

H-4(E) Adjustable-Rate Loan Program Sample (Interest Only ARM)

XXX Bank
5/1 Interest-Only Adjustable Rate Mortgage (ARM)

INTEREST RATE AND PAYMENT	
Introductory Period	5 Years The interest rate is discounted and will stay the same for a 5-year introductory period. After this initial period, the interest rate could increase.
Frequency of Rate Change	Annually The interest rate will adjust once each year after the introductory period.
Index	LIBOR Index After the initial 5-year period, your interest rate will be based on the 1-year LIBOR Index plus a margin. The LIBOR is published daily in the Wall Street Journal.
Limits on Rate Changes	2% Annual Cap; 6% Lifetime Cap Your interest rate can increase no more than 2% in any one year, and no more than 6% over the life of the loan.

KEY QUESTIONS ABOUT RISK	
Can my interest rate increase?	YES. Your interest rate could increase at the end of the 5-year introductory period, and annually after that.
Can my monthly payment increase?	YES. If your interest rate increases, your monthly payment will increase.
Will any of my monthly payments be interest-only?	YES. Your monthly payments for the first 5 years of the loan cover the interest you owe each month, but none of the principal. Making these monthly payments means your loan amount will stay the same and you will be no closer to having it paid off.
Could I owe a prepayment penalty?	YES. If you pay off your loan, refinance, or sell your home within 2 years you could pay a large penalty.

For more information about ARMs, or for a list of licensed housing counselors in your area that can help you understand the risks and benefits of this loan, visit www.xxx.gov.