aging of June 2011.**

Sudbury's current tax deferral receivable balance spans 18 years of taxes from **93 different parcels**. Our historical data shows that once someone has entered the deferral program they continue to defer for several years. The chart below shows the duration of all parcels in the program as of June 30, 2011. As time goes on we may expect the average duration currently of the program currently at 4.4 years to increase dramatically as more and more parcel balance extend 15 plus payoff.



**Chart 2 Deferral Duration as of June 2011.**

Here is another view showing the duration of existing deferrals. The average duration of the program has increased from 3.88 to 4.41 years in FY11. Current estimates suggest that the likely maximum range for a deferral could be 18 -22 years.

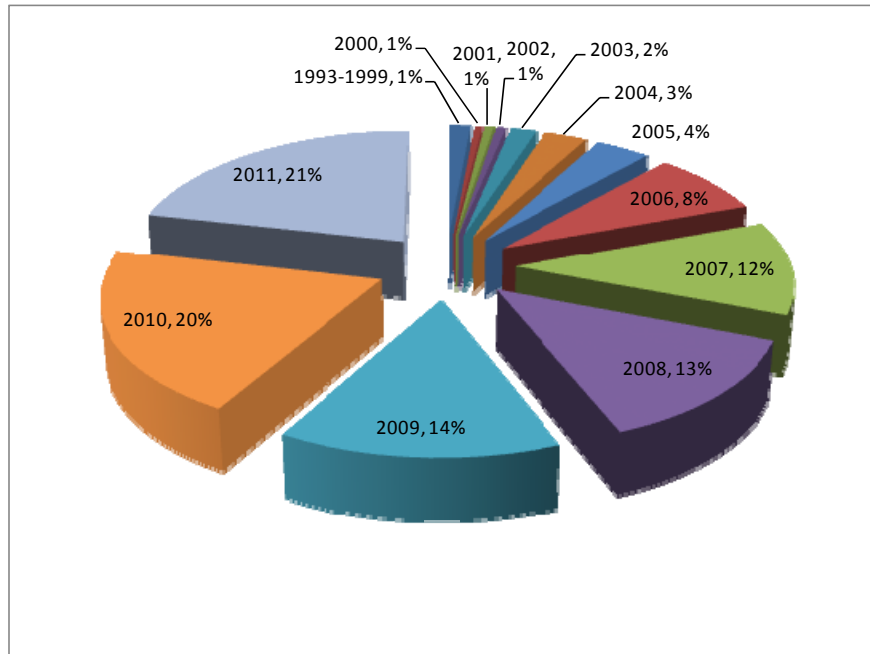


**Chart 3 Deferral Receivable Balance Information as of June 2011.**

The Town has experienced a growth in deferral receivables of **409%** since 2005. Sudbury appears to be one of the biggest programs in the State, especially for communities of similar size and levy capacity. The net increase of \$331 thousand in deferrals in FY11 represents **.54%** of the FY11 total residential tax levy. Out total accumulated deferral receivable balance of \$2.13 million as of June 2011 represents **3.47%** of the total residential tax levy or 3.16% of our total tax levy capacity in FY11. How does our deferral balance compare to the only two communities in our survey within the \$1 million range? Lexington's accumulated balance is only .58% and Wellesley's only 1.7% of their respective FY11 tax levy limits. Both communities

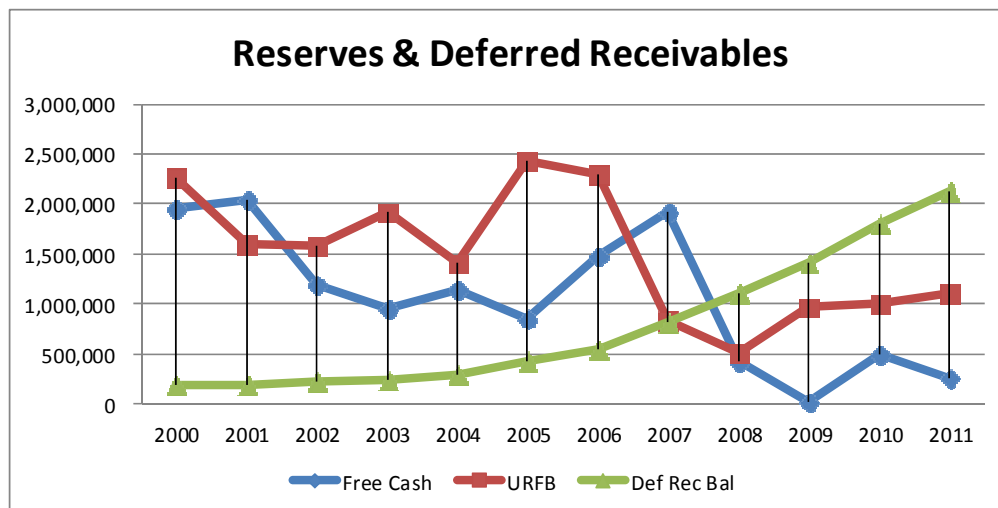
have recorded \$7-\$9 million in Free Cash this past year whereas Sudbury only managed to produce \$249 thousand. A rapidly growing Senior Deferral balance is not the only reason but it certainly has contributed to our difficulty in generating excess funds let alone protecting our reserves for the future.

When you look at the various wedges of our \$2.13 million deferral balance you can see a correlation between the net impact against our tax levy in recent years and a decline in Free Cash, Reserves and funds available for investment.



#### Chart 4 Reserves & Receivables

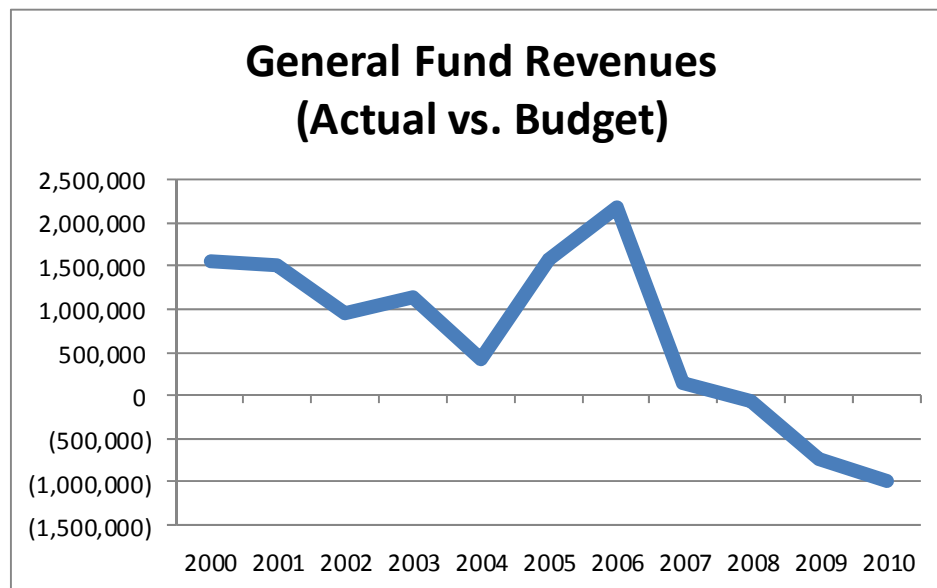
If we are to maintain or perhaps increase the level of deferrals being added each year, the Town may need to explore ways to mitigate the effects of deferring large amounts of revenue year after year. Below is a recent history of our Senior Deferral balance in relation to Free Cash and Undesignated Reserve Fund Balance.



When we finally collect on tax deferrals we benefit from the infusion of cash into the General treasury. Until then however, the gap is beginning to widen between what we spend now based on the promises of receipts from another year or even decade. As such this is a program that bears careful consideration as part of our overall long-term financial planning.

#### **Chart 5 Historical Revenues Actual verses Budget in a steady decline**

Gone are the years where we have enough excess revenue to *easily* sustain a very large deferral program. Sudbury peaked in terms of revenue surpluses back in 2006. We remain conservative in our approach to forecasting revenues. Even so, as the chart below shows, we are experiencing a downward trend in budget-to-actual receipts.



Property taxes are not only our *biggest* source of revenue but also our steadiest stream of income. In periods when all of our other revenues are slow or declining, removing even larger amounts of taxes through the deferral process would make it increasingly more difficult for the Town to prevent revenue deficits and protect reserves.

When revenues slump our only recourse is to reduce expenditures below what has been budgeted in the current year. Making such midyear reductions in appropriations is never easy and may cause an unintentional, unwanted decay or downgrading in the programs and services forced to react swiftly in midstream.

We are experiencing difficulties already at the current rate of deferrals (75-77 deferrals per year). To achieve a greater trajectory for the program will require developing a new funding or budgeting.

### **WHERE DO WE GO FROM HERE**

Sudbury's deferral program is by far the largest and most popular compared to all other communities surveyed – including those charging little to no interest.

The table below provides a comparison of our interest rates to the average 15-yr fixed mortgage rates during the last several years. We continue to offer our seniors an exceptional alternative to any other consumer borrowing opportunities available.

**Table 3 Deferral and Market Rate History.**

ParticipationYear	Deferral Rate	15-yr FMR*	New or Ongoing Deferrers
<b>2002</b>	8.0%	6.86	14
<b>2003</b>	4.0%	6.21%	23
<b>2004</b>	2.0%	4.84%	26
<b>2005</b>	2.5%	5.81%	33
<b>2006</b>	2.5%	5.35%	49
<b>2007</b>	2.5%	6.35%	62
<b>2008</b>	2.5%	6.41%	65
<b>2009</b>	2.5%	6.38%	66
<b>2010</b>	2.5%	5.41%	77
<b>2011</b>	2.5%	4.02%	76

\*Source: HSH Associates Financial Publishers

#### **Increasing Participation:**

If the Town wishes to increase participation in the program eliminating may not be the best solution. A better option might be to further relax the income and age requirements to invite a larger segment of taxpayers into deferral or, wait to see the effects of our (pending) special legislation designed to reduce Senior taxes rather than defer them.

## **OTHER COMMUNITIES**

According to the DLM's report (2005), there were only 146 out of 353 communities in Massachusetts with senior tax deferral activities. Their study indicated the number of active deferrals ranged from only 1 to a high of 82, with the average participation being 8. Sudbury at that time had 26 active deferrals ranking us 8<sup>th</sup> in the State only behind much larger communities such as Newton, Quincy, Hingham and Lynn. An update of these statewide statistics is not yet available so we have started our own survey to see what other communities are doing in terms of a Senior Deferral program.

**Table 4 What other Communities are charging for interest**

Sudbury blazed a trail by taking action back in 2003 – our Special Act went into effect allowing the Board of Selectmen to vote a lower the deferral interest from the statutory 8%. It wasn't until 2005, when the

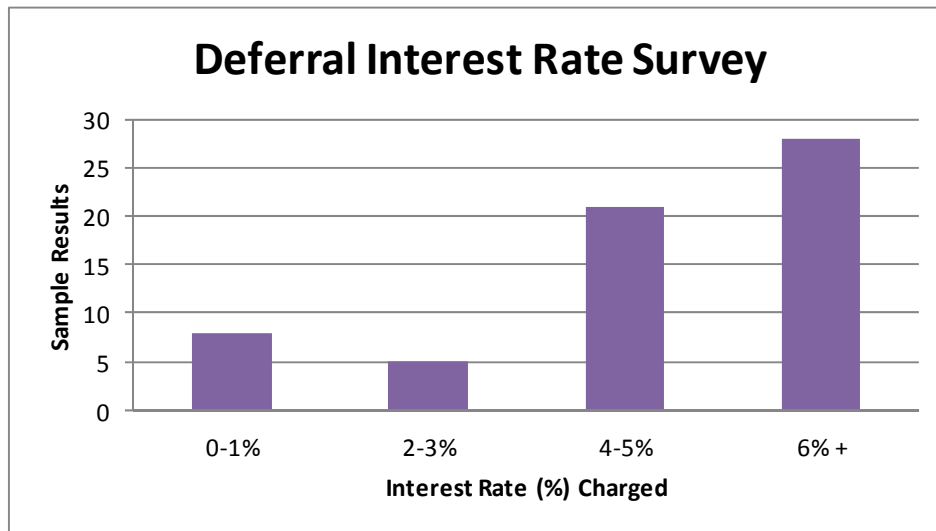
State revised the allowable interest rate provision under M.G.L. Ch. 59, S. 5(41a), to allow municipalities through local option acceptance to be any amount from 8% to 0%, that several other communities took the necessary steps to offer lower interest rates.

In June 2011 we began a survey of cities and towns throughout Massachusetts to see what communities with active senior deferral programs are charging for interest. Below are the preliminary results including 61 other communities, many of which are considered comparable to Sudbury in size, demographics, personal income levels, tax revenues, etc. As you can see, Sudbury continues to offer one of the lowest deferral interest rates.

Town A-L	Rate	Town M-Z	Rate
Acton	0.50%	Marlborough	8.00%
Amherst	4.00%	Marshfield	0.00%
Arlington	6.00%	Maynard	2.00%
Ashland	4.00%	Medway	0.20%
Bedford	8.00%	Merrimack	4.00%
Bellingham	8.00%	Natick	4.50%
Bolton	8.00%	Needham	4.00%
Boston	4.00%	Newbury	8.00%
Boxborough	8.00%	Newton	0.50%
Cambridge	4.00%	Northborough	8.00%
Canton	8.00%	Norton	4.00%
Carver	8.00%	Norwell	8.00%
Chicopee	4.00%	Plymouth	2.25%
Concord	4.00%	Province Town	8.00%
Dedham	6.00%	Quincy	4.00%
Dover	8.00%	Saugus	8.00%
Duxbury	4.00%	Southborough	4.00%
East Brookfield	8.00%	Sterling	8.00%
Framingham	8.00%	Stoneham	8.00%
Hamilton	5.00%	Sturbridge	8.00%
Harvard	2.00%	Sudbury	2.50%
Hingham	1.00%	Tewksbury	5.00%
Hopedale	5.00%	Waltham	5.00%
Hopkinton	5.00%	Watertown	8.00%
Hudson	8.00%	Wayland	3.50%
Ipswich	4.00%	Wellesley	0.63%
Lexington	0.26%	Westborough	0.00%
Lincoln	4.00%	Westford	8.00%
Lunenburg	4.00%	Weston	4.00%
Lynnfield	4.00%	Winthrop	8.00%
		Worcester	8.00%
		Yarmouth	8.00%

## Chart 6 Survey Results – Interest Rate Frequency

Of the 61 other communities surveyed thus far, only 11 are charging a **lower** interest rate than Sudbury. Responses indicate that these communities have opted to adjust their rates annually based on short-term investment benchmarks only. To date, **only two** communities in Massachusetts, Marshfield and Westborough have opted to reduce their rate to 0%.



Of all the communities surveyed thus far, only Wellesley is dealing with a receivable balance that is approaching \$2 million. They are currently offering an interest rate of .63%.

## Table 5 Survey Results – Participation and Deferral Balances

Obtaining this information from other communities is still in progress. However, we can report that of the 16 communities providing data on participation (ongoing accounts) and accumulated deferral receivable balances, Sudbury ranks first on both counts by a large margin.

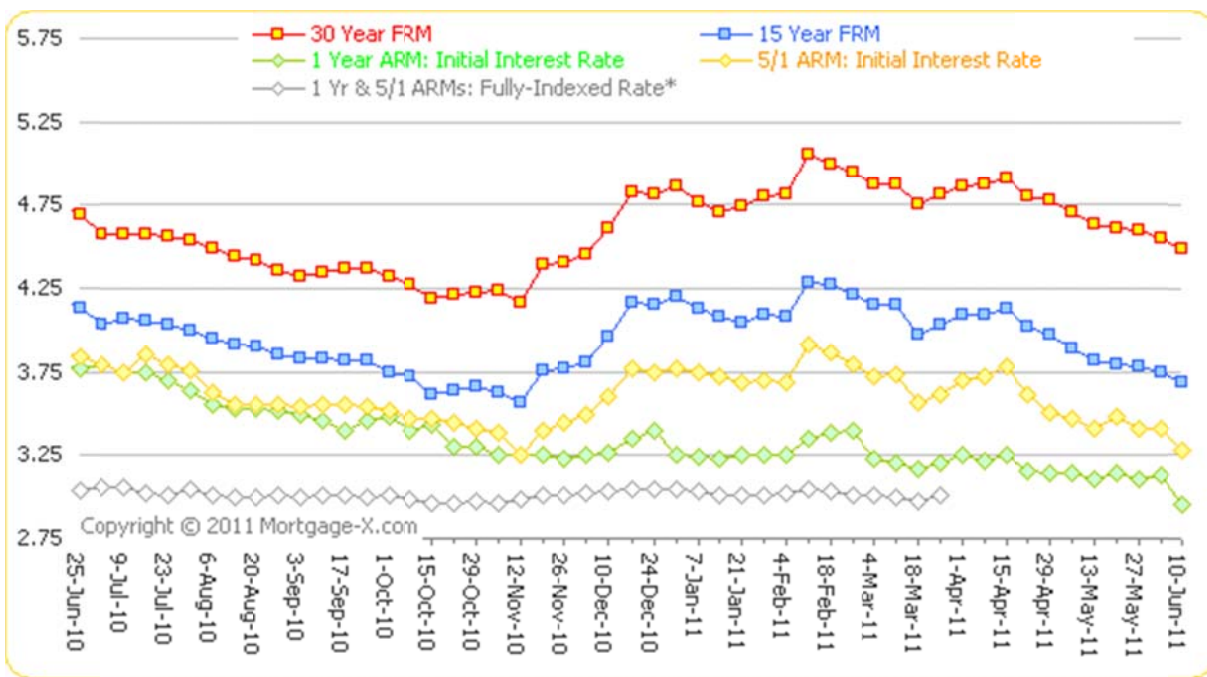
Community	Interest Rate	# of Accounts Ranking	Total Balance Ranking
Sudbury	2.50%	1	1
Wellesley	0.63%	2	2
Marshfield	0.00%	3	6
Lexington	0.26%	4	3
Hingham	1.00%	4	4
Needham	4.00%	5	5
Medway	0.20%	6	9
Dedham	6.00%	7	7
Westborough	0.00%	8	10
Southborough	4.00%	8	11
Ashland	4.00%	9	12
Dover	8.00%	10	9
Bedford	8.00%	11	8
Amherst	4.00%	12	13
Ipswich	4.00%	13	14
Bellingham	8.00%	14	15
Canton	8.00%	14	15

Pulling together tax levy value, Free Cash and Undesignated Fund balance for the communities surveyed is still underway. However, we have already noted that those communities most like us are in a much better position financially to support a deferral program the size of what we currently have in Sudbury and may hope to achieve in the future.

## CURRENT INTEREST RATE REFERENCES

**Table 6 Market Interest Rates**

Rate Type	Current	1 Year Ago
<b>MMDT</b>	.20%	.33%
<b>6 mo. CD's</b>	.28%	.74%
<b>State &amp; Local Bonds</b>	4.49%	4.40%
<b>Bank Prime</b>	3.25%	3.25%
<b>1 yr CMT</b>	.18%	.30%
<b>5 yr CMT</b>	.72%	1.93%
<b>10 yr CMT</b>	3.00%	3.22%
<b>20 yr CMT</b>	3.89%	4.03%
<b>15 yr FRM</b>	3.62%	4.66%
<b>30 yr FRM</b>	4.38%	5.25%



**CMT (Constant Maturity Treasury)** rate is also commonly referred to as Treasury Yield Rate. The indexes are interpolated by the Treasury from the daily yield curve. The curve itself, which relates the yield on a security to its time to maturity, is based on the closing market bid yields on actively traded Treasury securities in the over-the-counter market. CMT Rate indexes are a theoretical interpretation of what has happened in the Treasury markets up to the time of rate publication. While CMT does not predict returns in the future, it does react reflect the state of the economy, and respond quickly to economic changes. These indexes react more slowly than the CD (Certificate of Deposit) index, but more quickly than the COFI (Federal Cost of Funds) index or the MTA (12-Month Treasury Maturity) index. CMT's are most often used when determining ARM's (Adjustable Mortgage Rate). Alternatively, these indexes, COFI Index 2022 = 6.0-6.8% and MTA Index 2022= 5.8-6.6% are both considerably higher than one year ago.