ion BANK™

Servicing Disclosure Statement

4/2022

NOTICE TO FIRST LIEN MORTGAGE LOAN APPLICANTS. THE RIGHT TO COLLECT YOUR MORTGAGE LOAN PAYMENTS MAY BE TRANSFERRED.

You are applying for a mortgage loan covered by the Real Estate Settlement Procedures Act (RESPA) (12 U.S.C. Sec. 2601 et seq). RESPA gives you certain rights under Federal law. This statement describes whether the servicing for this loan may be transferred to a different loan servicer. "Servicing" refers to collecting your principal, interest and escrow payments, if any, as well as sending any monthly or annual statements, tracking account balances, and handling other aspects of your loan. You will be given advance notice before a transfer occurs.

Servicing Transfer Information

We may assign, sell or transfer the servicing of your loan while the loan is outstanding.

Lending Department
1430 New Haven Road, Naugatuck, CT 06770
Phone 203.729.4442 | Fax 203.720.4100
Online@ionbank.com

USA Patriot Act

4/2022

To help the government fight the funding of terrorism and money laundering activities, Federal law requires all financial institutions to obtain, verify, and record information that identifies each person who opens an account.

What this means to you: When you open an account, we will ask for your name, address, date of birth, and other information that will allow us to identify you. We may also ask to see your Driver's License or other identifying documents.

I/we acknowledge that I/we received a copy of this disclosure.

Ion Bank
1430 New Haven Road
Naugatuck, CT 06770
203.729.5039

Lending Department
1430 New Haven Road, Naugatuck, CT 06770
Phone 203.729.4442 | Fax 203.720.4100
Online@ionbank.com

Private Mortgage Insurance Disclosure

4/2022

This Disclosure is a requirement under Connecticut Gen. Stat. Ann, 36a-726, and the Bank is required to inform you that mortgage insurance is a condition of this loan, on all residential mortgages in which the loan amount is greater than 80% of the value of the property.

The purpose of mortgage insurance is to protect the bank against any loss that may be incurred in the event of a default under the terms of the mortgage loan. Mortgage insurance is not the same as homeowners (casualty) insurance and does not provide protection against damage to the property.

The cost of the mortgage insurance will be disclosed in the "Good Faith Estimate of Closing Costs" which is given in accordance with the Real Estate Settlement Procedures Act.

The Homeowners Protection Act of 1998 provides for borrower-requested cancellation and automatic termination by the bank of mortgage insurance.

Borrowers may request cancellation of mortgage insurance when the loan reaches 80% of the Original Value of the property; that is 80% of the lesser of the contract sales price or the appraised value at the time the mortgage was closed. The conditions for borrower-requested cancellation of mortgage insurance are:

1. A written request for cancellation by the borrower;
2. A good payment history – no payments 60 days or more past due within two years and no payments 30 days or more past due within one year; and
3. If requested and at the borrower's expense, evidence that the value of the property has not declined, if based on original value and certification that there are no subordinate liens on the property.

Borrowers may also request cancellation based on the Current Value of the property based on a new appraisal paid at the borrower's expense if;

1. The bank receives a written request for cancellation from the borrower;
2. The loan is at least 2 years old, unless the increase in value is due to improvements made to the property;
3. The current value of the property is 75% or less if the loan is between 2 and 5 years old, or 80% or less if the loan is over 5 years old;
4. The borrower has maintained a good payment history – no payments 60 days or more past due within two years and no payments 30 days or more past due within one year, there are no other default events under the mortgage deed in the last 12 months, and the borrower certifies that there are no subordinate liens on the property.

The bank will automatically terminate mortgage insurance when the loan is scheduled to reach 78% of the original value as long as the payments on the loan are current. Automatic termination is not determined by the balance due on the loan but rather the predetermined time the loan will take to reach this threshold. If the loan is not current on the date that automatic termination is available, mortgage insurance will terminate when the loan becomes current.

If mortgage insurance is not cancelled or terminated by the midpoint of the amortization period, the bank will terminate the mortgage insurance requirement as of the first day of the month following the midpoint, if the loan is current or when it becomes current.

Privacy Policy Statement

Rev 07/23

FACTS	WHAT DOES ION BANK DO WITH YOUR PERSONAL INFORMATION?
Why?	Financial companies choose how they share your personal information. Federal law gives consumers the right to limit some but not all sharing. Federal law also requires us to tell you how we collect, share, and protect your personal information. Please read this notice carefully to understand what we do.
What?	The types of personal information we collect, and share depend on the product or service you have with us. This information can include: ■ Social Security number and income ■ Credit history and credit scores ■ Account balances and transaction history
How?	All financial companies need to share customers' personal information to run their everyday business. In the section below, we list the reasons financial companies can share their customers' personal information; the reasons Ion Bank chooses to share; and whether you can limit this sharing.

Reasons we can share your personal information	Does ION Bank share?	Can you limit this sharing?
For our everyday business purposes— such as to process your transactions, maintain your account(s), respond to court orders and legal investigations, or report to credit bureaus	Yes	No
For our marketing purposes— to offer our products and services to you	Yes	No
For joint marketing with other financial companies	Yes	No
For our affiliates' everyday business purposes— information about your transactions and experiences	Yes	No
For our affiliates' everyday business purposes— information about your creditworthiness	No	We don't share
For our affiliates to market to you	Yes	Yes
For nonaffiliates to market to you	No	We don't share

To limit our sharing	■ BCI Financial Customers: Call 866.224.2677 option 4 or email customerservice@bcifinancial.com ■ Ion Bank Customers: Call 203.729.4442 or toll free 1.877.729.4442 or ■ Mail the **form** below **Please note:** If you are a *new* customer, we can begin sharing your information 30 days from the date we provided this notice. When you are *no longer* our customer, we continue to share your information as described in this notice. However, you can contact us at any time to limit our sharing.
Questions?	Call 203.729.4442 or toll free 1.877.729.4442

Mail-in Form

Mark below if you want to limit:

❑ Do not allow your affiliates to use my personal information to market to me.

Name		**Mail to:** Ion Bank P.O. Box 370 Naugatuck, CT 06770 **Attn: Operations**
Address		
City, State, Zip		
Last 4 digits of Tax ID Number		

Who we are	
Who is providing this notice?	Ion Bank (including its division: BCI Financial); Ion Financial, MHC; Nutmeg Financial Holdings, LLC and Ion Bank Mortgage Corp. (“Affiliates”)

What we do	
How does Ion Bank protect my personal information?	To protect your personal information from unauthorized access and use, we use security measures that comply with federal law. These measures include computer safeguards and secured files and buildings.
How does Ion Bank collect my personal information?	We collect your personal information, for example, when you ▪ open an account or apply for a loan ▪ provide account information or give us your income information ▪ show your government-issued ID We also collect your personal information from others, such as credit bureaus, affiliates, or other companies.
Why can’t I limit all sharing?	Federal law gives you the right to limit only ▪ sharing for affiliates’ everyday business purposes—information about your creditworthiness ▪ affiliates from using your information to market to you ▪ sharing for nonaffiliates to market to you State laws and individual companies may give you additional rights to limit sharing.
What happens when I limit sharing for an account I hold jointly with someone else?	Your choices will apply to everyone on your account.

Definitions	
Affiliates	Companies related by common ownership or control. They can be financial and nonfinancial companies. ▪ *Our affiliates include financial companies such as: Ion Financial, MHC; Nutmeg Financial Holdings, LLC, and Ion Bank Mortgage Corp.*
Nonaffiliates	Companies not related by common ownership or control. They can be financial and nonfinancial companies. ▪ *Ion Bank and its affiliates do not share with nonaffiliates so they can market to you.*
Joint marketing	A formal agreement between nonaffiliated financial companies that together market financial products or services to you. ▪ *Our joint marketing partners include Broker-Dealer and companies that provide marketing services for us, such as bulk mailing companies, direct marketing companies, market research firms and marketing consultants.*

Joint Credit Disclosure

4/2022

We are submitting a loan application to Ion Bank. We are confirming that we are applying for joint credit.

Lending Department
1430 New Haven Road, Naugatuck, CT 06770
Phone 203.729.4442 | Fax 203.720.4100
Online@ionbank.com

PO Box 370 | Naugatuck, CT 06770-0370

ion BANK™

NOTICE OF RIGHT TO COPY OF APPRAISAL (ECOA)

Lender/Broker: **Ion Bank**

NMLS #: 641488

This notice is being provided to you pursuant to 12 CFR § 1002.14(a).

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.

You will be provided a copy of each appraisal or written valuation concerning this property promptly upon completion, or three (3) business days prior to the time you become contractually obligated on the transaction (for closed-end credit) or account opening (for open-end credit), whichever is earlier.

You may request a reconsideration of value (ROV) if you have concerns regarding the accuracy of your appraisal or written valuation report. Contact your lender for information about the reconsideration of value (ROV) process.

IMPORTANT ADJUSTABLE RATE MORTGAGE LOAN INFORMATION
PLEASE READ CAREFULLY

Ion Bank
7-6 ARM

This Disclosure does not represent a commitment by Creditor to make a loan to you. The specific terms of your prospective loan will be contained in your Note, Security Instrument and Federal Disclosures. Please read them carefully before you sign them.

Borrower(s):

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 Payment is Determined

Your interest rate will be based on an index plus a margin, and your payment will be based on the interest rate, loan balance and remaining loan term. Please ask us for our current interest rates and margins.

The "Index" is a benchmark, known as the 30-day Average SOFR index. The Index is currently published by the Federal Reserve Bank of New York.

The most recent index figure available **45 days** before the adjustment date occurs will be used to determine your new interest rate. If the index used for future adjustments is no longer available, the Lender will choose a new index (and possibly margin).

Your initial interest rate is not based on the index used to make later adjustments. If the initial interest rate is below the sum of the then-current index plus margin (the “fully indexed rate”), then the initial interest rate will be a “discounted” interest rate. If the initial interest rate is above the fully indexed rate, then it will be a “premium” interest rate. Please ask us for the amount of our current interest rate discounts and premiums.

☒ The initial interest rate on your loan will be a discounted interest rate.

☐ The initial interest rate on your loan will be a premium interest rate.

Your payment will be based on the interest rate, loan balance, and remaining loan term.

How Your Interest Rate Can Change

Your interest rate can change after **84** month(s) and every **6** month(s) thereafter.

Your interest rate will equal the index rate plus the margin, rounded to the nearest **0.125 %.**

Your interest rate will equal the index rate plus the margin unless your interest rate "caps" limit the amount of change in the interest rate.

After the initial adjustment, your interest rate cannot increase or decrease more than **1.000** percentage points(s} at each adjustment.

Your interest rate cannot increase or decrease more than **5.000** percentage point(s) over the term of the loan.

On the first adjustment, your interest rate will not increase or decrease by more than **5.000 %**. On each subsequent adjustment, your interest rate will not increase or decrease by more than **1.000 %**.

Your interest rate will not increase by more than **5.000 %** over the term of the loan. Your interest rate will never be greater than **10.750 %** or less than **3.000 %** over the term of the loan.

How Your Payment Can Change
Your payment can change semi-annually based on changes in the interest rate.

Each time the interest rate changes your monthly payment can increase or decrease substantially based on the changes in the interest rate.

Your monthly payment can change after **84** month(s) and every **6** month(s) thereafter.

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 days, 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 days, 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 and interest rates, payment amount, and loan balance.

Interest Rate and Payment Change Example

For example, on a $10,000 **30** year loan with an initial interest rate of **5.750 %** (in effect in **July, 2023**) the maximum amount the interest rate can rise under this program is **5.000** percentage points to **10.750 %** and the monthly payment can rise from an initial payment of **$58.36** to a maximum of **$87.39** in the **85th** month.

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, using the initial interest rate shown above would be: $60,000 ÷ $10,000 = 6; 6 × **$58.36** = **$350.16** per month.

Demand Feature: This ARM Loan ☐ does ☒ does not have a Demand Feature.

IMPORTANT ADJUSTABLE RATE MORTGAGE LOAN INFORMATION
PLEASE READ CAREFULLY

Ion Bank
10-6 ARM

This Disclosure does not represent a commitment by Creditor to make a loan to you. The specific terms of your prospective loan will be contained in your Note, Security Instrument and Federal Disclosures. Please read them carefully before you sign them.

Borrower(s):

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 Payment is Determined

Your interest rate will be based on an index plus a margin, and your payment will be based on the interest rate, loan balance and remaining loan term. Please ask us for our current interest rates and margins.

The "Index" is a benchmark, known as the 30-day Average SOFR index. The Index is currently published by the Federal Reserve Bank of New York.

The most recent index figure available **45 days** before the adjustment date occurs will be used to determine your new interest rate. If the index used for future adjustments is no longer available, the Lender will choose a new index (and possibly margin).

Your initial interest rate is not based on the index used to make later adjustments. If the initial interest rate is below the sum of the then-current index plus margin (the “fully indexed rate”), then the initial interest rate will be a “discounted” interest rate. If the initial interest rate is above the fully indexed rate, then it will be a “premium” interest rate. Please ask us for the amount of our current interest rate discounts and premiums.

☒ The initial interest rate on your loan will be a discounted interest rate.

☐ The initial interest rate on your loan will be a premium interest rate.

Your payment will be based on the interest rate, loan balance, and remaining loan term.

How Your Interest Rate Can Change

Your interest rate can change after **120** month(s) and every **6** month(s) thereafter.

Your interest rate will equal the index rate plus the margin, rounded to the nearest **0.125 %.**

Your interest rate will equal the index rate plus the margin unless your interest rate "caps" limit the amount of change in the interest rate.

After the initial adjustment, your interest rate cannot increase or decrease more than **1.000** percentage points(s} at each adjustment.

Your interest rate cannot increase or decrease more than **5.000** percentage point(s) over the term of the loan.

On the first adjustment, your interest rate will not increase or decrease by more than **5.000 %**. On each subsequent adjustment, your interest rate will not increase or decrease by more than **1.000 %**.

Your interest rate will not increase by more than **5.000 %** over the term of the loan. Your interest rate will never be greater than **10.875 %** or less than **3.000 %** over the term of the loan.

How Your Payment Can Change
Your payment can change semi-annually based on changes in the interest rate.

Each time the interest rate changes your monthly payment can increase or decrease substantially based on the changes in the interest rate.

Your monthly payment can change after **120** month(s) and every **6** month(s) thereafter.

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 days, 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 days, 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 and interest rates, payment amount, and loan balance.

Interest Rate and Payment Change Example

For example, on a $10,000 **30** year loan with an initial interest rate of **5.875 %** (in effect in **July, 2023**) the maximum amount the interest rate can rise under this program is **5.000** percentage points to **10.875 %** and the monthly payment can rise from an initial payment of **$59.15** to a maximum of **$85.39** in the **121st** month.

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, using the initial interest rate shown above would be: $60,000 ÷ $10,000 = 6; 6 × **$59.15** = **$354.90** per month.

Demand Feature: This ARM Loan ☐ does ☒ does not have a Demand Feature.

CONSUMER HANDBOOK ON

Adjustable-Rate Mortgages

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. 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/.

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
Consider this option if	▪ You prefer predictable payments, or ▪ You plan to keep your home for a long period of time	▪ You are confident you can afford increases in your monthly payment—even to the maximum amount, or ▪ You plan to sell your home within a short period of time
Interest rate	▪ Set when you take out the loan ▪ Stays the same for the entire loan term	▪ Based on an index that changes ▪ May start out lower than a fixed rate mortgage but you bear the risk of increases throughout your loan
Monthly payment	▪ Principal and interest payment stays the same over the life of your loan ▪ You know the total you will pay in principal and interest over the life of the loan	▪ Initial principal and interest payment amount remains in effect for a limited period ▪ You can't know in advance how much total interest you will pay because your interest rate changes ▪ If you can't afford the increased payments, you may lose your home to foreclosure

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:

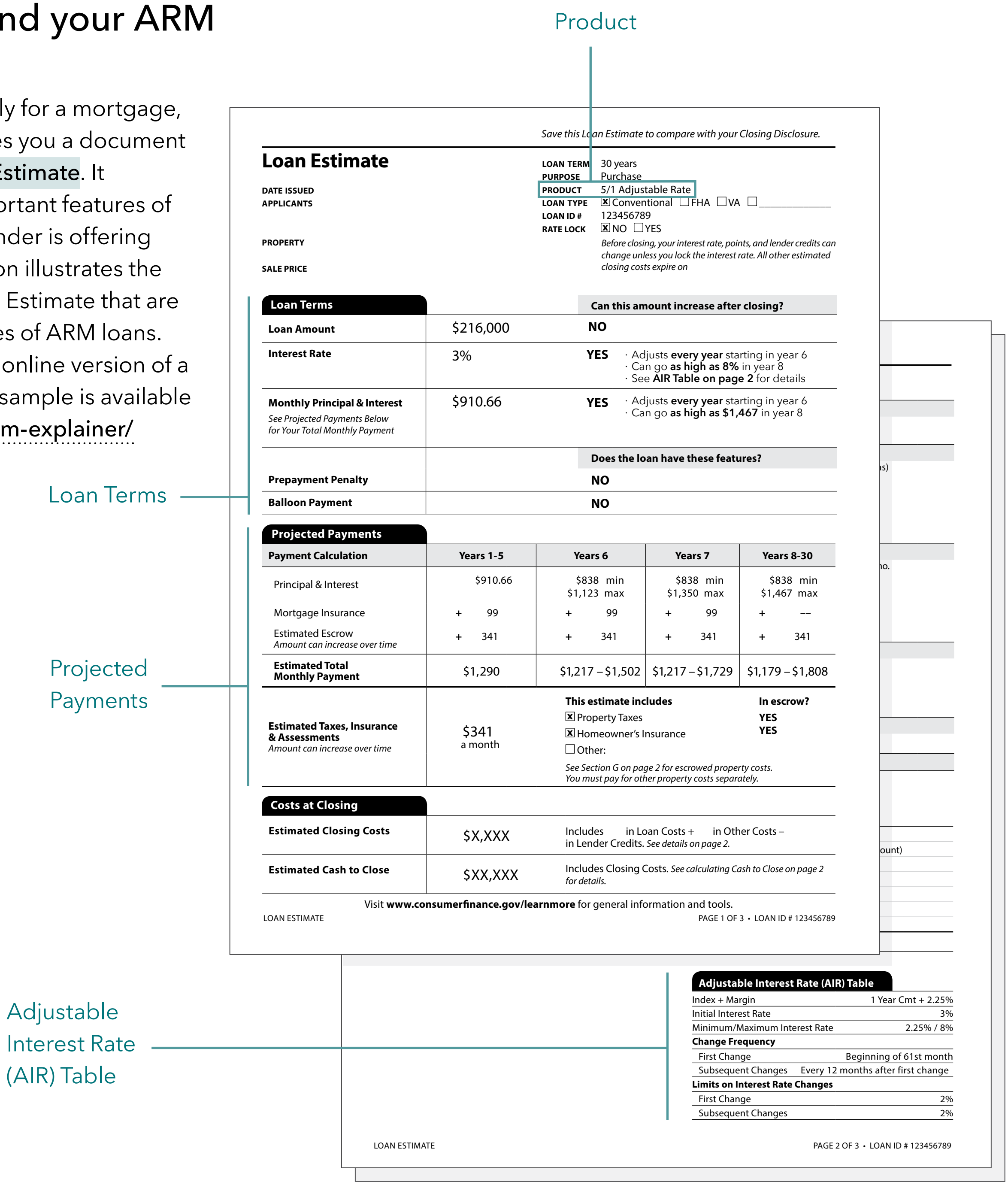
- The first number tells you the length of time your initial interest rate lasts.
- The second number tells you how often the rate changes after that.

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/



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 *See Projected Payments Below for Your Total Monthly Payment*	$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 *Amount can increase over time*	+ 341	+ 341	+ 341	+ 341
Estimated Total Monthly Payment	$1,290	$1,217 – $1,502	$1,217 – $1,729	$1,179 – $1,808

Estimated Taxes, Insurance & Assessments *Amount can increase over time*	$341 a month	**This estimate includes** ☒ Property Taxes ☒ Homeowner's Insurance ☐ Other: *See Section G on page 2 for escrowed property costs. You must pay for other property costs separately.*	**In escrow?** YES YES

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** 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%
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%

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**	· Adjusts **every year** starting in year 6 · Can go **as high as 8%** in year 8 · See **AIR Table** for details
Monthly Principal & Interest *See Projected Payments Below for Your Total Monthly Payment*	$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**	

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 *Amount can increase over time*	+ 341	+ 341	+ 341	+ 341
Estimated Total Monthly Payment	$1,290	$1,217 – $1,502	$1,217 – $1,729	$1,179 – $1,808

Estimated Taxes, Insurance & Assessments *Amount can increase over time*	$341 a month	**This estimate includes** ☒ Property Taxes ☒ Homeowner's Insurance ☐ Other: *See Section G on page 2 for escrowed property costs. You must pay for other property costs separately.*	**In escrow?** **YES** **YES**

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/

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/
- 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

Answers to common questions
cfpb.gov/askcfpb

Tools and resources for home buyers
cfpb.gov/owning-a-home

Talk to a housing counselor
cfpb.gov/find-a-housing-counselor

Submit a complaint
cfpb.gov/complaint

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