

## **Five/One-Year Adjustable Rate Mortgage - 10 Year Interest Only Loan Information Statement**

**(Please Read Carefully)**

**PLEASE NOTE:** This information statement is only intended to give you a general description of the Adjustable Rate Mortgage (ARM) you are considering. This is not a contract document and should not be used to interpret any provisions of your Note or Deed of Trust or Mortgage (the Security Instrument). You will be bound by the provisions of your Note and Security Instrument and should become familiar with and understand these documents before signing them. If there is any conflict between this information statement and your Note and Security Instrument, your obligations will be established by your Note and Security Instrument. You have the right to seek legal advice before signing the loan documents. Information about other ARM programs we offer is available upon request.

### **SUMMARY OF PRODUCT**

The "Five/One-Year Adjustable Rate Mortgage - 10 Year Interest Only" is a loan where the interest rate remains fixed for five years. After the first five years, your interest rate will adjust every year.

During the first ten years, you will make monthly payments of interest only based on the outstanding balance of the mortgage. While you are not required to make additional payments towards the principal of the loan during the first ten years you may, at your discretion, do so. If you pay additional principal payments, this will reduce your outstanding balance and you will pay less interest over the life of the loan. If you choose not to make payments toward the principal you will not reduce your principal balance during the first ten years of the loan. Starting in the 11th year of the loan, you will make monthly payments of principal and interest in the amount sufficient to completely repay the unpaid principal balance, at the current interest rate, by the end of the 30 year term.

### **INITIAL INTEREST RATE**

Your Initial Interest Rate for the first five years of the loan is established prior to closing at the time of rate lock. Your Initial Interest Rate is not based on the Index used to make later adjustments. Your Initial Interest Rate may reflect a discount or premium. Please ask us about our current Initial Interest Rate and our current interest rate discount or premium.

### **INITIAL PAYMENTS OF INTEREST ONLY**

Your first 120 monthly payments will consist of interest on the unpaid principal balance (plus additional payments required for tax and insurance payments as appropriate). You will not reduce the principal balance during the first ten years of the loan.

### **HOW YOUR INTEREST RATE CAN CHANGE**

Your Initial Interest Rate will remain in effect for five years. Thereafter, your interest rate may change on the date specified in your Note and every year thereafter. Each date on which the interest rate could change is called a "Change Date."

### **LIBOR INDEX**

Adjustments to the interest rate will be based on an Index plus our margin. The Index is the average of interbank offered rates for one-year U.S. dollar-denominated deposits in the London market (LIBOR) as published in *The Wall Street Journal*. To compute adjustments to the interest rate, Noteholder will use the most recent Index figure available as of 45 days prior to the Change Date. This Index is called the "Current Index." The margin is stated in your Note.

If the Index is no longer available, the Noteholder will choose a new index that is based upon comparable information.

## CALCULATION OF INTEREST RATE CHANGES

Prior to each Change Date, Noteholder will calculate the new interest rate by adding the margin to the Current Index and rounding the result of this addition to the nearest one-eighth of one percent (0.125%). Subject to the limits stated below, this rounded amount will be the new interest rate until the next Change Date.

Ask us about our current interest rate and margin.

## INTEREST RATE CHANGE LIMITS (CAPS AND FLOORS)

After five years, the interest rate can increase five percentage points (5.00%) above the Initial Interest Rate or decrease five percentage points (5.00%) below the Initial Interest Rate.

Thereafter, the interest rate established as of any given Change Date cannot be increased or decreased more than two percentage points (2.00%) from the interest rate in effect immediately preceding such Change Date. The interest rate on your loan cannot increase or decrease in the aggregate over the full 30 year term of your loan by more than five percentage points (5.00%) above or below the Initial Interest Rate set forth in your Note. The interest rate will never go below the margin set forth in your Note. This is known as the "Floor."

## HOW YOUR MONTHLY PAYMENT CAN CHANGE

- Your monthly payment can change after five years and every year thereafter based on the change to the interest rate.
- After ten years, your monthly payment will also change because you will be required to make monthly payments of both principal and interest in an amount sufficient to fully amortize the unpaid principal, at the new interest rate, over the remaining term of the loan.
- Your monthly payment will continue to change every year based on the interest rate and the unpaid balance at that time.

Changes in the monthly payment will occur one month following the interest rate change. Your monthly payment could increase or decrease substantially depending on changes to the interest rate.

**EXAMPLE:** On a \$10,000, 30 year loan with an Initial Interest Rate of 6.226 percent (the rate in January 2008), the interest rate could increase to the maximum interest rate of 11.226 percent after the fifth year. The payments on the loan could increase from a monthly payment (of interest only) in the amount of \$51.88 to a maximum payment (interest only) of \$93.55 after the fifth year. The maximum (principal and interest) payment of \$104.77 could be reached in the 11th year of the loan.

Term (yrs.)	Initial interest rate	Maximum interest rate	First-year monthly payment	Maximum monthly payment	When maximum interest rate is reached
30	6.226%	11.226%	\$51.88	\$104.77	After the eleventh year

The above example is based on the following assumptions:

Payment Adjustment:	Annually after remaining fixed for 5-years Payment adjusts to full P&I beginning with the 11th year
Interest Rate Adjustment:	Annually after remaining fixed for 5-years
Index Value:	4.188%
Margin:	2.25%
Interest Rate Discount:	.212%
Caps:	
Periodic:	2.000
Lifetime:	5.000

To see what your payments might be for a mortgage of a larger amount, divide your mortgage amount by \$10,000; then multiply the monthly payment by that amount. For example, the monthly interest only payment on a \$400,000, 30 year mortgage at an initial rate of 6.226 percent would be \$400,000 divided by \$10,000 = 40; 40 x \$51.88 = \$2,075.20 per month. The monthly interest only payment on a \$400,000, 30 year mortgage at an interest rate of 11.226 percent would be \$400,000 divided by \$10,000 = 40; 40 x \$93.55 = \$3,742. per month. The maximum principal and interest payment for this loan would be \$400,000 divided by \$10,000 = 40; 40 x \$104.77 = \$4,190.80 per month in the 11th year.

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The above example is based on the following assumptions:

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**NOTICE OF CHANGES**

You will be sent a notice that your interest rate and monthly payment will be adjusted at least 25 calendar days but no more than 120 calendar days before each Change Date. The notice will contain the following information: (a) your new interest rate; (b) your new payment amount; (c) loan balance; (d) the date the new interest rate and new payment amount will become effective; (e) the title and telephone number of a person who will answer any questions you may have regarding the notice and; (f) any other information required by law to be given.

This summary of the "Five/One-Year Adjustable Rate Mortgage - 10 Year Interest Only" is for informational purposes only. It is not a loan commitment. Specific information regarding your loan will be contained in the loan documents.

I certify that I have received this information along with the Consumer Handbook on Adjustable Rate Mortgages and the Interest-Only and Reduced Documentation Mortgages disclosure, if applicable.

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