ADJUSTABLE RATE MORTGAGE DISCLOSURE STATEMENT
IMPORTANT MORTGAGE LOAN INFORMATION
PLEASE READ CAREFULLY

You must receive this statement and be given an opportunity to read it prior to the time you sign the "Borrowers Certification" on the loan application, Form HUD-92900A.

ADJUSTABLE RATE MORTGAGE MEANS YOUR PAYMENT MAY CHANGE IN THE FUTURE

You are applying for an Adjustable Rate Mortgage (ARM) loan. This means that your interest rate and monthly payments may change during the life of your loan. Your monthly payments will increase if the interest rate rises and decrease if it falls. An ARM is different from a fixed rate mortgage loan. For a fixed rate loan, the monthly payments of principal and interest do not change during the life of the loan. You should consider carefully which type of loan is best for you.

ARM LOAN TERMS

There are six important factors in an ARM loan. They are the initial interest, margin, discount points, frequency of rate adjustment, index used to calculate interest rate adjustments and caps on interest rate increases. Since all FHA ARM loans have the same index, caps and frequency of rate adjustment, *you should pay particular attention to the initial interest rate, margin and discount points that different lenders charge when shopping for an ARM loan. These three items are freely negotiable between you and the lender.* In addition, you can negotiate the length of time before your loan closes during which these terms are guaranteed not to change. However, lenders sometimes require a commitment fee for "locking in" loan terms for a designated period (for example, 30, 60, or 90 days).

INITIAL INTEREST RATE

This is the interest rate that will be charged for the first year of your mortgage and may remain in effect from 12 to 18 months, depending on the terms of your particular loan. The lender must disclose, in the mortgage documents at closing, when this initial interest rate will change. The date on which the interest rate changes is the same each year and is called the Date. After the initial period, the interest rate on your mortgage may change on the change date every year you have this ARM loan. However, you must have been given at least 25 days notice before you must pay any changed amount in your monthly payment. In this notice, the lender must also tell you the amount of the index and how your interest rate and monthly payments will affected.

MARGIN

The margin is a percentage that is added to the current index to establish the annual interest rate on your ARM. The amount of the margin will remain constant for the life of the mortgage. The larger the margin, the more interest you will pay on your loan.

Since the margin affects the interest rate for every year but the first one, you should make certain that the margin being charged is reasonable. A slightly lower initial interest rate may prove more costly to you if a higher margin is being charged than you can obtain from other lenders.

DISCOUNT POINTS

Discount points are a one time fee charged at closing by the lender to increase the lender's yield on the loan. Each discount point is one percent of the loan amount. this fee will be paid by you unless the seller has agreed (in your written agreement) to pay all or part of these discount points.

INDEX

After the first year, the annual changes in the interest rate charged on your ARM will be tied to the weekly average yield on United States Treasury Securities adjusted to a constant maturity of one year (One Year Treasury Constant Maturities). This is a national index published by the Federal Reserve Board in Statistical Release H. 15(519). You may request to be placed on the mailing list to receive copies of this weekly publication by writing:

Publication Services
Mail Stop 138
Board of Governors, Federal Reserve System
Washington, DC 20551

The index is also published regularly in many newspapers, e.g. Wall Street Journal, USA Today.

CAPS ON INTEREST RATE CHANGES

Your interest rate cannot increase (or decrease) more than one percentage point per year and cannot increase (or decrease) more than five percentage points from the initial interest rate on your loan, no matter how much the index may have moved.

METHOD OF CALCULATING ANNUAL INTEREST RATE ADJUSTMENTS

Each year, on the Change Date, the lender will adjust the interest rate on your loan. The lender will check the most recent weekly index available 30 days before the change date and add to it the amount of the margin (index plus margin equals the calculated interest rate). Unless your mortgage documents provide otherwise, the calculated interest rate will be rounded to the nearest 1/8th percent. The calculated interest rate is compared to the existing interest rate (the rate you have been paying for the last year) and subject to the 5 percent cap:

1) if the two differ by one percent or less the calculated interest rate will become your new (adjusted) interest rate;
2) if the calculated interest rate is more than one percent higher or lower, your new interest rate will be only one percent higher or lower than the existing interest rate;
3) if the calculated interest rate is the same as the existing interest rate, the adjusted interest rate will not change.

Year	Index	+	Margin	=	Calculated Interest Rate	New Interest Rate
1	N/A		N/A		N/A	10% (initial interest rate)
2	9.5		2.0		(9.5 + 2.0 = 11.5)	11%
3	9.0		2.0		(9.0 + 2.0 = 11.0)	11%
4	10.5		2.0		(10.5 + 2.0 = 12.5)	12%
5	8.5		2.0		(8.5 + 2.0 = 10.5)	11%

- The lender and borrower in this example agreed to an initial interest rate of 10 percent for the first year and that the annual adjustments to the interest rate will be calculated using the index plus a margin of two percentage points.
- In year two, the calculated interest rate (index plus margin) is 11.5 percent. Because this is more than one percent above the initial interest rate, the new interest rate is 11 percent.
- In year three, the index decreases .5 percent from 9.5 to 9 and the calculated interest rate is 11 percent. Therefore, the interest rate remains the same as the previous year.
- In year four, the index *increases* 1.5 percent (from 9 to 10.5) and the calculated interest rate is 12.5 percent. However, because of the 1 percent ceiling on interest rate increases, the new interest rate is only 12 percent.
- In year five, the index decreases 2 percent (from 10.5 to 8.5). After adding the margin, the calculated interest rate is 10.5 percent. However, since the 1 percent limit is also imposed on interest rate decreases, the new interest rate will return to 11 percent.

REPROCESSING

The wording of your agreement with the lender will determine the amount, if any, that the interest rate and discount points may change before closing. HUD requires that your loan be reprocessed if there is any increase in the discount points you will pay or an increase of more than one percent in the initial interest rate on your loan.

If the lender seeks reprocessing, the lender will ask you to sign a new application. Whether or not you sign is your choice. However, if you refuse to sign you may lose your deposit. Before you sign any loan application or agreement, make certain you understand your rights. If you sign, you would be agreeing to the higher interest rate and/or discount points shown in your new application. If, after reprocessing, you remain eligible for the loan, the conditions of your agreements with the lender and the seller may require you to complete the transaction at the higher interest rate, lose your deposit or pay some form of penalty fee. You should seek professional advice if you do not understand the agreements you are signing.

WHAT IS THE MOST YOU MAY HAVE TO PAY

The chart below shows what your monthly payments to principal and interest would be if your interest rate increases the maximum permitted amount of one percentage point per year. If your loan closes at the interest rate shown on your application, lines 1 through 6 show your payment after the annual adjustments. Beginning with the sixth year, the payments would not increase again because of the five percentage points ceiling on interest rate increases. The chart shows the highest amount of principal and interest you will be required to pay in any year if your loan closes at the interest rate shown in your application and if the interest rate increases at the one percent maximum each year. This highest payment cannot be reached earlier than the sixth year, but could be reached after then if your interest rate does not increase as quickly as permitted.

WORST CASE EXAMPLE

[Enter mortgage amount from application]

Loan Amount **$148,824.00**

Year No.	Interest Rate (percent)	Monthly Payment for Principal & Interest
1	5.000	$798.92
2	6.000	$890.04
3	7.000	$983.35
4	8.000	$1,078.37
5	9.000	$1,174.70
6	10.000	$1,271.99
7	10.500	$1,320.65

TERMS OF YOUR ADJUSTABLE RATE MORTGAGE

Frequency of rate changes: Annually after first adjustment. First adjustment will occur between 12-18 months after first payment

Maximum interest rate change at one time: One (1) percent point

Index: One Year Treasury Constant Maturities.

Index Rate for week ending *was* **1.250** *%.*

Initial mortgage interest rate: **5.000**

Margin: **2.000**

BE CERTAIN THAT YOU UNDERSTAND THIS TRANSACTION. SEEK PROFESSIONAL ADVICE IF YOU ARE UNCERTAIN.

_______________________________ Signature _______________________________ Signature