

MODEL ADJUSTABLE RATE NOTE FORM
(HOME EQUITY CONVERSION)

FHA Case No.

ADJUSTABLE RATE NOTE

[Date]

[Property Address]

1. DEFINITIONS

"Borrower" means each person signing at the end of this Note.
"Lender" means _____ and its successors
and assigns. "Secretary" means the Secretary of Housing and Urban
Development or his or her authorized representatives.

2. BORROWER'S PROMISE TO PAY; INTEREST

In return for amounts to be advanced by Lender to or for the benefit
of Borrower under the terms of a Home Equity Conversion Loan Agreement
dated _____, 19____ ("Loan Agreement"), Borrower promises
to pay to the order of Lender a principal amount equal to the sum of all
Loan Advances made under the Loan Agreement with interest. Interest will
be charged on unpaid principal at the rate of _____ percent (____%) per year
until the full amount of principal has been paid. The interest rate may
change in accordance with Paragraph 5 of this Note. Accrued interest shall
be added to the principal balance as a Loan Advance at the end of each
month.

3. PROMISE TO PAY SECURED

Borrower's promise to pay is secured by a mortgage, deed of trust or
similar security instrument that is dated the same date as this Note and
called the "Security Instrument." That Security Instrument protects the
Lender from losses which might result if Borrower defaults under this Note.

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4. MANNER OF PAYMENT

(A) Time

Borrower shall pay all outstanding principal and accrued
interest to Lender upon receipt of a notice by Lender requiring immediate

payment in full, as provided in Paragraph 7 of this Note.

(B)Place

Payment shall be made at _____ or
any such other place as Lender may designate in writing by notice to
Borrower.

(C)Limitation of Liability

Borrower shall have no personal liability for payment of the
debt. Lender shall enforce the debt only through sale of the Property
covered by the Security Instrument ("Property"). If this Note is
assigned to the Secretary, the Borrower shall not be liable for any
difference between the mortgage insurance benefits paid to Lender and
the outstanding indebtedness, including accrued interest, owed by
Borrower at the time of the assignment.

5.INTEREST RATE CHANGES 1/

(A)Change Date

The interest rate may change on the first day of _____, 19____,
and on that day of each succeeding year. "Change Date" means each date on
which the interest rate could change.

(B)The Index

Beginning with the first Change Date, the interest rate will be
based on an Index "Index" means the weekly average yield on United
States Treasury Securities adjusted to a constant maturity of one
year, as made available by the Federal Reserve Board. "Current Index"
means the most recent Index figure available 30 days before the Change
Date. If the Index (as defined above) is no longer available, Lender
will use as a new Index any index prescribed by the Secretary. Lender
will give Borrower notice of the new Index.

(C)Calculation of Interest Rate Changes

Before each Change Date, Lender will calculate a new interest
rate by adding a margin of percentage points (____%) to the current
Index. /2 Subject to the limits stated in Paragraph 5(D) of this
Note, this amount will be the new interest rate until the next Change
Date.

(D)Limits on Interest Rate Changes

The interest rate will never increase or decrease by more than
two percentage points (2.0%) on any single Change Date. The interest
rate will never be more than five percentage points (5.0%) higher or
lower than the initial interest rate stated in Paragraph 2 of this
Note.

(E) Notice of Changes

Lender will give notice to Borrower of any change in the interest rate. The notice must be given at least 25: days before the new interest rate takes effect, and must set forth (i) the date of the notice, (ii) the Change Date, (iii) the old interest rate, (iv) the new interest rate, (v) the Current Index, (vi) the method of calculating the adjusted interest rate, and (vii) any other information which may be required by law from time to time.

(F) Effective Date of Changes

A new interest rate calculated in accordance with paragraphs 5(C) and 5(D) of this Note will become effective on the Change Date, unless the Change Date occurs less than 25 days after Lender has given the required notice. If the interest rate calculated in accordance with Paragraphs 5(C) and 5(D) of this Note decreased, but Lender failed to give timely notice of the decrease and applied a higher rate than the rate which should have been stated in a timely notice, then Lender shall recalculate the principal balance owed under this Note so it does not reflect any excessive interest.

6. BORROWER'S RIGHT TO PREPAY

A Borrower receiving monthly payments under the Loan Agreement has the right to pay the debt evidenced by this Note, in whole or in part, without charge or penalty on the first day of any month. Otherwise, a Borrower has the right to pay the debt evidenced by this Note, in whole or in part, without charge or penalty after giving Lender two weeks notice. Any amount of debt prepaid will first be applied to reduce the principal balance of the Second Note described in Paragraph 11 of this Note and then to reduce the principal balance of this Note.

All prepayments of the principal balance shall be applied by Lender as follows:

First, to that portion of the principal balance representing aggregate payments for mortgage insurance premiums;

Second, to that portion of the principal balance representing aggregate payments for servicing fees;

Third, to that portion of the principal balance representing accrued interest due under the Note; and

Fourth, to the remaining portion of the principal balance. A Borrower may specify whether a prepayment is to be credited to that portion of the principal balance representing monthly payments or the line of credit. If Borrower does not designate which portion of the principal balance is to be prepaid, Lender shall apply any partial prepayments to an existing line of credit or create a new line of credit.

7. IMMEDIATE PAYMENT IN FULL

(A) Death or Sale

Lender may require immediate payment in full of all outstanding principal and accrued interest if:

(i) A Borrower dies and the Property is not the principal residence of at least one surviving Borrower, or

(ii) A Borrower conveys all of his or her title to the Property and no other Borrower retains title to the Property in fee simple or on a leasehold interest as set forth in 24 CFR 206.45(a).

(B) Other Grounds

Lender may require immediate payment in full of all outstanding principal and accrued interest, upon approval by an authorized representative of the Secretary, if:

(i) The Property ceases to be the principal residence of a Borrower for reasons other than death and the Property is not the principal residence of at least one other Borrower;

(ii) For a period of longer than 12 consecutive months, a Borrower fails to physically occupy the Property because of physical or mental illness and the Property is not the principal residence of at least one other Borrower; or

(iii) An obligation of the Borrower under the Security Instrument is not performed.

(C) Payment of Costs and Expenses

If Lender has required immediate payment in full as described above, the debt enforced through sale of the Property may include costs and expenses, including reasonable and customary attorney's fees, associated with enforcement of this Note to the extent not prohibited by applicable law. Such fees and costs shall bear interest from the date of disbursement at the same rate as the principal of this Note.

(D) Trusts

Conveyance of a Borrower's interest in the Property to a trust which meets the requirements of the Secretary, or conveyance of a trust's interests in the Property to a Borrower, shall not be considered a conveyance for purposes of this Paragraph. A trust shall not be considered an occupant or be considered as having a principal

residence for purposes of this Paragraph.

8.WAIVERS

Borrower waives the rights of presentment and notice of dishonor. "Presentment" means the right to require Lender to demand payment of amounts due. "Notice of dishonor" means the right to require Lender to give notice to other persons that amounts due have not been paid.

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9.GIVING OF NOTICES

Unless applicable law requires a different method, any notice that must be given to Borrower under this Note will be given by delivering it or by mailing it by first class mail to Borrower at the property address above or at a different address if Borrower has given Lender a notice of Borrower's different address.

Any notice that must be given to Lender under this Note will be given by first class mail to Lender at the address stated in Paragraph 4(B) or at an different address if Borrower is given a notice of that different address.

10.OBLIGATIONS OF PERSONS UNDER THIS NOTE

If more than one person signs this Note, each person is fully obligated to keep all of the promises made in this Note. Lender may enforce its rights under this Note only through sale of the Property.

11.RELATIONSHIP TO SECOND NOTE

(A)Second Note

Because Borrower will be required to repay amounts which the Secretary may make to or on behalf of Borrower pursuant to Section 255(i)(1)(A) of the National Housing Act and the Loan Agreement, the Secretary has required Borrower to grant a Second Note to the Secretary.

(B)Relationship of Secretary Payments to this Note

Payments made by the Secretary shall not be included in the debt due under this Note unless:

(i)This Note is assigned to the Secretary; or

(ii) The Secretary accepts reimbursements by the Lender for all payments made by the Secretary.

If the circumstances described in (i) or (ii) occur, then all payments

by the Secretary, including interest on the payments, shall be included in the debt.

(C)Effect on Borrower

Where there is no assignment or reimbursement as described in (B)(i) or (ii), and the Secretary makes payments to Borrower, then Borrower shall not:

(i) Be required to pay amounts owed under this Note until the Secretary has required payment in full of all outstanding principal and accrued interest under the Second Note held by the Secretary, notwithstanding anything to the contrary in Paragraph 7 of this Note; or

(ii) Be obligated to pay interest or shared appreciation under this Note at any time, whether accrued before or after the payments by the Secretary, and whether or not accrued interest has been included in the principal balance of this Note, notwithstanding anything to the contrary in Paragraphs 2 or 5 of this Note or any Allonge to this Note.

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12.SHARED APPRECIATION /3

If Borrower has executed a Shared Appreciation Allonge, the covenants of the Allonge shall be incorporated into and supplement the covenants of this Note as if the Allonge were a part of this Note.

BY SIGNING BELOW, Borrower accepts and agrees to the terms and covenants contained in this Note. /4, /5

_____ (SEAL)
Borrower

_____ (SEAL)
Borrower

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Footnotes for Model Adjustable Rate Note Form (Home Equity Conversion)

1. The Model Adjustable Rate Note Form is designed for mortgages with interest rates that adjust annually, subject to annual and lifetime caps on

increases. If the mortgage has interest rates that adjust monthly subject only to a lifetime cap, the following modifications to the Model Adjustable Rate Note Form are mandatory:

(a)Change Paragraph 5(A) to read:

(A)Change Date

The interest rate may change on the first day of 19 , and on the first day of each succeeding month. "Change Date" means each date on which the interest rate could change.

(b)Change Paragraph 5(C) to read:

(C)Calculation of Interest Rate Changes

Before each Change Date, Lender will calculate a new interest rate by adding a margin of percentage points (%) to the current Index. /2 Subject to the limit stated in Paragraph 5(D) of this Note, this amount will be the new interest rate until the next Change Date.

(c)Change Paragraph 5(D) to read:

(D)Limit on Interest Rate

The interest rate will never increase above percent (%).

2. If Lender intends to round the interest rate, the phrase "and rounding the sum to the nearest one-eighth of one percentage point (0.125%)" shall be added.

3. The paragraph may be omitted if Lender does not offer a shared appreciation mortgage.

4.Include any required or customary form of authentication.

5. The model note is a multistate form which requires adaption for the following jurisdictions:

(a) Alaska. Add the Borrower's Post Office address, if different from the property address.

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(b) Kansas. Delete "including reasonable and customary attorney's fees" from Paragraph 7(C).

(c) Kentucky. Paragraph 7(C) should be changed to read: "If Lender has required immediate payment in full as described above, the debt enforced through sale of the Property may include \$500.00 for costs

and expenses for enforcing this Note. Such costs and expenses shall bear interest from the date of disbursement at the same rate as the principal of this Note."

(d) Louisiana. Add the following text following the Borrower's signature lines:

"NE VARIETUR" for identification with a mortgage given before me on _____, 19__.

Notary qualified in _____ Parish, Louisiana.

(e) Puerto Rico. Mortgages and notes in Puerto Rico, together with any associated riders or allonges, shall have alternating English and Spanish lines so that the complete text of each document appears in both languages. Mortgagees should contact the HUD Caribbean Office to obtain model Puerto Rico documents that contain both languages and contain other adaptations of the regular model forms that have been approved by the Caribbean Office.

(f) Virginia. The first sentence of Paragraph 8 should be changed to read: "Borrower and any other person who has obligations under this Note waive the right of presentment and notice of dishonor, and waive the homestead exemption."

After the Borrower's signature lines, add:

This is to certify that this is the Note described in and secured by a Deed of Trust dated _____, 19__ on the Property located in _____, Virginia.

My Commission expires:

Notary Public