

# One-Year Treasury Index

## What Is Constant Maturity?

Constant maturity is an adjustment for equivalent maturity, used by the Federal Reserve Board to compute an index based on the average yield of various Treasury securities maturing at different periods. Constant maturity yields are used as a reference for pricing debt securities issued by entities such as corporations and institutions.

## Constant Maturity Explained

Constant maturity is the theoretical value of a U.S. Treasury that is based on recent values of auctioned U.S. Treasuries. The value is obtained by the U.S. Treasury on a daily basis through interpolation of the Treasury yield curve which, in turn, is based on closing bid-yields of actively traded Treasury securities. It is calculated using the daily yield curve of U.S. Treasury securities.

Constant maturity yields are often used by lenders to determine mortgage rates. The one-year constant maturity Treasury index is one of the most widely used and is mainly used as a reference point for adjustable-rate mortgages (ARMs) whose rates are adjusted annually.

Since constant maturity yields are derived from Treasuries, which are considered risk-free securities, an adjustment for risk is made by lenders by means of a risk premium charged to borrowers in the form of a higher interest rate. For example, if the one-year constant maturity rate is 4%, the lender may charge 5% for a one-year loan to a borrower. The 1% spread is the lender's compensation for risk and is the gross profit margin on the loan.