

## **IMPORTANT INFORMATION ABOUT THE ADJUSTABLE RATE MORTGAGE LOAN**

### **PLEASE READ CAREFULLY**

You have expressed interest in submitting an application form for an Adjustable Rate Mortgage Loan (“ARM”) from Los Angeles Federal Credit Union (“Lender”). The ARM may differ from other mortgages with which you are familiar.

It should be noted that you and the Lender will become bound by the terms of the loan contract upon your signing it. Since the loan contract and Mortgage/Deed of Trust and Rider(s) establishes the rights and obligations of the borrower, you should become familiar with and understand the provisions of these documents.

The following is a summary of the basic terms of the type of ARM to be offered to you. This summary is intended for reference purposes only. Important information relating specifically to your loan will be contained in the loan documents, which alone will establish your rights and obligations under the loan plan.

This disclosure describes the features of the ARM program you are considering. Information on other Adjustable Rate Mortgage programs is available upon request.

### **HOW YOUR ADJUSTABLE RATE MORTGAGE LOAN WOULD WORK**

#### **1. HOW YOUR INITIAL INTEREST RATE IS DETERMINED**

The initial interest rate and monthly payment offered by Lender on your ARM will be established and disclosed to you on or before the date of loan closing based on market conditions in effect at that time.

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

#### **2. HOW YOUR INITIAL MONTHLY PAYMENT IS DETERMINED**

The amount of the initial monthly payment will be based on three factors: (1) the initial interest rate on the loan; (2) the amount of the loan; and (3) the maturity date of the loan. Your initial monthly payment will be calculated so that your loan will be repaid in full by the scheduled maturity date in substantially equal installments of principal and interest. These calculations are based on the assumption that the interest rate will not change during the term of the loan; however, the amount of subsequent monthly payments will change if the interest rate changes.

The term “monthly payment,” as used in this disclosure, refers only to payments of principal and interest and not to any additional amounts you might be required to pay each month for escrow items.

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

The interest rate on your ARM loan can increase or decrease on the same date every one year in accordance with increases or decreases in an Index. This date will be disclosed in the loan documents. Each date on which the interest rate can change is called a "Change Date." However, the initial interest rate as stated in the Note will remain in effect for an initial period of **60** months (the "Initial Period"). At the end of the Initial Period and every one (1) year thereafter, the interest rate and monthly payment will be subject to adjustment.

The Index to be used for your ARM loan will be the Weekly Average Yield or United States Treasury Securities adjusted to a constant maturity of one year, as made available by the Federal Reserve Board in Statistical Release H.15(519) (the "Index"). The most recent Index figure available as of the date 45 days before each Change Date is called the "Current Index." If the Index is no longer available at any time during the term of your loan, the Note Holder will choose a new Index that is based upon comparable information and will give you advance notice of this choice.

It should be noted that the initial interest rate is not based on the index value in effect at the time of loan closing. As a result, if the Index at settlement, or a combination of the Index value plus the Margin, is greater than the initial interest rate at the time of the first Change Date, your interest rate will increase even though there may have been no change in the Index value.

A. Calculation of Interest Rate Changes

The new interest rate will be determined on each Change Date by adding a specified percentage figure (the "Margin") to the Current Index. The Lender, or the designated loan servicer, will then round the result of this addition to the nearest one-eighth of one percentage point (0.125%). Subject to the interest rate cap limitations as discussed below, this rounded amount will be your new interest rate until the next Change Date. The amount of the Margin will be stated in the loan documents. Ask us for our current interest rate and Margin.

B. Interest Rate Limitations

On any single interest rate Change Date, the rate of interest you are required to pay shall never be increased or decreased by more than two percentage points (2.0%) from the interest rate you had been paying during the immediately preceding period. At no time will the interest rate you are paying be more than six percentage points (6.0%) above the initial interest rate. At no time will the interest rate be less than the Margin.

C. Discounted Initial Interest Rate

Your initial interest rate is discounted and is not based on the Index used to make later adjustments. Ask us for the amount our Adjustable Rate Mortgages are currently discounted.

4. HOW YOUR MONTHLY PAYMENT CAN CHANGE

A change in the interest rate of your loan on Change Date will result in a change in the payment amount of your loan. The payment amount is the amount that, if paid monthly, would be sufficient to repay your loan in full by the scheduled maturity date, at the new interest rate of your loan after each Change Date, in substantially equal payments of principal and interest.

A. Fifteen Year Term

Your monthly payment can increase or decrease substantially based on annual changes in the interest rate. For example, on a \$10,000, 15 year loan with an initial interest rate of 6.125% (in effect on March 4, 2002), the maximum amount that the interest rate can rise under this program is 6 percentage points, to 12.125%, and the monthly payment can rise from an Initial Period payment of \$85.06 to a maximum payment of \$104.98 after the third rate adjustment (at the 84<sup>th</sup> payment). To see what your payment is, divide your mortgage amount by \$10,000; then multiply the monthly payment by that amount. (For example, the initial monthly payment of \$60,000 would be:  $\$60,000 \div \$10,000 = 6$ ;  $6 \times \$85.06 = \$510.36$  per month.)

B. Thirty Year Term

Your monthly payment can increase or decrease substantially based on annual changes in the interest rate. For example, on a \$10,000, 30 year loan with an initial interest rate of 6.125% (in effect on March 4, 2002), the maximum amount that the interest rate can rise under this program is 6 percentage points, to 12.125%, and the monthly payment can rise from an initial five-year payment of \$60.76 to a maximum payment of \$92.03 after the third rate adjustment (at the 84<sup>th</sup> monthly payment). To see what your payment is, divide your mortgage amount by \$10,000; then multiply the monthly payment by that amount. (For example, the initial monthly payment of \$60,000 would be:  $\$60,000 \div \$10,000 = 6$ ;  $6 \times \$60.76 = \$364.56$  per month).

5. NOTICE OF INTEREST RATE AND PAYMENT ADJUSTMENT

Your initial payment amount for the initial period of the loan will be set forth in the loan documents. Beginning with your first monthly payment immediately following the first interest rate Change Date, your monthly payment could change because of an increase or decrease in the interest rate of your loan. You will be sent a notice of an adjustment in the interest rate and monthly payment amount of your loan at least 25, but not more than 120 calendar days before any payment at the new interest rate is due. The notice will contain information about the index and interest rate, payment amount, loan balance and other information required by law.

THE PURPOSE OF THIS DISCLOSURE IS TO PROVIDE VARIOUS DETAILS OF THE TYPE OF LOAN FOR WHICH YOU HAVE EXPRESSED INTEREST. THIS DISCLOSURE DOES NOT CONSTITUTE A COMMITMENT ON THE PART OF THE LENDER TO MAKE A LOAN TO YOU.

Receipt of a copy of this Disclosure and copy of the Consumer Handbook on Adjustable Rate Mortgages is hereby acknowledged.