

## ARM PROGRAM DISCLOSURE

This disclosure describes the features of the adjustable-rate mortgage (ARM) program you are considering. Information on other ARM programs is available upon request.

### HOW YOUR INTEREST RATE AND PAYMENTS ARE DETERMINED

- Your interest rate will be based on an index plus a margin.
- Your payment will be based on the interest rate, loan balance, and loan term.
  - The interest rate will be based on: 30-day Average of the SOFR index as published by the Federal Reserve Bank of New York.

(your index), plus our margin. Ask for our current interest rate and margin.

- Information about the index rate can be found: The Index is currently published by the Federal Reserve Bank of New York.

The initial interest rate is not based on the index used to make later adjustments. Ask us for the amount of current interest rate discounts.

### HOW YOUR INTEREST RATE CAN CHANGE

- Your interest rate will not change for the first 84 months of your loan.
- After the first 84 months, your interest rate can change every 6 months.
- Each date on which your interest rate can change is called a "Change Date" and will be described in your loan documents.
- On each Change Date, your interest rate will equal the index plus the margin, rounded  up  down  up or down to the nearest 0.125 %, unless your interest rate "caps" or "floors" (described below) limit the amount of change in the interest rate.
- Your interest rate cannot increase more than 5.000 percentage points above the initial interest rate over the term of the loan.
- Your interest rate cannot decrease more than 2.750 percentage points below the initial interest rate over the term of the loan.
- On the **first** Change Date, your interest rate cannot increase more than 5.000 percentage points above, or decrease more than 2.750 percentage points below the initial interest rate.
- On the second Change Date and every Change Date thereafter, your interest rate cannot increase or decrease more than 1.000 percentage points.

### HOW YOUR PAYMENT CAN CHANGE

- Following the initial 84 months of your loan, your monthly payment can increase or decrease substantially every 6 months based on changes in the interest rate.
- Your new payment will be due beginning with the first payment due date after the Change Date on which the related interest rate change occurred, and will be your payment until the first payment due date after the next Change Date.
- For example, on a \$10,000, 30 -year loan with an initial interest rate of 5.500 % (in effect on January 13, 2023 ), the maximum amount that the interest rate can rise under this program is 5.000 percentage points, to 10.500 % and the monthly payment can rise from a first-year payment of \$ 56.78 to a maximum of \$ 85.43 in the 8th year. 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:  $\$60,000 \div \$10,000 = 6$ ;  $6 \times \$56.78 = \$340.68$  per month.)



Loan Number:

- You will be notified at least 210 , but no more than 240 days, before first payment at the adjusted level is due after the initial interest rate adjustment of the loan. This notice will contain information about the adjustment, including the interest rate, payment amount, and loan balance.
- You will be notified in writing at least 60 , but not more than 120 days, before first payment at the adjusted level is due after any interest rate adjustment resulting in a corresponding payment change. This notice will contain information about the adjustment, including the interest rate, payment amount, and loan balance.

**OTHER INFORMATION**

- This obligation  does  does not have a demand feature.

I/We have read this disclosure form, and understand its contents, as evidenced by my/our signature(s) below. THIS IS NEITHER A CONTRACT NOR A COMMITMENT TO LEND.

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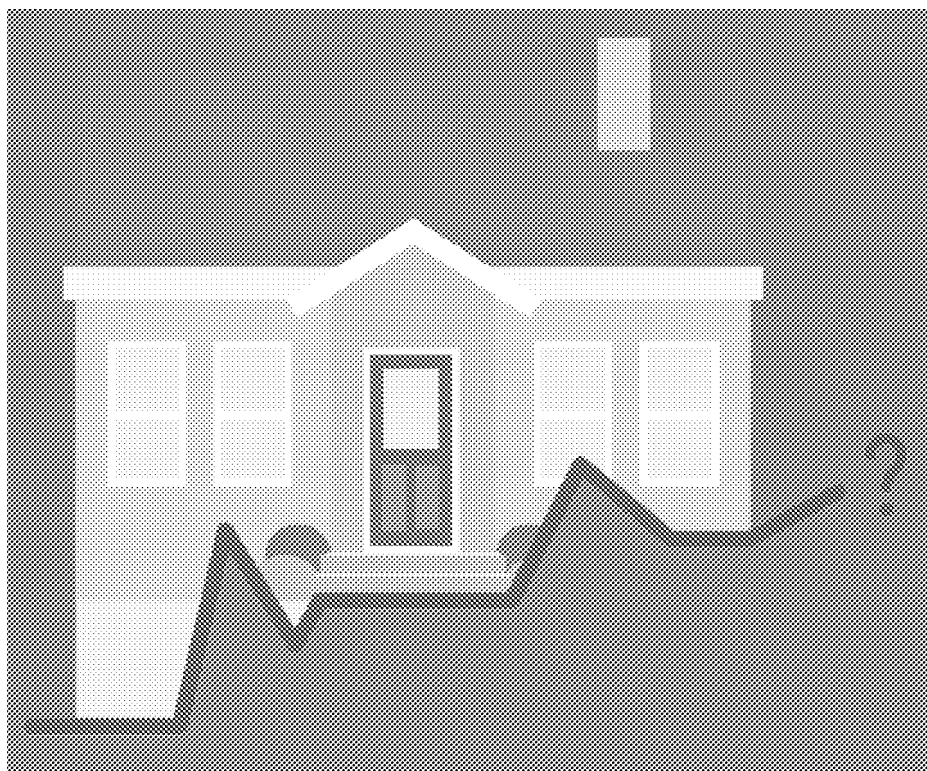
Applicant	Date	Applicant	Date
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CONSUMER HANDBOOK ON

# 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](http://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/](http://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/)

Loan Terms

Projected Payments

Adjustable Interest Rate (ARM) Table

Product

Lender's Use Only - Do not change references or disclosures

**Loan Estimate**

Lender: **ABC BANK**    Loan: **ARM**  
 Date: **06/01/20**    Loan ID: **123456789**  
 Loan Type: **ARM**    Loan ID: **123456789**  
 Lender's Use Only: **ARM**    Loan ID: **123456789**  
 Lender's Use Only: **ARM**    Loan ID: **123456789**

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**Loan Terms**    **Can this amount increase after closing?**

Loan Amount: **\$275,000**    **NO**  
 Interest Rate: **7%**    **YES**    Adjustable rate starting in year 5. Change to 8% in year 6. See ARM table for years 8-10.

Monthly Principal & Interest: **\$932.86**    **YES**    Adjustable rate starting in year 5. Change to 8% in year 6. See ARM table for years 8-10.

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**Prepayment Penalty**    **Does the rate have these features?**

Prepayment Penalty: **NO**  
 Balloon Payment: **NO**

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**Projected Payments**

Payment Calculation	Year 1-4	Year 5	Year 6	Year 7-10
Principal & Interest	\$932.86	\$932.86	\$932.86	\$932.86
Escrow (Taxes, Insurance & Fees)	\$0	\$0	\$0	\$0
Estimated Monthly Payment	\$932.86	\$932.86	\$932.86	\$932.86

Estimated Total Payments & Escrow: **\$37,200**    **NO**    **NO**    **NO**    **NO**  
 Escrow (Taxes, Insurance & Fees): **\$0**    **NO**    **NO**    **NO**    **NO**

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**Costs at Closing**

Estimated Closing Costs: **\$5,000**    Includes: **Origination Fee, Title Insurance, Appraisal Fee, etc.**  
 Estimated Cash to Close: **\$5,000**    Includes: **Origination Fee, Title Insurance, Appraisal Fee, etc.**

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Lender's Use Only: **ARM**    Loan ID: **123456789**    Date: **06/01/20**    Lender's Use Only: **ARM**    Loan ID: **123456789**

**Adjustable Interest Rate (ARM) Table**

Year	Interest Rate
Year 1-4	7.00%
Year 5	7.00%
Year 6	8.00%
Year 7-10	8.00%

Change Frequency: **Fixed**    **Step**  
 Step Change: **1.00%**    **1.00%**  
 Limit on Interest Rate Change: **1.00%**    **1.00%**  
 Subsequent Change: **1.00%**    **1.00%**

## 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?	
<b>Loan Amount</b>	\$216,000	<b>NO</b>
<b>Interest Rate</b>	3%	<b>YES</b> <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>
<b>Monthly Principal &amp; Interest</b> <i>See Projected Payments Below for Your Total Monthly Payment</i>	\$910.66	<b>YES</b> <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>
	<b>Does the loan have these features?</b>	
<b>Prepayment Penalty</b>	<b>NO</b>	
<b>Balloon Payment</b>	<b>NO</b>	

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



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

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/](http://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.

### Adjustable Interest Rate (AIR) Table

Index + Margin	1 Year Cmt + 2.5%
Initial Interest Rate	3%
Minimum/Maximum Interest Rate	2.5%/8%

### Change Frequency

First Change	Beginning of 61st month
Subsequent Changes	Every 12 months after first change

### Limits on Interest Rate Changes

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

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