



## Adjustable-Rate Mortgage (ARM) Application Packet

Thank you for choosing The Bank of Elk River for your ARM loan. Attached you will find the following helpful information:

- **Loan Application** – Please complete, sign and date.
- **Adjustable-Rate Mortgage Disclosure** – This disclosure provides you with sample terms of The Bank of Elk River’s Adjustable-Rate Mortgage products.
- **Consumer Handbook on Adjustable-Rate Mortgages Brochure** – This brochure is full of important information about having an ARM loan and can help ensure that this is the right product for you.

To ensure an easy application process and a fast turnaround on your loan, please provide the following documents:

- Completed and signed Application
- Two most recent paystubs dated with 30 days of application
- W-2s for the last two years
- Proof of any other sources of income
- Previous two years Federal tax returns, signed
- Homeowners Insurance Policy or Insurance Company and Agent
- Most recent property tax statement
- Statement of current mortgage balance

### Notice

We may order an appraisal to determine the property’s value and charge you for this appraisal. We will promptly give you a copy of any appraisal, even if your loan does not close. You can pay for an additional appraisal for your own use at your own cost.

## Uniform Residential Loan Application

**Verify and complete the information on this application.** If you are applying for this loan with others, each additional Borrower must provide information as directed by your Lender.

**Section 1: Borrower Information.** This section asks about your personal information and your income from employment and other sources, such as retirement, that you want considered to qualify for this loan.

### 1a. Personal Information

<b>Name</b> (First, Middle, Last, Suffix) _____	<b>Social Security Number</b> _____ - _____ - _____ (or Individual Taxpayer Identification Number)
<b>Alternate Names</b> – List any names by which you are known or any names under which credit was previously received (First, Middle, Last, Suffix) _____	<b>Date of Birth</b> (mm/dd/yyyy) _____ / _____ / _____
	<b>Citizenship</b> <input type="radio"/> U.S. Citizen <input type="radio"/> Permanent Resident Alien <input type="radio"/> Non-Permanent Resident Alien

<b>Type of Credit</b> <input type="radio"/> I am applying for <b>individual credit</b> . <input type="radio"/> I am applying for <b>joint credit</b> . Total Number of Borrowers: _____ Each Borrower intends to apply for joint credit. <b>Your initials:</b> _____	<b>List Name(s) of Other Borrower(s) Applying for this Loan</b> (First, Middle, Last, Suffix) – Use a separator between names _____
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<b>Marital Status</b> <input type="radio"/> Married <input type="radio"/> Separated <input type="radio"/> Unmarried (Single, Divorced, Widowed, Civil Union, Domestic Partnership, Registered Reciprocal Beneficiary Relationship)	<b>Dependents</b> (not listed by another Borrower) Number _____ Ages _____	<b>Contact Information</b> <b>Home Phone</b> (____) _____ - _____ <b>Cell Phone</b> (____) _____ - _____ <b>Work Phone</b> (____) _____ - _____ <b>Ext.</b> _____ <b>Email</b> _____
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**Current Address**  
Street \_\_\_\_\_ Unit # \_\_\_\_\_  
City \_\_\_\_\_ State \_\_\_\_\_ ZIP \_\_\_\_\_ Country \_\_\_\_\_  
How Long at Current Address? \_\_\_\_ Years \_\_\_\_ Months **Housing**  No primary housing expense  Own  Rent (\$ \_\_\_\_\_ /month)

**If at Current Address for LESS than 2 years, list Former Address**  **Does not apply**  
Street \_\_\_\_\_ Unit # \_\_\_\_\_  
City \_\_\_\_\_ State \_\_\_\_\_ ZIP \_\_\_\_\_ Country \_\_\_\_\_  
How Long at Former Address? \_\_\_\_ Years \_\_\_\_ Months **Housing**  No primary housing expense  Own  Rent (\$ \_\_\_\_\_ /month)

**Mailing Address** – if different from Current Address  **Does not apply**  
Street \_\_\_\_\_ Unit # \_\_\_\_\_  
City \_\_\_\_\_ State \_\_\_\_\_ ZIP \_\_\_\_\_ Country \_\_\_\_\_

### 1b. Current Employment/Self-Employment and Income Does not apply

<b>Employer or Business Name</b> _____ Phone (____) _____ - _____ Street _____ Unit # _____ City _____ State _____ ZIP _____ Country _____	<b>Gross Monthly Income</b> Base \$ _____ /month Overtime \$ _____ /month Bonus \$ _____ /month Commission \$ _____ /month Military Entitlements \$ _____ /month Other \$ _____ /month <b>TOTAL \$</b> _____ /month
<b>Position or Title</b> _____ <b>Start Date</b> ____ / ____ / ____ (mm/dd/yyyy) How long in this line of work? ____ Years ____ Months	<b>Check if this statement applies:</b> <input type="checkbox"/> I am employed by a family member, property seller, real estate agent, or other party to the transaction.
<input type="checkbox"/> <b>Check if you are the Business Owner or Self-Employed</b> <input type="radio"/> I have an ownership share of less than 25%. <b>Monthly Income (or Loss)</b> \$ _____ <input type="radio"/> I have an ownership share of 25% or more. \$ _____	

**1c. IF APPLICABLE, Complete Information for Additional Employment/Self-Employment and Income**

Does not apply

**Employer or Business Name** \_\_\_\_\_ Phone (\_\_\_\_) \_\_\_\_ - \_\_\_\_\_  
 Street \_\_\_\_\_ Unit # \_\_\_\_\_  
 City \_\_\_\_\_ State \_\_\_\_\_ ZIP \_\_\_\_\_ Country \_\_\_\_\_

**Position or Title** \_\_\_\_\_  
**Start Date** \_\_\_\_ / \_\_\_\_ / \_\_\_\_ (mm/dd/yyyy)  
 How long in this line of work? \_\_\_\_ Years \_\_\_\_ Months

**Check if this statement applies:**  
 I am employed by a family member, property seller, real estate agent, or other party to the transaction.

**Check if you are the Business Owner or Self-Employed**  I have an ownership share of less than 25%. **Monthly Income (or Loss)** \$ \_\_\_\_\_  
 I have an ownership share of 25% or more. \$ \_\_\_\_\_

**Gross Monthly Income**  
 Base \$ \_\_\_\_\_ /month  
 Overtime \$ \_\_\_\_\_ /month  
 Bonus \$ \_\_\_\_\_ /month  
 Commission \$ \_\_\_\_\_ /month  
 Military Entitlements \$ \_\_\_\_\_ /month  
 Other \$ \_\_\_\_\_ /month  
**TOTAL \$** \_\_\_\_\_ /month

**1d. IF APPLICABLE, Complete Information for Previous Employment/Self-Employment and Income**

Does not apply

Provide at least 2 years of current and previous employment and income.

**Employer or Business Name** \_\_\_\_\_  
 Street \_\_\_\_\_ Unit # \_\_\_\_\_  
 City \_\_\_\_\_ State \_\_\_\_\_ ZIP \_\_\_\_\_ Country \_\_\_\_\_

**Position or Title** \_\_\_\_\_  
**Start Date** \_\_\_\_ / \_\_\_\_ / \_\_\_\_ (mm/dd/yyyy)  
**End Date** \_\_\_\_ / \_\_\_\_ / \_\_\_\_ (mm/dd/yyyy)

**Check if you were the Business Owner or Self-Employed**

**Previous Gross Monthly Income \$** \_\_\_\_\_ /month

**1e. Income from Other Sources**

Does not apply

Include income from other sources below. Under Income Source, choose from the sources listed here:

- Alimony
- Automobile Allowance
- Boarder Income
- Capital Gains
- Child Support
- Disability
- Foster Care
- Housing or Parsonage
- Interest and Dividends
- Mortgage Credit Certificate
- Mortgage Differential
- Payments
- Notes Receivable
- Public Assistance
- Retirement
- (e.g., Pension, IRA)
- Royalty Payments
- Separate Maintenance
- Social Security
- Trust
- Unemployment Benefits
- VA Compensation
- Other

**NOTE:** Reveal alimony, child support, separate maintenance, or other income ONLY IF you want it considered in determining your qualification for this loan.

Income Source – use list above	Monthly Income
	\$
	\$
	\$
<b>Provide TOTAL Amount Here</b>	<b>\$</b>

**Borrower Name:** \_\_\_\_\_

**Section 2: Financial Information — Assets and Liabilities.** This section asks about things you own that are worth money and that you want considered to qualify for this loan. It then asks about your liabilities (or debts) that you pay each month, such as credit cards, alimony, or other expenses.

**2a. Assets – Bank Accounts, Retirement, and Other Accounts You Have**

**Include all accounts below. Under Account Type, choose from the types listed here:**

- Checking
- Savings
- Money Market
- Certificate of Deposit
- Mutual Fund
- Stocks
- Stock Options
- Bonds
- Retirement (e.g., 401k, IRA)
- Bridge Loan Proceeds
- Individual Development Account
- Trust Account
- Cash Value of Life Insurance (used for the transaction)

Account Type – use list above	Financial Institution	Account Number	Cash or Market Value
			\$
			\$
			\$
			\$
			\$
<b>Provide TOTAL Amount Here</b>			<b>\$</b>

**2b. Other Assets and Credits You Have**

Does not apply

**Include all other assets and credits below. Under Asset or Credit Type, choose from the types listed here:**

- |  |   |
|--|---|
| <p><i>Assets</i></p> <ul style="list-style-type: none"> <li>• Proceeds from Real Estate</li> <li>• Property to be sold on or before closing</li> <li>• Proceeds from Sale of Non-Real Estate Asset</li> <li>• Secured Borrowed Funds</li> <li>• Unsecured Borrowed Funds</li> <li>• Other</li> </ul> | <p><i>Credits</i></p> <ul style="list-style-type: none"> <li>• Earnest Money</li> <li>• Employer Assistance</li> <li>• Lot Equity</li> <li>• Relocation Funds</li> <li>• Rent Credit</li> <li>• Sweat Equity</li> <li>• Trade Equity</li> </ul> |
|--|---|

Asset or Credit Type – use list above	Cash or Market Value
	\$
	\$
	\$
	\$
<b>Provide TOTAL Amount Here</b>	
	<b>\$</b>

**2c. Liabilities – Credit Cards, Other Debts, and Leases that You Owe**

Does not apply

**List all liabilities below (except real estate) and include deferred payments. Under Account Type, choose from the types listed here:**

- Revolving (e.g., credit cards)
- Installment (e.g., car, student, personal loans)
- Open 30-Day (balance paid monthly)
- Lease (not real estate)
- Other

Account Type – use list above	Company Name	Account Number	Unpaid Balance	To be paid off at or before closing	Monthly Payment
			\$	<input type="checkbox"/>	\$
			\$	<input type="checkbox"/>	\$
			\$	<input type="checkbox"/>	\$
			\$	<input type="checkbox"/>	\$
			\$	<input type="checkbox"/>	\$

**2d. Other Liabilities and Expenses**

Does not apply

**Include all other liabilities and expenses below. Choose from the types listed here:**

- Alimony
- Child Support
- Separate Maintenance
- Job Related Expenses
- Other

	Monthly Payment
	\$
	\$
	\$

**Borrower Name:**

**Section 3: Financial Information — Real Estate.** This section asks you to list all properties you currently own and what you owe on them.  *I do not own any real estate*

**3a. Property You Own**  **If you are refinancing, list the property you are refinancing FIRST.**

Address Street \_\_\_\_\_ Unit # \_\_\_\_\_  
 City \_\_\_\_\_ State \_\_\_\_\_ ZIP \_\_\_\_\_ Country \_\_\_\_\_

Property Value	Status: Sold, Pending Sale, or Retained	Intended Occupancy: Investment, Primary Residence, Second Home, Other	Monthly Insurance, Taxes, Association Dues, etc. <i>if not included in Monthly Mortgage Payment</i>	For 2-4 Unit Primary or Investment Property	
				Monthly Rental Income	For LENDER to calculate: Net Monthly Rental Income
\$			\$	\$	\$

Mortgage Loans on this Property  *Does not apply*

Creditor Name	Account Number	Monthly Mortgage Payment	Unpaid Balance <i>To be paid off at or before closing</i>	Type: FHA, VA, Conventional, USDA-RD, Other	Credit Limit <i>(if applicable)</i>
		\$	\$ <input type="checkbox"/>		\$
		\$	\$ <input type="checkbox"/>		\$

**3b. IF APPLICABLE, Complete Information for Additional Property**  *Does not apply*

Address Street \_\_\_\_\_ Unit # \_\_\_\_\_  
 City \_\_\_\_\_ State \_\_\_\_\_ ZIP \_\_\_\_\_ Country \_\_\_\_\_

Property Value	Status: Sold, Pending Sale, or Retained	Intended Occupancy: Investment, Primary Residence, Second Home, Other	Monthly Insurance, Taxes, Association Dues, etc. <i>if not included in Monthly Mortgage Payment</i>	For 2-4 Unit Primary or Investment Property	
				Monthly Rental Income	For LENDER to calculate: Net Monthly Rental Income
\$			\$	\$	\$

Mortgage Loans on this Property  *Does not apply*

Creditor Name	Account Number	Monthly Mortgage Payment	Unpaid Balance <i>To be paid off at or before closing</i>	Type: FHA, VA, Conventional, USDA-RD, Other	Credit Limit <i>(if applicable)</i>
		\$	\$ <input type="checkbox"/>		\$
		\$	\$ <input type="checkbox"/>		\$

**3c. IF APPLICABLE, Complete Information for Additional Property**  *Does not apply*

Address Street \_\_\_\_\_ Unit # \_\_\_\_\_  
 City \_\_\_\_\_ State \_\_\_\_\_ ZIP \_\_\_\_\_ Country \_\_\_\_\_

Property Value	Status: Sold, Pending Sale, or Retained	Intended Occupancy: Investment, Primary Residence, Second Home, Other	Monthly Insurance, Taxes, Association Dues, etc. <i>if not included in Monthly Mortgage Payment</i>	For 2-4 Unit Primary or Investment Property	
				Monthly Rental Income	For LENDER to calculate: Net Monthly Rental Income
\$			\$	\$	\$

Mortgage Loans on this Property  *Does not apply*

Creditor Name	Account Number	Monthly Mortgage Payment	Unpaid Balance <i>To be paid off at or before closing</i>	Type: FHA, VA, Conventional, USDA-RD, Other	Credit Limit <i>(if applicable)</i>
		\$	\$ <input type="checkbox"/>		\$
		\$	\$ <input type="checkbox"/>		\$

**Section 4: Loan and Property Information.** This section asks about the loan's purpose and the property you want to purchase or refinance.

**4a. Loan and Property Information**

**Loan Amount** \$ \_\_\_\_\_ **Loan Purpose**  Purchase  Refinance  Other (specify) \_\_\_\_\_  
**Property Address** Street \_\_\_\_\_ Unit # \_\_\_\_\_  
 City \_\_\_\_\_ State \_\_\_\_\_ ZIP \_\_\_\_\_ County \_\_\_\_\_  
 Number of Units \_\_\_\_\_ **Property Value** \$ \_\_\_\_\_  
**Occupancy**  Primary Residence  Second Home  Investment Property **FHA Secondary Residence**   
**1. Mixed-Use Property.** If you will occupy the property, will you set aside space within the property to operate your own business? (e.g., daycare facility, medical office, beauty/barber shop)  NO  YES  
**2. Manufactured Home.** Is the property a manufactured home? (e.g., a factory built dwelling built on a permanent chassis)  NO  YES

**4b. Other New Mortgage Loans on the Property You are Buying or Refinancing**  Does not apply

Creditor Name	Lien Type	Monthly Payment	Loan Amount/ Amount to be Drawn	Credit Limit (if applicable)
	<input type="radio"/> First Lien <input type="radio"/> Subordinate Lien	\$ _____	\$ _____	\$ _____
	<input type="radio"/> First Lien <input type="radio"/> Subordinate Lien	\$ _____	\$ _____	\$ _____

**4c. Rental Income on the Property You Want to Purchase** **For Purchase Only**  Does not apply

Complete if the property is a 2-4 Unit Primary Residence or an Investment Property	Amount
Expected Monthly Rental Income	\$ _____
<b>For LENDER to calculate:</b> Expected Net Monthly Rental Income	\$ _____

**4d. Gifts or Grants You Have Been Given or Will Receive for this Loan**  Does not apply

Include all gifts and grants below. Under Source, choose from the sources listed here:

- Community Nonprofit
- Federal Agency
- Relative
- State Agency
- Lender
- Employer
- Local Agency
- Religious Nonprofit
- Unmarried Partner
- Other

Asset Type: Cash Gift, Gift of Equity, Grant	Deposited/Not Deposited	Source – use list above	Cash or Market Value
	<input type="radio"/> Deposited <input type="radio"/> Not Deposited		\$ _____
	<input type="radio"/> Deposited <input type="radio"/> Not Deposited		\$ _____

**Section 5: Declarations.** This section asks you specific questions about the property, your funding, and your past financial history.

**5a. About this Property and Your Money for this Loan**

<p><b>A.</b> Will you occupy the property as your primary residence?          If YES, have you had an ownership interest in another property in the last three years?          If YES, complete (1) and (2) below:          (1) What type of property did you own: primary residence (PR), FHA secondary residence (SR), second home (SH), or investment property (IP)?          (2) How did you hold title to the property: by yourself (S), jointly with your spouse (SP), or jointly with another person (O)?</p>	<p><input type="radio"/> NO <input type="radio"/> YES  <input type="radio"/> NO <input type="radio"/> YES          _____          _____</p>
<p><b>B.</b> If this is a Purchase Transaction: Do you have a family relationship or business affiliation with the seller of the property?</p>	<p><input type="radio"/> NO <input type="radio"/> YES</p>
<p><b>C.</b> Are you borrowing any money for this real estate transaction (<i>e.g., money for your closing costs or down payment</i>) or obtaining any money from another party, such as the seller or realtor, that you have not disclosed on this loan application?          If YES, what is the amount of this money?</p>	<p><input type="radio"/> NO <input type="radio"/> YES          \$ _____</p>
<p><b>D.</b> 1. Have you or will you be applying for a mortgage loan on another property (not the property securing this loan) on or before closing this transaction that is not disclosed on this loan application?          2. Have you or will you be applying for any new credit (<i>e.g., installment loan, credit card, etc.</i>) on or before closing this loan that is not disclosed on this application?</p>	<p><input type="radio"/> NO <input type="radio"/> YES  <input type="radio"/> NO <input type="radio"/> YES</p>
<p><b>E.</b> Will this property be subject to a lien that could take priority over the first mortgage lien, such as a clean energy lien paid through your property taxes (<i>e.g., the Property Assessed Clean Energy Program</i>)?</p>	<p><input type="radio"/> NO <input type="radio"/> YES</p>

**5b. About Your Finances**

<p><b>F.</b> Are you a co-signer or guarantor on any debt or loan that is not disclosed on this application?</p>	<p><input type="radio"/> NO <input type="radio"/> YES</p>
<p><b>G.</b> Are there any outstanding judgments against you?</p>	<p><input type="radio"/> NO <input type="radio"/> YES</p>
<p><b>H.</b> Are you currently delinquent or in default on a Federal debt?</p>	<p><input type="radio"/> NO <input type="radio"/> YES</p>
<p><b>I.</b> Are you a party to a lawsuit in which you potentially have any personal financial liability?</p>	<p><input type="radio"/> NO <input type="radio"/> YES</p>
<p><b>J.</b> Have you conveyed title to any property in lieu of foreclosure in the past 7 years?</p>	<p><input type="radio"/> NO <input type="radio"/> YES</p>
<p><b>K.</b> Within the past 7 years, have you completed a pre-foreclosure sale or short sale, whereby the property was sold to a third party and the Lender agreed to accept less than the outstanding mortgage balance due?</p>	<p><input type="radio"/> NO <input type="radio"/> YES</p>
<p><b>L.</b> Have you had property foreclosed upon in the last 7 years?</p>	<p><input type="radio"/> NO <input type="radio"/> YES</p>
<p><b>M.</b> Have you declared bankruptcy within the past 7 years?          If YES, identify the type(s) of bankruptcy:    <input type="checkbox"/> Chapter 7    <input type="checkbox"/> Chapter 11    <input type="checkbox"/> Chapter 12    <input type="checkbox"/> Chapter 13</p>	<p><input type="radio"/> NO <input type="radio"/> YES</p>

**Section 6: Acknowledgments and Agreements.** This section tells you about your legal obligations when you sign this application.

**Acknowledgments and Agreements**

**Definitions:**

- "Lender" includes the Lender's agents, service providers, and any of their successors and assigns.
- "Other Loan Participants" includes (i) any actual or potential owners of a loan resulting from this application (the "Loan"), (ii) acquirers of any beneficial or other interest in the Loan, (iii) any mortgage insurer, (iv) any guarantor, (v) any servicer of the Loan, and (vi) any of these parties' service providers, successors or assigns.

**I agree to, acknowledge, and represent the following:**

**(1) The Complete Information for this Application**

- The information I have provided in this application is true, accurate, and complete as of the date I signed this application.
- If the information I submitted changes or I have new information before closing of the Loan, I must change and supplement this application, including providing any updated/supplemented real estate sales contract.
- For purchase transactions: The terms and conditions of any real estate sales contract signed by me in connection with this application are true, accurate, and complete to the best of my knowledge and belief. I have not entered into any other agreement, written or oral, in connection with this real estate transaction.
- The Lender and Other Loan Participants may rely on the information contained in the application before and after closing of the Loan.
- Any intentional or negligent misrepresentation of information may result in the imposition of:
  - (a) civil liability on me, including monetary damages, if a person suffers any loss because the person relied on any misrepresentation that I have made on this application, and/or
  - (b) criminal penalties on me including, but not limited to, fine or imprisonment or both under the provisions of Federal law (18 U.S.C. §§ 1001 *et seq.*).

**(2) The Property's Security**

The Loan I have applied for in this application will be secured by a mortgage or deed of trust which provides the Lender a security interest in the property described in this application.

**(3) The Property's Appraisal, Value, and Condition**

- Any appraisal or value of the property obtained by the Lender is for use by the Lender and Other Loan Participants.
- The Lender and Other Loan Participants have not made any representation or warranty, express or implied, to me about the property, its condition, or its value.

**(4) Electronic Records and Signatures**

- The Lender and Other Loan Participants may keep any paper record and/or electronic record of this application, whether or not the Loan is approved.

- If this application is created as (or converted into) an "electronic application", I consent to the use of "electronic records" and "electronic signatures" as the terms are defined in and governed by applicable Federal and/or state electronic transactions laws.
- I intend to sign and have signed this application either using my:
  - (a) electronic signature; or
  - (b) a written signature and agree that if a paper version of this application is converted into an electronic application, the application will be an electronic record, and the representation of my written signature on this application will be my binding electronic signature.
- I agree that the application, if delivered or transmitted to the Lender or Other Loan Participants as an electronic record with my electronic signature, will be as effective and enforceable as a paper application signed by me in writing.

**(5) Delinquency**

- The Lender and Other Loan Participants may report information about my account to credit bureaus. Late payments, missed payments, or other defaults on my account may be reflected in my credit report and will likely affect my credit score.
- If I have trouble making my payments I understand that I may contact a HUD-approved housing counseling organization for advice about actions I can take to meet my mortgage obligations.

**(6) Authorization for Use and Sharing of Information**

By signing below, in addition to the representations and agreements made above, I expressly authorize the Lender and Other Loan Participants to obtain, use, and share with each other (i) the loan application and related loan information and documentation, (ii) a consumer credit report on me, and (iii) my tax return information, as necessary to perform the actions listed below, for so long as they have an interest in my loan or its servicing:

- (a) process and underwrite my loan;
- (b) verify any data contained in my consumer credit report, my loan application and other information supporting my loan application;
- (c) inform credit and investment decisions by the Lender and Other Loan Participants;
- (d) perform audit, quality control, and legal compliance analysis and reviews;
- (e) perform analysis and modeling for risk assessments;
- (f) monitor the account for this loan for potential delinquencies and determine any assistance that may be available to me; and
- (g) other actions permissible under applicable law.

**Borrower Signature** \_\_\_\_\_ Date (mm/dd/yyyy) \_\_\_\_ / \_\_\_\_ / \_\_\_\_

**Additional Borrower Signature** \_\_\_\_\_ Date (mm/dd/yyyy) \_\_\_\_ / \_\_\_\_ / \_\_\_\_

**Borrower Name:** \_\_\_\_\_



**Section 7: Military Service.** This section asks questions about your (or your deceased spouse's) military service.

**Military Service of Borrower**

**Military Service** – Did you (or your deceased spouse) ever serve, or are you currently serving, in the United States Armed Forces?  NO  YES

- If YES, check all that apply:
- Currently serving on active duty with projected expiration date of service/tour \_\_\_ / \_\_\_ / \_\_\_ (mm/dd/yyyy)
  - Currently retired, discharged, or separated from service
  - Only period of service was as a non-activated member of the Reserve or National Guard
  - Surviving spouse

**Section 8: Demographic Information.** This section asks about your ethnicity, sex, and race.

**Demographic Information of Borrower**

**The purpose of collecting this information** is to help ensure that all applicants are treated fairly and that the housing needs of communities and neighborhoods are being fulfilled. For residential mortgage lending, Federal law requires that we ask applicants for their demographic information (ethnicity, sex, and race) in order to monitor our compliance with equal credit opportunity, fair housing, and home mortgage disclosure laws. You are not required to provide this information, but are encouraged to do so. You may select one or more designations for "Ethnicity" and one or more designations for "Race." **The law provides that we may not discriminate** on the basis of this information, or on whether you choose to provide it. However, if you choose not to provide the information and you have made this application in person, Federal regulations require us to note your ethnicity, sex, and race on the basis of visual observation or surname. The law also provides that we may not discriminate on the basis of age or marital status information you provide in this application. If you do not wish to provide some or all of this information, please check below.

**Ethnicity:** Check one or more

- Hispanic or Latino
  - Mexican
  - Puerto Rican
  - Cuban
  - Other Hispanic or Latino – Print origin: \_\_\_\_\_

*For example: Argentinean, Colombian, Dominican, Nicaraguan, Salvadoran, Spaniard, and so on.*

- Not Hispanic or Latino
- I do not wish to provide this information

**Sex**

- Female
- Male
- I do not wish to provide this information

**Race:** Check one or more

- American Indian or Alaska Native – Print name of enrolled or principal tribe: \_\_\_\_\_
- Asian
  - Asian Indian
  - Chinese
  - Filipino
  - Japanese
  - Korean
  - Vietnamese
  - Other Asian – Print race: \_\_\_\_\_
- For example: Hmong, Laotian, Thai, Pakistani, Cambodian, and so on.*
- Black or African American
- Native Hawaiian or Other Pacific Islander
  - Native Hawaiian
  - Guamanian or Chamorro
  - Samoan
  - Other Pacific Islander – Print race: \_\_\_\_\_

*For example: Fijian, Tongan, and so on.*

- White
- I do not wish to provide this information

**To Be Completed by Financial Institution (for application taken in person):**

- Was the ethnicity of the Borrower collected on the basis of visual observation or surname?  NO  YES
- Was the sex of the Borrower collected on the basis of visual observation or surname?  NO  YES
- Was the race of the Borrower collected on the basis of visual observation or surname?  NO  YES

**The Demographic Information was provided through:**

- Face-to-Face Interview (includes Electronic Media w/ Video Component)
- Telephone Interview
- Fax or Mail
- Email or Internet

**Borrower Name:** \_\_\_\_\_

**Section 9: Loan Originator Information.** To be completed by your **Loan Originator.**

**Loan Originator Information**

Loan Originator Organization Name \_\_\_\_\_

Address \_\_\_\_\_

Loan Originator Organization NMLSR ID# \_\_\_\_\_ State License ID# \_\_\_\_\_

Loan Originator Name \_\_\_\_\_

Loan Originator NMLSR ID# \_\_\_\_\_ State License ID# \_\_\_\_\_

Email \_\_\_\_\_ Phone ( \_\_\_\_\_ ) \_\_\_\_\_ - \_\_\_\_\_

Signature \_\_\_\_\_ Date (mm/dd/yyyy) \_\_\_\_ / \_\_\_\_ / \_\_\_\_

# 5/5 and 10/1 Adjustable-Rate Mortgage Disclosure



This Disclosure describes the features of the Adjustable-Rate Mortgage (“ARM”) Loan Plans currently offered by The Bank of Elk River (“Lender”) in which you have expressed an interest. These loan programs have an adjustable-rate feature. This means that your interest rate and payment amount can change. These Plans may be discontinued or changed in whole or part at any time at the Lender’s option. The terms for all loan plans are the same except where otherwise indicated.

## YOUR INTEREST RATE

### INITIAL INTEREST RATE

Your initial interest rate is based on market conditions and is not based on the index used to make later adjustments. Your initial rate may be discounted, equal to, or higher than the rate based on the index. Please ask us for the current initial interest rate.

### INDEX

**5/5 ARM** – The index is THE MONTHLY AVERAGE YIELD FOR US TREASURY SECURITIES ADJUSTED TO A CONSTANT MATURITY OF FIVE YEARS (Treasury 5 Year Constant Maturity) posted as of the tenth of the month or the business day following the tenth.

**10/1 ARM** – The index is THE MONTHLY AVERAGE YIELD FOR US TREASURY SECURITIES ADJUSTED TO A CONSTANT MATURITY OF TEN YEARS (Treasury 10 Year Constant Maturity) posted as of the tenth of the month or the business day following the tenth.

Information about the indexes is available at <https://fred.stlouisfed.org/release/tables?rid=18&eid=291&od=>

### DETERMINING YOUR INTEREST RATE

The date on which your interest rate can be adjusted is called the “Change Date”. Beginning with the first Change Date, your interest rate will be based on an index plus a margin rounded to the nearest one-eighth of one percentage point (0.125%) unless your interest rate caps limit the amount of change in the interest rate.

The most recent Index figure available as of the date 70 days before each Change Date is the called the Current Index. If the Index is no longer available, the Lender will choose a new Index, which is based on comparable information.

**5/5 ARM** – The first Change Date will occur after remaining fixed for 60 months. Subsequent Change Dates will occur every 60 months thereafter.

**10/1 ARM** – The first Change Date will occur after remaining fixed for 120 months. Subsequent Change Dates will occur every 12 months thereafter.

Your interest rate cannot increase or decrease more than two percentage points (2.0%) at any subsequent Change Date. Your interest rate cannot increase more than six percentage points (6.0%) over the life of your loan and cannot decrease below 3.50%. Please ask us for the current margin and index rate.

## YOUR PAYMENTS

Your payments will be determined by the interest rate, the loan balance, and the remaining loan term. Your payments will be payable monthly. Each time the interest rate changes your monthly payment can increase or decrease substantially based on the changes in the interest rate

**5/5 ARM** – Your monthly payment can adjust once every 60 months, after the initial 60 month fixed-rate period, based on changes in the interest rate.

**10/1 ARM** – Your monthly payment can adjust once every 12 months, after the initial 120 month fixed-rate period, based on changes in the interest rate.

You will pay the amount of your new monthly payment beginning on the first monthly payment date after the interest rate changes until the amount of your monthly payment changes again.

You will be notified in writing at least 210, but not more than 240, days before the first payment at the adjusted level is due after the initial interest rate adjustment of the loan. In addition, you will be notified at least 60, but not more than 120, days before the first payment at the adjusted level is due after any interest rate adjustment resulting in a corresponding payment change. These notices will contain information about your adjustment, including the interest rate, payment amount, and loan balance.

# 5/5 and 10/1 Adjustable-Rate Mortgage Disclosure



## Examples

The below table uses an example of a \$10,000 loan amount and a 30-year loan to determine the cost per \$10,000:

Margin	Index	Initial Interest Rate	Initial Monthly Payment	Maximum Interest Rate	Maximum Monthly Payment	Loan Year in Which Maximum Payment May Be Reached
<b>5/5 ARM – Primary Residence</b>						
2.00%	4.31%	7.00%	\$66.57	13.00%	\$110.70	181 <sup>st</sup> month (15 years, 1 month)
<b>10/1 ARM – Primary Residence</b>						
2.00%	4.17%	6.75%	\$64.90	12.75%	\$108.75	145 <sup>th</sup> month (12 years, 1 month)
<b>5/5 ARM – Secondary Residence</b>						
2.70%	4.31%	7.75%	\$71.68	13.75%	\$116.60	181 <sup>st</sup> month (15 years, 1 month)
<b>10/1 ARM – Secondary Residence</b>						
2.70%	4.17%	7.50%	\$69.96	13.50%	\$114.63	145 <sup>th</sup> month (12 years, 1 month)

- The Bank’s initial interest rate was considered in these examples.
- These are margins we have used recently; your margin may be different.
- The index values are as of October 2, 2023.
- The monthly payment may increase or decrease substantially based on changes in the annual interest rate.

To see what your payments would be, divide your mortgage amount by \$10,000; then multiply the monthly payment by that amount (for example, the monthly payment for a mortgage amount of \$60,000 would be:  $\$60,000/\$10,000 = 6$ ;  $6 \times \$66.57 = \$399.42$  per month)

## ADDITIONAL FEATURES OF THESE ADJUSTABLE-RATE MORTGAGES

- Late Fee: If your payment is more than 10 days late you will be charged 5.000% of the Unpaid Portion of Payment due or \$9.36, whichever is greater. However, this charge will not be greater than \$999.98. This amount may then increase so as to always be the highest amount allowed by law under Minnesota Statute §47.59.
- Does not contain a demand feature.
- Does not include an interest-only feature.
- Does not include a prepayment penalty.
- Someone buying your home cannot assume the remainder of the mortgage on the original terms.

**This disclosure does not constitute an offer to enter into an interest rate or discount point agreement. Such an offer may only be made pursuant to Minnesota Statutes 47.206, subd. 3 and 4.**

## ACKNOWLEDGEMENT

You hereby acknowledge receipt of a copy of this Disclosure along with a copy of the Consumer Handbook on Adjustable-Rate Mortgages published by the Consumer Financial Protection Bureau.

You further acknowledge that you must qualify for the proposed loan, and that if you do not qualify your loan will not be approved to close.

CONSUMER HANDBOOK ON

# Adjustable-Rate Mortgages

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Find out how  
your payment can  
change over time



Consumer Financial  
Protection Bureau



An official publication of the U.S. government

## How to use the booklet

When you and your mortgage lender discuss adjustable-rate mortgages (ARMs), you receive a copy of this booklet. When you apply for an ARM loan, you receive a Loan Estimate. You can request and receive multiple Loan Estimates from competing lenders to find your best deal.

You may want to have your Loan Estimate handy for any loan you are considering as you work through this booklet. We reference a sample Loan Estimate throughout the booklet to help you apply the information to your situation.

You can find more information about ARMs at [cfpb.gov/about-arms](https://cfpb.gov/about-arms). You'll also find other mortgage-related CFPB resources, facts, and tools to help you take control of the homebuying process.

## About the CFPB

The Consumer Financial Protection Bureau regulates the offering and provision of consumer financial products and services under the federal consumer financial laws and educates and empowers consumers to make better informed financial decisions.

This booklet, titled Consumer Handbook on Adjustable Rate Mortgages, was created to comply with federal law pursuant to 12 U.S.C. 2604 and 12 CFR 1026.19(b)(1).

## How can this booklet help you?

This booklet can help you decide whether an adjustable-rate mortgage (ARM) is the right choice for you and to help you take control of the homebuying process.

Your lender may have already provided you with a copy of Your Home Loan Toolkit. You can also download the Toolkit from the CFPB's Buying a House guide at [cfpb.gov/buy-a-house/](https://cfpb.gov/buy-a-house/).

An ARM is a mortgage with an interest rate that changes, or "adjusts," throughout the loan.

With an ARM, the interest rate and monthly payment may start out low. However, both the rate and the payment can increase very quickly.

**Consider an ARM only if you can afford increases in your monthly payment—even to the maximum amount.**

## After you finish this booklet:

- You'll understand how an ARM works and whether it's the right choice for you. (page 2)
- You'll know how to review important documents when you apply for an ARM. (page 6)
- You'll understand the risks that come with different types of ARMs. (page 18)

# Is an ARM right for you?

ARMs come with the risk of higher payments in the future that you might not be able to predict. But in some situations, an ARM might make sense for you. If you are considering an ARM, be sure to understand the tradeoffs.

## TIP

Don't count on being able to refinance before your interest rate and monthly payments increase. You might not qualify for refinancing if the value of your home goes down or if something unexpected damages your financial situation, like a job loss or medical costs.

COMPARE	FIXED-RATE MORTGAGE	ADJUSTABLE-RATE MORTGAGE
<b>Consider this option if</b>	<ul style="list-style-type: none"><li>▪ You prefer predictable payments, or</li><li>▪ You plan to keep your home for a long period of time</li></ul>	<ul style="list-style-type: none"><li>▪ You are confident you can afford increases in your monthly payment—even to the maximum amount, or</li><li>▪ You plan to sell your home within a short period of time</li></ul>
<b>Interest rate</b>	<ul style="list-style-type: none"><li>▪ Set when you take out the loan</li><li>▪ Stays the same for the entire loan term</li></ul>	<ul style="list-style-type: none"><li>▪ Based on an index that changes</li><li>▪ May start out lower than a fixed rate mortgage but you bear the risk of increases throughout your loan</li></ul>
<b>Monthly payment</b>	<ul style="list-style-type: none"><li>▪ Principal and interest payment stays the same over the life of your loan</li><li>▪ You know the total you will pay in principal and interest over the life of the loan</li></ul>	<ul style="list-style-type: none"><li>▪ Initial principal and interest payment amount remains in effect for a limited period</li><li>▪ You can't know in advance how much total interest you will pay because your interest rate changes</li><li>▪ If you can't afford the increased payments, you may lose your home to foreclosure</li></ul>

## Learn about how ARMs work

As you decide whether to move ahead with an ARM, you should understand how they work and how your housing costs can be affected.

### Interest rate = index + margin

The interest rate on an ARM has two parts: the index and the margin.

#### INDEX

An **index** is a measure of interest rates generally that reflects trends in the overall economy. Different lenders use different indexes for their ARM programs.

Common indexes include the U.S. prime rate and the Constant Maturity Treasury (CMT) rate. Talk with your lender to find out more about the index they use, which is also shown on your Loan Estimate.

#### MARGIN

The **margin** is an extra percentage that the lender adds to the index.

You can shop around to different lenders to find the lowest combination of the index plus the margin. Your Loan Estimate shows the index and the margin being offered to you.

## Changes to initial rate and payment

The *initial* interest rate and *initial* principal and interest payment amount on an ARM remain in effect for a limited period.

So, when you see ARMs advertised as 5/1 or 5/6m ARMs:

- The first number tells you the length of time your initial interest rate lasts.
- The second number tells you how often the rate changes after that.

For example, during the first five years in a 5/6m ARM your rate stays the same. After that, the rate may adjust every six months (the 6m in the 5/6m example) until the loan is paid off. This period between rate changes is called the **adjustment period**. Adjustment periods can vary. Some last a month, a year, or like this example, six months.

For some ARMs, the initial rate and payment can be very different from the rates and payments later in the loan term. Even if the market for interest rates is stable, your rates and payments could change a lot.



# Use your Loan Estimate to understand your ARM

When you apply for a mortgage, the lender gives you a document called a **Loan Estimate**. It describes important features of the loan the lender is offering you. This section illustrates the parts of a Loan Estimate that are specific features of ARM loans. An interactive, online version of a Loan Estimate sample is available at: [cfpb.gov/arm-explainer/](http://cfpb.gov/arm-explainer/)

## Product

### Loan Terms

### Projected Payments

### Adjustable Interest Rate (AIR) Table

Save this Loan Estimate to compare with your Closing Disclosure.

**Loan Estimate**

DATE ISSUED \_\_\_\_\_  
 APPLICANTS \_\_\_\_\_  
 PROPERTY \_\_\_\_\_  
 SALE PRICE \_\_\_\_\_

LOAN TERM 30 years  
 PURPOSE Purchase  
 PRODUCT 5/1 Adjustable Rate  
 LOAN TYPE  Conventional  FHA  VA   
 LOAN ID # 123456789  
 RATE LOCK  NO  YES

Before closing, your interest rate, points, and lender credits can change unless you lock the interest rate. All other estimated closing costs expire on \_\_\_\_\_

Loan Terms	Can this amount increase after closing?	
Loan Amount	\$216,000	NO
Interest Rate	3%	YES · Adjusts every year starting in year 6 · Can go as high as 8% in year 8 · See AIR Table on page 2 for details
Monthly Principal & Interest <i>See Projected Payments Below for Your Total Monthly Payment</i>	\$910.66	YES · Adjusts every year starting in year 6 · Can go as high as \$1,467 in year 8
Does the loan have these features?		
Prepayment Penalty	NO	
Balloon Payment	NO	

Projected Payments				
Payment Calculation	Years 1-5	Years 6	Years 7	Years 8-30
Principal & Interest	\$910.66	\$838 min \$1,123 max	\$838 min \$1,350 max	\$838 min \$1,467 max
Mortgage Insurance	+ 99	+ 99	+ 99	+ --
Estimated Escrow <i>Amount can increase over time</i>	+ 341	+ 341	+ 341	+ 341
<b>Estimated Total Monthly Payment</b>	\$1,290	\$1,217 – \$1,502	\$1,217 – \$1,729	\$1,179 – \$1,808

Estimated Taxes, Insurance & Assessments <i>Amount can increase over time</i>	\$341 a month	This estimate includes <input checked="" type="checkbox"/> Property Taxes <input checked="" type="checkbox"/> Homeowner's Insurance <input type="checkbox"/> Other: <i>See Section G on page 2 for escrowed property costs. You must pay for other property costs separately.</i>	In escrow? <b>YES</b> <b>YES</b>
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Costs at Closing	
Estimated Closing Costs	\$X,XXX Includes in Loan Costs + in Other Costs - in Lender Credits. See details on page 2.
Estimated Cash to Close	\$XX,XXX Includes Closing Costs. See calculating Cash to Close on page 2 for details.

Visit [www.consumerfinance.gov/learnmore](http://www.consumerfinance.gov/learnmore) for general information and tools.

LOAN ESTIMATE PAGE 1 OF 3 • LOAN ID # 123456789

Adjustable Interest Rate (AIR) Table	
Index + Margin	1 Year Cmt + 2.25%
Initial Interest Rate	3%
Minimum/Maximum Interest Rate	2.25% / 8%
<b>Change Frequency</b>	
First Change	Beginning of 61st month
Subsequent Changes	Every 12 months after first change
<b>Limits on Interest Rate Changes</b>	
First Change	2%
Subsequent Changes	2%

LOAN ESTIMATE PAGE 2 OF 3 • LOAN ID # 123456789

## Loan terms

### INTEREST RATE

The Loan Estimate shows the *initial* interest rate you pay at the beginning of your loan term. This row also shows how often your rate can change and how high it can go.

### MONTHLY PRINCIPAL & INTEREST

The Loan Estimate shows the *initial* monthly principal and interest payment you'll make if you accept this loan. Your **principal** is the money that you originally agreed to pay back on your loan. **Interest** is a cost you pay to borrow the principal. The initial principal and interest payment amount for an ARM is set only for the initial period and may change after that.

### THE TALK

You might hear, "An ARM makes sense because you can refinance the loan before your interest rate and monthly payment increase."

Ask yourself, a spouse, or a loved one:

"What if the market value of the home goes down?"

"What if our financial situation or our credit score gets damaged by something unexpected like a job loss or illness?"

"If we can't refinance at a better rate, can we afford the maximum interest rate and payment increase under this loan?"

Loan Terms		Can this amount increase after closing?
Loan Amount	\$216,000	NO
Interest Rate	3%	YES <ul style="list-style-type: none"><li>· Adjusts <b>every year</b> starting in year 6</li><li>· Can go <b>as high as 8%</b> in year 8</li><li>· See <b>AIR Table</b> for details</li></ul>
Monthly Principal & Interest <i>See Projected Payments Below for Your Total Monthly Payment</i>	\$910.66	YES <ul style="list-style-type: none"><li>· Adjusts <b>every year</b> starting in year 6</li><li>· Can go <b>as high as \$1,467</b> in year 8</li></ul>
		Does the loan have these features?
Prepayment Penalty		NO
Balloon Payment		NO

Example of "Loan terms" section. Find this on page 1 of your own Loan Estimate

Projected Payments				
Payment Calculation	Years 1-5	Years 6	Years 7	Years 8-30
Principal & Interest	\$910.66	\$838 min \$1,123 max	\$838 min \$1,350 max	\$838 min \$1,467 max
Mortgage Insurance	+ 99	+ 99	+ 99	+ --
Estimated Escrow <i>Amount can increase over time</i>	+ 341	+ 341	+ 341	+ 341
<b>Estimated Total Monthly Payment</b>	<b>\$1,290</b>	<b>\$1,217 – \$1,502</b>	<b>\$1,217 – \$1,729</b>	<b>\$1,179 – \$1,808</b>
<b>Estimated Taxes, Insurance &amp; Assessments</b> <i>Amount can increase over time</i>	\$341 a month	<b>This estimate includes</b> <input checked="" type="checkbox"/> Property Taxes <input checked="" type="checkbox"/> Homeowner's Insurance <input type="checkbox"/> Other: <i>See Section G on page 2 for escrowed property costs. You must pay for other property costs separately.</i>		<b>In escrow?</b> <b>YES</b> <b>YES</b>

Example of "Projected payments" section. Find this on page 1 of your own Loan Estimate

## Projected payments

### PRINCIPAL & INTEREST

The monthly principal and interest payment on your ARM is likely to change after the initial period. Review this section to see how your payment can change based on your loan's interest rate.

### ESTIMATED TOTAL MONTHLY PAYMENT

Review this row to see the total minimum and maximum monthly payments. The payments include mortgage insurance, property taxes, homeowners insurance, and any additional property assessments or other escrow items. Learn more about these mortgage terms at [cfpb.gov/mortgage-terms/](https://cfpb.gov/mortgage-terms/)

Keep in mind that other parts of your monthly and annual housing costs can change, such as your property taxes and homeowners insurance payments.

### THE TALK

Talk over how your financial life could be affected if your ARM monthly payment increases. In future years, you might face money decisions like:

- Job changes
- School or other education expenses
- Medical needs and expenses

Because ARM adjustments are unpredictable, you might have less or more financial flexibility for other parts of your life.

## Adjustable Interest Rate (AIR) table

You should read and understand the AIR table calculations before committing to an ARM.

It's important to know how your interest rate changes over the life of your loan.

### INDEX + MARGIN

Your lender is required to show you how your interest rate is calculated, which is determined by the index and margin on your loan. See page 2 of this booklet for more about index and margin.

### INITIAL INTEREST RATE

This is the interest rate at the beginning of your loan. The initial interest rate changes to the index plus the margin at your first adjustment (subject to the limits on interest rate changes). Your loan servicer tells you your new payment amount seven to eight months in advance, so you can budget for it or shop for a new loan.

### MINIMUM/MAXIMUM INTEREST RATE

This shows how low or high your interest rate could be over the life of your loan. Generally, an ARM's interest rate is never lower than the margin.

### CHANGE FREQUENCY

This indicates when the interest rate on your loan will change. Your loan servicer sends you advance notices of changes.

### LIMITS ON INTEREST RATE CHANGES

This shows the highest amount your interest rate can increase when there is a change.

<b>Adjustable Interest Rate (AIR) Table</b>	
Index + Margin	1 Year Cmt + 2.5%
Initial Interest Rate	3%
Minimum/Maximum Interest Rate	2.5% / 8%
<b>Change Frequency</b>	
First Change	Beginning of 61st month
Subsequent Changes	Every 12 months after first change
<b>Limits on Interest Rate Changes</b>	
First Change	2%
Subsequent Changes	2%

*Example of "AIR table" section. Find this on page 2 of your own Loan Estimate*

### "TEASER" RATES

Some lenders offer a "teaser," "start," or "discounted" rate that is lower than their fully indexed rate. When the teaser rate ends, your loan takes on the fully indexed rate. Don't assume that a loan with a teaser rate is a good one for you. Not everyone's budget can accommodate a higher payment.

Consider this example:

- A lender's fully indexed rate is 4.5% (the index is 2% and the margin is 2.5%).
- The loan also features a "teaser" rate of 3%.
- Even if the index doesn't change, your interest rate still increases from 3% to 4.5% when your teaser rate expires.



## COMPARE YOUR ARM OFFERS

Shop for at least three loan offers, and fill in the blanks below using the information on your Loan Estimates:

	ARM OFFER 1	ARM OFFER 2	FIXED-RATE OFFER
Lender name			
Loan amount	\$	\$	\$
Initial interest rate	%	%	%
Initial principal and interest payment	\$	\$	\$
Index			
Margin			
How long will the initial interest rate and initial payment apply?			
How high can my interest rate go?	%	%	%
How high can my principal and interest payment go?	\$	\$	\$

My best loan offer is: \_\_\_\_\_



### THE TALK

You are in control of whether or not to proceed with an ARM. If you prefer to proceed with a fixed-rate mortgage, here is one way to start the conversation with a lender:

“A fixed-rate mortgage seems to be a better fit for me. Let’s talk about what you can offer and how it compares to other loans I may be able to get.”

## Review your lender’s ARM program disclosure

Your lender gives you an ARM program disclosure when they give you an application. This is the lender’s opportunity to tell you about their different ARM loans and how the loans work. The index and margin can differ from one lender to another, so it is helpful to compare offers from different lenders.

Generally, the index your lender uses won’t change after you get your loan, but your loan contract may allow the lender to switch to a different index in some situations.

### GATHER FACTS

Review your program disclosure and ask your lender questions to understand their ARM loan offerings:

- How are the interest rate and payment determined?
- Does this loan have interest-rate **caps** (that is, limits on interest rate changes)?
- How often do the interest rate and payment adjust?
- What index is used and where is it published?
- Is the initial interest rate lower than the fully indexed rate? (see “Teaser rates,” on page 12)
- What type of information is provided in notices of adjustment and when do I receive them?

## Ask about other options offered by your lender

### Conversion option

Your loan agreement may include a clause that lets you convert the ARM to a fixed-rate mortgage in the future.

When you convert, the new rate is generally set using a formula given in your loan documents. That fixed rate may be higher or lower than interest rates available to you in the market at that time. Also your lender may charge you a conversion fee. Ask your lender whether the loan you are being offered has a conversion feature and how it works.

### Special features

You can shop around to understand what special ARM features may be available from different lenders.

Not all programs are the same. Talk with your lender to find out if there’s anything special about their ARM programs that you may find valuable.

## Check your ARM for features that could pose risks

Some types of ARMs have features that can reduce your payments in the short term but may include fees or the risk of higher payments later. Review your loan terms and make sure that you understand the fees and how your rate and payment may change. **Lower payments at the beginning could mean higher fees or much higher payments later.**

## Paying points to reduce your initial interest rate

Lenders can offer you a lower rate in exchange for paying loan fees at closing, or **points**.

With an ARM, paying points often reduces your interest rate only until the end of the initial period—the reduction most likely does not apply over the life of your loan.

If you are using an ARM to refinance a loan, points are often rolled into your new loan amount. You might not realize you are paying points unless you look carefully. Points are disclosed on the top of Page 2 of your Loan Estimate.

Lenders may give you the option to pay points, but you never have to take that option. To figure out if you have a good deal, compare your cost in points with the amount that you will save with a lower interest rate.

### Loan Costs

A. Origination Charges	\$3,160
1% of Loan Amount (Points)	\$2,160
Application Fee	\$500
Processing Fee	\$500

*Example of "Loan costs" section. Find this on page 2 of your own Loan Estimate*

### THE TALK

If your Loan Estimate shows points, ask your lender:

- "What is my interest rate if I choose not to pay points?"
- "How much money do I pay in points? And, compared to the total reduction in my payments during the initial period, am I coming out ahead?"
- "Can I see a revised Loan Estimate with the points removed and the interest rate adjusted?"

## Interest-only ARMs

With an interest-only ARM payment plan, you pay only the interest for a specified number of years. During this interest-only period, you have smaller monthly payments, but you are not paying anything toward your mortgage loan balance.

When the interest-only period ends, your monthly payment increases—even if interest rates stay the same—because you must start paying back the principal plus the interest each month. Your monthly payments can increase a lot. The longer the interest-only period, the more your monthly payments increase after the interest-only period ends.

## Payment option ARMs

Payment option ARMs were common before 2008 when the housing crisis began, and some lenders might still offer them.

A payment option ARM means the borrower can choose from different payment options, such as:

- A traditional principal and interest payment
- An interest-only payment (see above)
- A minimum payment, which could result in negative amortization

**Negative amortization** happens when you are not paying enough to cover all of the interest due. Your loan balance goes up instead of down.



### GATHER FACTS

Learn more information about payment option ARMs and negative amortization at:

- [cfpb.gov/payment-option-arm/](https://cfpb.gov/payment-option-arm/)
- [cfpb.gov/negative-amortization/](https://cfpb.gov/negative-amortization/)



### WELL DONE!

Choosing the right home loan is just as important as choosing the right home. By equipping yourself with knowledge about ARMs, you can decide whether or not this type of loan is the right choice for you.



# Consumer Handbook on Adjustable-Rate Mortgages



## ASK YOUR LENDER

- How high can my payment go?
- How high can my interest rate go?
- How long is my initial principal and interest payment guaranteed?



## ASK YOURSELF

- Have I shopped around to compare ARMs and fixed-rate loans?
- If an ARM has a lower initial interest rate than a fixed-rate mortgage, is paying less money now worth the risk of an increase later?
- Can I afford the highest payment possible with the ARM if I can't sell the home, or refinance into a lower rate, before the increase?



## ONLINE TOOLS

**CFPB website**

[cfpb.gov](https://cfpb.gov)

**Answers to common questions**

[cfpb.gov/askcfpb](https://cfpb.gov/askcfpb)

**Tools and resources for home buyers**

[cfpb.gov/owning-a-home](https://cfpb.gov/owning-a-home)

**Talk to a housing counselor**

[cfpb.gov/find-a-housing-counselor](https://cfpb.gov/find-a-housing-counselor)

**Submit a complaint**

[cfpb.gov/complaint](https://cfpb.gov/complaint)