

Example 3 – Adjustable Interest Rate with Initial Discounted Interest Rate

THESE ARE YOUR LOAN DETAILS

The following is a summary of many important details involving the mortgage loan for 123 Main Street, Hometown, USA 00000. Let's compare these important details with the Good Faith Estimate (GFE), loan documents, and other disclosures.

Loan Amount	Loan Term	Loan Type
\$300,000.00	30 years	Conventional Adjustable Payment Option Mortgage

Adjustable Interest Rate with Initial Discounted Interest Rate

Your initial interest rate is 1.5%. This is a discounted interest rate and will adjust to 6.5% in 30 days on June 1, 2007.

Your loan has an adjustable interest rate which means that the interest rate can rise over the life of the loan.

Your second change date will be June 1, 2008 and may change every 12 months thereafter. Your interest rate can increase or decrease by 2.75% on every change date, but will never be lower than 4.5% or higher than 10.5% over the life of the loan.

Payment

Your initial loan payment for principal and interest (\$1035.36) and mortgage insurance (\$0) is \$1035.36 and can rise.

The highest your principal and interest payment can reach, based on the maximum interest rate of 10.5% is \$3644.95. The earliest it can reach this is June 1, 2013.

You do not have an escrow account. Any and all items such as property taxes and homeowners insurance must be paid directly by you.

Your total initial payment is \$1035.36 for principal, interest, and any mortgage insurance.

Payment Option Mortgage

This type of loan allows you to choose from three payment options; the traditional principal and interest payment, the interest-only payment, and the minimum interest payment. This is what your initial payment choice will look like:

Principal & Interest Payment at 6.5%: \$1896.20
(reduces loan balance) \$271.20 principal, \$1625.00 interest

Interest-Only Payment at 6.5%: \$1625.00
(will not reduce loan balance) 0 principal, \$1625.00 interest

Minimum Interest Payment at 4.5%: \$1125.00,
(will INCREASE loan balance) \$0 principal, \$1125.00 interest

AND \$500.00 is added to your loan balance.

If you choose to pay the minimum payment amount, your loan balance will increase. This increase instead of a decrease in your loan balance is called negative amortization. If the loan balance increases, your monthly mortgage payment may also increase to cover the difference.

If your loan balance rises above 125%, as indicated in your Note, your lender has the right to increase your loan payments greatly for the remainder of the loan.

Late Payment

Your loan payment is due on the 1st of every month and is considered late after the 15th of every month. If your lender receives your mortgage payment after the 15th, your lender will charge a late fee of 5% of the overdue payment of principal and interest.

Loan Balance

Your loan balance **can rise to a maximum of \$375,000.**

Prepayment Penalty

You **have** a pre-payment penalty.

A prepayment penalty is an additional amount that you will be required to pay if you pay your loan off early such as through the sale of your home, refinancing your loan, or if you make significant additional payments to principal prior to **June 1, 2010.** Based on your initial loan amount, your prepayment penalty may be as high as **\$9,400.00.**

Balloon Payment

You **do not have** a balloon payment.

Closing Costs

Next we will review all of the HUD-1/1A charges and credits associated with your loan and compare them to the GFE you received when you applied for this loan.

GFE & HUD-1/1A Charges Comparison Chart

	Good Faith Estimate	HUD-1/1A	\$ Increase
Charges Cannot Increase			
Our service charge (HUD-1/1A Line #801)	\$6,000.00	\$6,000.00	0
Your credit or charge for the specific interest rate chosen (HUD-1/1A Line #802)	-\$4,000.00	-\$4,000.00	0
Your Adjusted Origination Charges (HUD-1/1A Line #803)	\$2,000.00	\$2,000.00	0
Government recording and transfer charges (HUD-1/1A Line #1201)	\$1,250.00	\$1,250.00	0
Charges Cannot Increase More Than 10%			
Appraisal (HUD-1/1A Line #804)	\$300.00	\$425.00	
Credit Report (HUD-1/1A Line #805)	\$40.00	\$45.00	
Tax service (HUD-1/1A Line #806)	\$70.00	\$85.00	
Flood certification (HUD-1/1A Line #807)	\$12.00	\$15.00	
Mortgage Insurance Premium (HUD-1/1A Line #902)			
<u>Title services and lender's title insurance</u> (HUD-1/1A Line #1101)	\$975.00	\$975.00	
<u>Optional owner's title insurance</u> (HUD-1/1A Line #1110)	\$725.00	\$725.00	
<u>Pest Inspection</u> (HUD-1/1A Line #1302)	\$35.00	\$55.00	
Total	\$2157.00	\$2325.00	+ 168
* Increase between GFE and HUD-1/1A Charges	8%		
Charges Can Change			
Reserves or escrow (HUD-1/1A Line #1001)	\$262.00	\$262.00	
Daily interest charges (HUD-1/1A Line #901) \$53.42 per day	\$213.69	\$427.36	
Homeowners insurance (HUD-1/1A Line #903)	\$600.00	\$600.00	
<u>Survey</u> (HUD-1/1A Line #1301)	\$150.00	\$195.00	
_____ (HUD-1/1A Line #____)			
_____ (HUD-1/1A Line #____)			

Acknowledgement

The undersigned hereby state that the Closing Script was read and the following information was provided and explained:

1. The comparison between the charges listed on the HUD-1/1A settlement form and the estimate of charges on the GFE;
2. Whether or not the tolerances have been met within the applicable categories between the GFE and the HUD-1/1A; and
3. Any inconsistencies between the loan documents (including the mortgage note) and the summary of the loan terms on the GFE, and between the HUD-1/1A settlement charges and the charges stated on the GFE.

_____ (Representative) _____ (Company)

_____ (Borrower) _____ (Borrower)

_____ (Date)