301 South First Street, PO Drawer S
Tucumcari, New Mexico 88401
(575) 461-0191

Dear Applicant:

Thank you for allowing **TUCUMCARI FEDERAL SAVINGS & LOAN** the opportunity to consider your loan request. It is the desire of this institution and its Staff to be able to make a sound lending decision based upon your application, answer all your questions, and close your loan as quickly as possible.

In most cases an approved loan should be completed within 30 days from the day you receive and accept a **CONDITIONAL COMMITMENT** from us, depending on the length of time it takes to obtain an appraisal, pest inspection, title work, or other services which may be required such as a survey or septic system inspection.

Included are several required forms, which must be completed in order to process your loan request. We have indicated which documents need to be signed and returned to the Loan Officer with whom you have been in contact.

To accomplish your loan closing in the least amount of time, we need your help in obtaining certain required documentation. We have developed this simple Four (4) Step process to guide you:

STEP 1: APPLICATION

Completing the application is the first step. Please read and examine the document carefully. The information you give on the application is extremely important and must be complete in order for us to make a good lending decision. Please make sure all information is current and accurate.

STEP 2: DOCUMENTS NEEDED TO SUPPORT YOUR APPLICATION

It will be necessary for you to complete and provide the documents listed below. If any of these documents are not available at the time that you return your application, send them as soon as possible. Your application cannot be reviewed by the Loan Committee until these documents have been received.

- **BORROWER'S CERTIFICATION AND AUTHORIZATION** This gives Tucumcari Federal the authority to perform a Credit Check on the Borrower and Co-borrower.

- **CUSTOMER INFORMATION SHEET** Please complete all portions of this form which are applicable to your situation. Please sign and date it, and return it to us, along with a copy of your Driver's License. A separate Customer Information Sheet must be completed by each applicant.

- **E-SIGN CONSENT TO USE ELECTRONIC RECORDS AND SIGNATURES** Please complete this form and return it to us so that we may communicate with you via email and use e-signatures where applicable and permissible.

- Most recent Pay stub or Statement of Earnings.

- Copies of your individual Income Tax Returns for the last two years, with all supporting schedules. If you receive income from partnerships or other pass-through entities, please include those tax returns as well.

- Year-to-date pay stubs for the current year.

- Purchase Agreement between Buyer and Seller.

- Retirement, SSI or Other Income must be supported by monthly Statement of Earnings.

- Copies of Checking and Savings Account Statements for the last 2 months

- Quote from an insurance agent for a policy on the subject property

- We may require other information as the underwriting process continues. We will attempt to minimize the documentation we require from you, as well as the number of times you must bring information to our offices.

Any mortgages with another lending institution(s) that you will be paying off with the proceeds from this refinance will require a Mortgage Payoff Statement, which the applicant must obtain. Please provide name, account number, address and phone number of lending institution currently holding your mortgage.

When we receive your loan application, we will generate disclosures which must be acknowledged by you. These disclosures will be provided to you within three (3) days of application, and must be signed by you and returned to us before we can proceed. Time is of the essence, as acknowledgement of the Loan Disclosure must be completed before we can proceed with the underwriting phase of loan processing.

STEP 3: INSURANCE REQUIREMENTS

The Borrower is required to obtain a one (1) year Prepaid Homeowners Hazard Insurance policy on all mortgage loans, whether it is a new loan or a refinance. It is the Borrower's responsibility to contact an insurance agent of his/her choice and obtain the insurance policy, or if there is a current policy in force, a Policy Endorsement adding Tucumcari Federal as mortgagee must be in place three (3) days before the loan is funded. NOTE: <u>Tucumcari Federal does not arrange for or provide insurance.</u>

Ask your insurance agent to provide you with a copy of the Binder or endorsement and deliver it to us as soon as possible upon approval of your loan request. **We are not able to establish a closing date until arrangements are made for insurance.** The policy should include the following endorsement:

> **Tucumcari Federal Savings and Loan Association, its Successors or Assigns**
> **P.O. Drawer S**
> **Tucumcari, NM 88401**

If the property you are purchasing is located within a FLOOD PLAIN, as designated by FEMA, a Flood

Insurance Policy with a one (1) year prepaid receipt will be required at closing. The endorsement for this policy should read as stated above.

Tucumcari Federal will contact the Title Company, appraiser, and the County Treasurer, and pest inspector to make all the necessary arrangements to obtain the appraisal, title work, pest inspection and inquire about property taxes. Septic Inspections or surveys, if required, must be ordered by the borrower.

STEP 4: CLOSING

Federal regulations require several waiting periods, so your assistance in responding to our requests for information and signatures will help us close your loan as soon as possible. We cannot close your loan until seven (7) business days have passed after your receipt of the Loan Estimate, which will be part of the initial disclosure package. Once we receive the appraisal, we will provide you a copy of it. Once again, you must acknowledge receipt of the appraisal, and three (3) business days must pass before the loan may be closed.

When all information and signatures have been obtained, we will provide a Closing Disclosure which will contain all relevant closing information, including fees, amounts due from the buyer and due to the seller. Federal regulation requires that three (3) business days must pass before you sign the final loan documents.

All refinances of primary residences require a three (3) business day Right of Rescission period which begins on the day after you execute the loan documents. Federal law prohibits us from disbursing your funds prior to the expiration of this period.

Funds for closing must be certified funds from your bank. This can be in the form of a Cashier’s Check or wire transfer from your bank. We cannot accept personal checks.

If you have any questions when you review these requirements, please call us at (**575) 461-0191.**

Tucumcari Federal Savings & LOAN ASSOCIATION

E-SIGN Consent to Use Electronic Records and Signatures

As a part of your relationship with Tucumcari Federal, we want to ensure that you have all the information you need to effectively manage your accounts. Our goal is to provide you with as many options as possible for receiving your account documents. We are required by law to provide certain information to you "in writing"- which simply means you are entitled to receive the information in paper form. We can, with your consent, provide it to you electronically instead. We will need your general consent to use electronic records and signatures in our relationship with you. Please review and consent to the terms outlined below. In this consent:

- "We", "us", and "TFS&L" means Tucumcari Federal Savings and Loan Association.
- "You" and "your" means the person giving consent.
- "Communications" means each disclosure, notice, agreement, fee schedule, statement, record, document, and other information we provide to you, or that you sign or submit or agree to at our request.

1. **Your consent to use electronic records and signatures, choosing to receive communications electronically or in writing; certain information must still be provided in writing.**

   At our discretion, the communications we provide to you, or that you sign at our request, may be in electronic form. We may also use electronic signatures and obtain them from you as part of our transaction with you.

   We may, at our discretion, provide you with any communication in writing, even if you have chosen to receive it electronically.

   Sometimes the law requires you to give us written notice. You must still provide these notices to us on paper.

There are certain communications that we are not permitted by law to deliver to you electronically, even with your consent. So long as required by law, we will deliver those communications to you in writing.

Your tax statements will continue to be delivered to you on paper.

2. Your option to receive paper copies.

If we provide Electronic records to you, and you want a paper copy, you may contact our office and request a paper version.

3. Your Consent covers all TFS&L Products

Your consent covers all products provided by Tucumcari Federal Savings and Loan Association so long as you remain in relationship with us. Your consent will remain in effect until you give us notice that you are withdrawing it.

4. You may withdraw your consent at any time.

You have the right to withdraw your consent at any time. To withdrawal your consent you may send us a written letter or contact our office at (575)461-0191.

5. You must keep your email address current with us.

You must promptly notify us of any change in your email address.

6. Hardware and Software requirements

To receive electronic records from us, you must have access to:

- A current version of an internet browser we support
- A connection to the internet
- A current version of a program that accurately reads and displays PDF files, such as Adobe Acrobat Reader, and
- A computer capable of supporting the above requirements. You will also need a printer if you wish to print out the forms/records and retain them on paper.

You must have a current email address.

By signing below, you agree to the terms outlined in this agreement.

______________________________	______________________________
Signature Date	Signature Date
______________________________	______________________________
Print Name	Print Name

Uniform Residential Loan Application

This application is designed to be completed by the applicant(s) with the Lender's assistance. Applicants should complete this form as "Borrower" or "Co-Borrower," as applicable. Co-Borrower information must also be provided (and the appropriate box checked) when ☐ the income or assets of a person other than the Borrower (including the Borrower's spouse) will be used as a basis for loan qualification or ☐ the income or assets of the Borrower's spouse or other person who has community property rights pursuant to state law will not be used as a basis for loan qualification, but his or her liabilities must be considered because the spouse or other person has community property rights pursuant to applicable law and Borrower resides in a community property state, the security property is located in a community property state, or the Borrower is relying on other property located in a community property state as a basis for repayment of the loan.

If this is an application for joint credit, Borrower and Co-Borrower each agree that we intend to apply for joint credit (sign below):

Borrower ______________________ Co-Borrower ______________________

I. TYPE OF MORTGAGE AND TERMS OF LOAN

Mortgage Applied for: ☐ VA ☐ FHA ☐ Conventional ☐ USDA/Rural Housing Service ☐ Other (explain):

Agency Case Number | Lender Case Number

Amount	Interest Rate	No. of Months	**Amortization Type:**
$	%		☐ Fixed Rate ☐ GPM ☐ Other (explain): ☐ ARM (type):

II. PROPERTY INFORMATION AND PURPOSE OF LOAN

Subject Property Address (street, city, state & ZIP) | No. of Units

Legal Description of Subject Property (attach description if necessary) | Year Built

Purpose of Loan ☐ Purchase ☐ Refinance ☐ Construction ☐ Construction-Permanent ☐ Other (explain):

Property will be: ☐ Primary Residence ☐ Secondary Residence ☐ Investment

Complete this line if construction or construction-permanent loan.

Year Lot Acquired	Original Cost	Amount Existing Liens	(a) Present Value of Lot	(b) Cost of Improvements	Total (a + b)
	$	$	$	$	$

Complete this line if this is a refinance loan.

Year Acquired	Original Cost	Amount Existing Liens	Purpose of Refinance	Describe Improvements ☐ made ☐ to be made
	$	$		Cost: $

Title will be held in what Name(s) | Manner in which Title will be held | Estate will be held in: ☐ Fee Simple ☐ Leasehold (show expiration date)

Source of Down Payment, Settlement Charges, and/or Subordinate Financing (explain)

III. BORROWER INFORMATION

Borrower	Co-Borrower
Borrower's Name (include Jr. or Sr. if applicable)	Co-Borrower's Name (include Jr. or Sr. if applicable)
Social Security Number / Home Phone (incl. area code) / DOB (mm/dd/yyyy) / Yrs. School	Social Security Number / Home Phone (incl. area code) / DOB (mm/dd/yyyy) / Yrs. School
☐ Married (include registered domestic partners) ☐ Separated ☐ Unmarried (include single, divorced, widowed) / Dependents (not listed by Co-Borrower) no. ages	☐ Married (include registered domestic partners) ☐ Separated ☐ Unmarried (include single, divorced, widowed) / Dependents (not listed by Borrower) no. ages
Present Address (street, city, state, ZIP) ☐ Own ☐ Rent ______ No. Yrs.	Present Address (street, city, state, ZIP) ☐ Own ☐ Rent ______ No. Yrs.
Mailing Address, if different from Present Address	Mailing Address, if different from Present Address

If residing at present address for less than two years, complete the following:

Borrower	Co-Borrower
Former Address (street, city, state, ZIP) ☐ Own ☐ Rent ______ No. Yrs.	Former Address (street, city, state, ZIP) ☐ Own ☐ Rent ______ No. Yrs.

IV. EMPLOYMENT INFORMATION

Borrower		Co-Borrower	
Name & Address of Employer ☐ Self Employed	Yrs. on this job / Yrs. employed in this line of work/profession	Name & Address of Employer ☐ Self Employed	Yrs. on this job / Yrs. employed in this line of work/profession
Position/Title/Type of Business	Business Phone (incl. area code)	Position/Title/Type of Business	Business Phone (incl. area code)

If employed in current position for less than two years or if currently employed in more than one position, complete the following:

Borrower		Co-Borrower	
Name & Address of Employer ☐ Self Employed	Dates (from - to) / Monthly Income $	Name & Address of Employer ☐ Self Employed	Dates (from - to) / Monthly Income $
Position/Title/Type of Business	Business Phone (incl. area code)	Position/Title/Type of Business	Business Phone (incl. area code)
Name & Address of Employer ☐ Self Employed	Dates (from - to) / Monthly Income $	Name & Address of Employer ☐ Self Employed	Dates (from - to) / Monthly Income $
Position/Title/Type of Business	Business Phone (incl. area code)	Position/Title/Type of Business	Business Phone (incl. area code)

V. MONTHLY INCOME AND COMBINED HOUSING EXPENSE INFORMATION

Gross Monthly Income	Borrower	Co-Borrower	Total	Combined Monthly Housing Expense	Present	Proposed
Base Empl. Income*	$	$	$	Rent	$	
Overtime				First Mortgage (P&I)		$
Bonuses				Other Financing (P&I)		
Commissions				Hazard Insurance		
Dividends/Interest				Real Estate Taxes		
Net Rental Income				Mortgage Insurance		
Other (before completing, see the notice in "describe other income," below)				Homeowner Assn. Dues		
				Other:		
Total	$	$	$	**Total**	$	$

*** Self Employed Borrower(s) may be required to provide additional documentation such as tax returns and financial statements.**

Describe Other Income Notice: Alimony, child support, or separate maintenance income need not be revealed if the Borrower (B) or Co-Borrower (C) does not choose to have it considered for repaying this loan.

B/C		Monthly Amount
		$

VI. ASSETS AND LIABILITIES

This Statement and any applicable supporting schedules may be completed jointly by both married and unmarried Co-Borrowers if their assets and liabilities are sufficiently joined so that the Statement can be meaningfully and fairly presented on a combined basis; otherwise, separate Statements and Schedules are required. If the Co-Borrower section was completed about a non-applicant spouse or other person, this Statement and supporting schedules must be completed about that spouse or other person also.

Completed ☐ Jointly ☐ Not Jointly

ASSETS Description	Cash or Market Value
Cash deposit toward purchase held by:	$
List checking and savings accounts below	
Name and address of Bank, S&L, or Credit Union	
Acct. no.	$
Name and address of Bank, S&L, or Credit Union	
Acct. no.	$
Name and address of Bank, S&L, or Credit Union	
Acct. no.	$
Name and address of Bank, S&L, or Credit Union	
Acct. no.	$
Stocks & Bonds (Company name/number & description)	$
Life insurance net cash value Face amount: $	$
Subtotal Liquid Assets	$
Real estate owned (enter market value from schedule of real estate owned)	$
Vested interest in retirement fund	$
Net worth of business(es) owned (attach financial statement)	$
Automobiles owned (make and year)	$
Other Assets (itemize)	$
Total Assets a.	$

Liabilities and Pledged Assets. List the creditor's name, address, and account number for all outstanding debts, including automobile loans, revolving charge accounts, real estate loans, alimony, child support, stock pledges, etc. Use continuation sheet, if necessary. Indicate by (*) those liabilities, which will be satisfied upon sale of real estate owned or upon refinancing of the subject property.

LIABILITIES	Monthly Payment & Months Left to Pay	Unpaid Balance
Name and address of Company Acct. no.	$ Payment/Months	$
Name and address of Company Acct. no.	$ Payment/Months	$
Name and address of Company Acct. no.	$ Payment/Months	$
Name and address of Company Acct. no.	$ Payment/Months	$
Name and address of Company Acct. no.	$ Payment/Months	$
Name and address of Company Acct. no.	$ Payment/Months	$
Name and address of Company Acct. no.	$ Payment/Months	$
Alimony/Child Support/Separate Maintenance Payments Owed to:	$	
Job-Related Expense (child care, union dues, etc.)	$	
Total Monthly Payments	$	
Net Worth (a minus b) ▶ $	**Total Liabilities b.**	$

VI. ASSETS AND LIABILITIES (cont'd)

Schedule of Real Estate Owned (If additional properties are owned, use continuation sheet.)

Property Address (enter S if sold, PS if pending sale or R if rental being held for income)		Type of Property	Present Market Value	Amount of Mortgages & Liens	Gross Rental Income	Mortgage Payments	Insurance, Maintenance, Taxes & Misc.	Net Rental Income
			$	$	$	$	$	$
		Totals	$	$	$	$	$	$

List any additional names under which credit has previously been received and indicate appropriate creditor name(s) and account number(s):

Alternate Name	Creditor Name	Account Number

VII. DETAILS OF TRANSACTION

a. Purchase price	$
b. Alterations, improvements, repairs	
c. Land (if acquired separately)	
d. Refinance (incl. debts to be paid off)	
e. Estimated prepaid items	
f. Estimated closing costs	
g. PMI, MIP, Funding Fee	
h. Discount (if Borrower will pay)	
i. Total costs (add items a through h)	
j. Subordinate financing	
k. Borrower's closing costs paid by Seller	
l. Other Credits (explain)	
m. Loan amount (exclude PMI, MIP, Funding Fee financed)	
n. PMI, MIP, Funding Fee financed	
o. Loan amount (add m & n)	
p. Cash from/to Borrower (subtract j, k, l & o from i)	

VIII. DECLARATIONS

If you answer "Yes" to any questions a through i, please use continuation sheet for explanation.

	Borrower Yes	Borrower No	Co-Borrower Yes	Co-Borrower No
a. Are there any outstanding judgments against you?	☐	☐	☐	☐
b. Have you been declared bankrupt within the past 7 years?	☐	☐	☐	☐
c. Have you had property foreclosed upon or given title or deed in lieu thereof in the last 7 years?	☐	☐	☐	☐
d. Are you a party to a lawsuit?	☐	☐	☐	☐
e. Have you directly or indirectly been obligated on any loan which resulted in foreclosure, transfer of title in lieu of foreclosure, or judgment? (This would include such loans as home mortgage loans, SBA loans, home improvement loans, educational loans, manufactured (mobile) home loans, any mortgage, financial obligation, bond, or loan guarantee. If "Yes," provide details, including date, name, and address of Lender, FHA or VA case number, if any, and reasons for the action.)	☐	☐	☐	☐
f. Are you presently delinquent or in default on any Federal debt or any other loan, mortgage, financial obligation, bond, or loan guarantee? If "Yes," give details as described in the preceding question.	☐	☐	☐	☐
g. Are you obligated to pay alimony, child support, or separate maintenance?	☐	☐	☐	☐
h. Is any part of the down payment borrowed?	☐	☐	☐	☐
i. Are you a co-maker or endorser on a note?	☐	☐	☐	☐
j. Are you a U.S. citizen?	☐	☐	☐	☐
k. Are you a permanent resident alien?	☐	☐	☐	☐
l. Do you intend to occupy the property as your primary residence? If "Yes," complete question m below.	☐	☐	☐	☐
m. Have you had an ownership interest in a property in the last three years?	☐	☐	☐	☐
(1) What type of property did you own - - principal residence (PR), second home (SH), or investment property (IP)?				
(2) How did you hold title to the home - - solely by yourself (S), jointly with your spouse (SP), or jointly with another person (O)?				

IX. ACKNOWLEDGEMENT AND AGREEMENT

Each of the undersigned specifically represents to Lender and to Lender's actual or potential agents, brokers, processors, attorneys, insurers, servicers, successors and assigns and agrees and acknowledges that: (1) the information provided in this application is true and correct as of the date set forth opposite my signature and that any intentional or negligent misrepresentation of this information contained in this application may result in civil liability, including monetary damages, to any person who may suffer any loss due to reliance upon any misrepresentation that I have made on this application, and/or in criminal penalties including, but not limited to, fine or imprisonment or both under the provisions of Title 18, United States Code, Sec. 1001, et seq.; (2) the loan requested pursuant to this application (the "Loan") will be secured by a mortgage or deed of trust on the property described in this application; (3) the property will not be used for any illegal or prohibited purpose or use; (4) all statements made in this application are made for the purpose of obtaining a residential mortgage loan; (5) the property will be occupied as indicated in this application; (6) the Lender, its servicers, successors or assigns may retain the original and/or an electronic record of this application, whether or not the Loan is approved; (7) the Lender and its agents, brokers, insurers, servicers, successors, and assigns may continuously rely on the information contained in the application, and I am obligated to amend and/or supplement the information provided in this application if any of the material facts that I have represented herein should change prior to closing of the Loan; (8) in the event that my payments on the Loan become delinquent, the Lender, its servicers, successors or assigns may, in addition to any other rights and remedies that it may have relating to such delinquency, report my name and account information to one or more consumer reporting agencies; (9) ownership of the Loan and/or administration of the Loan account may be transferred with such notice as may be required by law; (10) neither Lender nor its agents, brokers, insurers, servicers, successors or assigns has made any representation or warranty, express or implied, to me regarding the property or the condition or value of the property; and (11) my transmission of this application as an "electronic record" containing my "electronic signature," as those terms are defined in applicable federal and/or state laws (excluding audio and video recordings), or my facsimile transmission of this application containing a facsimile of my signature, shall be as effective, enforceable and valid as if a paper version of this application were delivered containing my original written signature.

Acknowledgement. Each of the undersigned hereby acknowledges that any owner of the Loan, its servicers, successors and assigns, may verify or reverify any information contained in this application or obtain any information or data relating to the Loan, for any legitimate business purpose through any source, including a source named in this application or a consumer reporting agency.

Borrower's Signature	Date	Co-Borrower's Signature	Date
X		X	

X. INFORMATION FOR GOVERNMENT MONITORING PURPOSES

The following information is requested by the Federal Government for certain types of loans related to a dwelling in order to monitor the lender's compliance with equal credit opportunity, fair housing and home mortgage disclosure laws. You are not required to furnish this information, but are encouraged to do so. The law provides that a lender may not discriminate either on the basis of this information, or on whether you choose to furnish it. If you furnish the information, please provide both ethnicity and race. For race, you may check more than one designation. If you do not furnish ethnicity, race, or sex, under Federal regulations, this lender is required to note the information on the basis of visual observation and surname if you have made this application in person. If you do not wish to furnish the information, please check the box below. (Lender must review the above material to assure that the disclosures satisfy all requirements to which the lender is subject under applicable state law for the particular type of loan applied for.)

BORROWER	**CO-BORROWER**
☐ I do not wish to furnish this information.	☐ I do not wish to furnish this information.
Ethnicity: ☐ Hispanic or Latino ☐ Not Hispanic or Latino	**Ethnicity:** ☐ Hispanic or Latino ☐ Not Hispanic or Latino
Race: ☐ American Indian or Alaska Native ☐ Asian ☐ Black or African American ☐ Native Hawaiian or Other Pacific Islander ☐ White	**Race:** ☐ American Indian or Alaska Native ☐ Asian ☐ Black or African American ☐ Native Hawaiian or Other Pacific Islander ☐ White
Sex: ☐ Female ☐ Male	**Sex:** ☐ Female ☐ Male

To be Completed by Loan Originator:

This information was provided:
☐ In a face-to-face interview ☐ By the applicant and submitted by fax or mail
☐ In a telephone interview ☐ By the applicant and submitted via e-mail or the Internet

Loan Originator's Signature		**Date**
X		
Loan Originator's Name (print or type)	**Loan Originator Identifier**	**Loan Originator's Phone Number (including area code)**
Lee Judd	571970	(575)461-0191
Loan Origination Company's Name	**Loan Origination Company Identifier**	**Loan Origination Company's Address**
Tucumcari Federal Savings & Loan Assoc	411059	301 South First Tucumcari, NM 88401

CONTINUATION SHEET/RESIDENTIAL LOAN APPLICATION

Use this continuation sheet if you need more space to complete the Residential Loan Application. Mark **B** for Borrower or **C** for Co-Borrower.	Borrower:	Agency Case Number:
	Co-Borrower:	Lender Case Number:

Under California Civil Code 1812.30(j) "Credit applications for the obtainment of money, goods, labor, or services shall clearly specify that the applicant, if married, may apply for a separate account."

I/We fully understand that it is a Federal crime punishable by fine or imprisonment, or both, to knowingly make any false statements concerning any of the above facts as applicable under the provisions of Title 18, United States Code, Section 1001, et seq.

Borrower's Signature:	Date	Co-Borrower's Signature:	Date
X		X	

Tucumcari Federal Savings & LOAN ASSOCIATION

PO DRAWER S TUCUMCARI, NM 88401 (505) 461-0191

CUSTOMER INFORMATION SHEET

IMPORTANT ACCOUNT OPENING INFORMATION: Federal law requires us to obtain sufficient information to verify your identity. You may be asked several questions and to provide one or more forms of identification to fulfill this requirement. In some instances, we may use outside sources to confirm the information. The information you provide is protected by our privacy policy and federal law.

Individual Information							
***Name**							
***Address (physical)**							
***Mailing Address (if different)**							
***Home Phone**							
Work Phone							
Mobile Phone							
E-Mail							
***Birth Date**							
***SSN**							
***Drivers License Number**		**State**		**Date Issued**		**Expiration Date**	
Employer's Name							
***Source of Funds**							
***Beneficial Owner or Manager Entity**							

PATRIOT ACT INFORMATION DISCLOSURE:

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 that means for 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.

Signature Date

Internal Office Use Expected Monthly Activity			
Loan Account	#		
*Cash transactions not Exceeding:	$	*Wire transactions not Exceeding:	$
*Risk Rating:	[ ] Low	**[ ]** Expanded Due Diligence	[ ] High – Charitable Org.
**[ ] ***OFAC Checked	[ ] *Equifax Checked		

Tucumcari Federal Savings & Loan Association
PO DRAWER S TUCUMCARI, NM 88401 (505) 461-0191

CUSTOMER INFORMATION SHEET

IMPORTANT ACCOUNT OPENING INFORMATION: Federal law requires us to obtain sufficient information to verify your identity. You may be asked several questions and to provide one or more forms of identification to fulfill this requirement. In some instances, we may use outside sources to confirm the information. The information you provide is protected by our privacy policy and federal law.

Individual Information							
***Name**							
***Address (physical)**							
***Mailing Address (if different)**							
***Home Phone**							
Work Phone							
Mobile Phone							
E-Mail							
***Birth Date**							
***SSN**							
***Drivers License Number**		**State**		**Date Issued**		**Expiration Date**	
Employer's Name							
***Source of Funds**							
***Beneficial Owner or Manager Entity**							

PATRIOT ACT INFORMATION DISCLOSURE:

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 that means for 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.

Signature Date

Internal Office Use Expected Monthly Activity			
Loan Account	#		
*Cash transactions not Exceeding:	$	*Wire transactions not Exceeding:	$
*Risk Rating:	[ ] Low	[ ] Expanded Due Diligence	[ ] High – Charitable Org.
[ ] *OFAC Checked	[ ] *Equifax Checked		

*Required information Revised 05/15/2018

TUCUMCARI FEDERAL SAVINGS AND LOAN ASSOCIATION
BORROWER'S CERTIFICATION AND AUTHORIZATION

CERTIFICATION

The undersigned certify the following:

1. I/We have applied for a mortgage loan from TUCUMCARI FEDERAL SAVINGS AND LOAN ASSOCIATION. In applying for the loan I/We completed a loan application containing various information on the purpose of the loan, the amount and source of the down payment, employment and income information, and assets and liabilities. I/We certify that all of the information is true and complete. I/We made no misrepresentations in the loan application or other documents, nor did I/We omit any pertinent information.

2. I/We understand and agree that Tucumcari Federal Savings and Loan Association reserves the right to change the mortgage loan review process to a full documentation program. This may include verifying the information provided on the application with the employer and/or the financial institution.

3. I/We fully understand that it is a Federal crime punishable by fine or imprisonment, or both, to knowingly make any false statements when applying for this mortgage, as applicable under the provisions of Title 18, United States Code, Section 1014.

AUTHORIZATION TO RELEASE INFORMATION

1. I/We have applied for a mortgage loan from TUCUMCARI FEDERAL SAVINGS AND LOAN ASSOCIATION.

   As part of the application process, Tucumcari Federal Savings and Loan Association may verify information contained in my/our loan application and in other documents required in connection with the loan, either before the loan is closed or as part of its quality control program.

2. I/We authorize you to provide Tucumcari Federal Savings and Loan Association and to any investor to whom may sell my mortgage any and all information and documentation that they request. Such information includes but is not limited to, employment history and income: bank, money market, and similar account balances; credit history, and copies of income tax return.

3. Tucumcari Federal Savings and Loan Association or any Investor that purchases the mortgage may address this authorization to any party named in the loan application.

4. A copy of this authorization may be accepted as an original.

5. This authorization is ongoing and shall remain valid until such time as my mortgage debt is discharged.

6. Your prompt reply to Tucumcari Federal Savings and Loan Association or the Investor that purchased the mortgage is appreciated.

Borrower's Signature	Date	Social Security Number
Co-Borrower's Signature	Date	Social Security Number

Privacy Act Notice: This information is to be used by the agency collecting it in determining whether you qualify as a prospective mortgagor under its program. It will not be disclosed outside the agency without your consent as required and permitted by law, you do not have to give us this information, but if you do not your approval as a prospective mortgagor may be delayed or rejected. The information requested in this form is authorized by Title 38, U.S.C. Chapter 37 (if VA) by 12 U.S.C. Section 1701 et seq (if HUD/FHA) and Title 42 U.S.C., 1471 et seq., or U.S.C. 1921 et. Seq (If U.S.D.A. FMHA)

Right to Receive a Copy of Appraisal Report

Tucumcari Federal Savings and Loan Association may order an appraisal to determine the property's value and charge you, the borrower, 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.

Acknowledgment

By signing below, you acknowledge that you have received this Disclosure. Please return this form with your application and keep a copy for your records.

______________________________ Date   ______________________________ Date

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______________________________ Date

______________________________ Date

Consumer handbook on adjustable-rate mortgages

Consumer Financial Protection Bureau

January 2014

This booklet was initially prepared by the Board of Governors of the Federal Reserve System and the Office of Thrift Supervision in consultation with the organizations listed below. The Consumer Financial Protection Bureau (CFPB) has made technical updates to the booklet to reflect new mortgage rules under Title XIV of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act). A larger update of this booklet is planned in the future to reflect other changes under the Dodd-Frank Act and to align with other CFPB resources and tools for consumers as part of the CFPB's broader mission to educate consumers. Consumers are encouraged to visit the CPFB's website at consumerfinance.gov/owning-a-home to access interactive tools and resources for mortgage shoppers, which are expected to be available beginning in 2014.

- AARP
- American Association of Residential Mortgage Regulators
- America's Community Bankers
- Center for Responsible Lending
- Conference of State Bank Supervisors
- Consumer Federation of America
- Consumer Mortgage Coalition
- Consumers Union
- Credit Union National Association
- Federal Deposit Insurance Corporation
- Federal Reserve Board's Consumer Advisory Council
- Federal Trade Commission
- Financial Services Roundtable
- Independent Community Bankers Association
- Mortgage Bankers Association
- Mortgage Insurance Companies of America
- National Association of Federal Credit Unions
- National Association of Home Builders
- National Association of Mortgage Brokers
- National Association of Realtors
- National Community Reinvestment Coalition
- National Consumer Law Center
- National Credit Union Administration

Table of contents

1. Introduction

This handbook gives you an overview of adjustable-rate mortgages (ARMs), explains how ARMs work, and discusses some of the issues you might face as a borrower. It includes:

- ways to reduce the risks associated with ARMs;
- pointers about advertising and other sources of information, such as lenders and trusted advisers;
- a glossary of important ARM terms; and
- a worksheet that can help you ask the right questions and figure out whether an ARM is right for you. (Ask lenders to help you fill out the worksheet so you can get the information you need to compare mortgages.)

An ARM is a loan with an interest rate that changes. ARMs may start with lower monthly payments than fixed-rate mortgages, but keep in mind the following:

- Your monthly payments could change. They could go up— sometimes by a lot—even if interest rates don't go up. See page 20.
- Your payments may not go down much, or at all—even if interest rates go down. See page 16.
- You could end up owing more money than you borrowed—even if you make all your payments on time. See page 22.
- If you want to convert your ARM to a fixed-rate mortgage, you might not be able to. See page 28.

You need to compare the features of ARMs to find the one that best fits your needs. The Mortgage Shopping Worksheet on page 6 can help you get started.

1.1 Mortgage shopping worksheet

Ask your lender or broker to help you fill out this worksheet.

Name of lender or broker and contact information	
Mortgage amount	
Loan term (e.g. 15 yr, 30 yr)	
Loan description (e.g. fixed-rate, 3/1 ARM, payment-option ARM, interest-only ARM)	

Basic features for comparison	Fixed-rate mortgage	ARM 1	ARM 2	ARM 3
Fixed-rate mortgage interest rate and annual percentage rate (APR) (for graduated-payment or stepped-rate mortgages, use the ARM columns)				
ARM initial interest rate and APR				
▪ How long does the initial rate apply?				

	Fixed-rate mortgage	ARM 1	ARM 2	ARM 3
▪ What will the interest rate be after the initial period?				
ARM features				
▪ How often can the interest rate adjust?				
▪ What is the index and what is the current rate? (see chart on page 14)				
▪ What is the margin for this loan?				
Interest-rate caps				
▪ What is the periodic interest-rate cap?				
▪ What is the lifetime interest-rate cap? How high could the rate go?				
▪ How low could the interest rate go on this loan?				
What is the payment cap?				

	Fixed-rate mortgage	**ARM 1**	**ARM 2**	**ARM 3**
Can this loan have negative amortization (that is, can the loan amount increase)?				
What is the limit to how much the balance can grow before the loan will be recalculated?				
Is there a prepayment penalty if I pay off this mortgage early?				
How long does that penalty last? How much is it?				
Is there a balloon payment on this mortgage? If so, what is the estimated amount and when would it be due?				
What are the estimated origination fees and charges for this loan?				
Monthly payment amounts	Fixed-rate mortgage	ARM 1	ARM 2	ARM 3
What will the monthly payments be for the first year of the loan?				
Does this include taxes and insurance? Condo or homeowner's association fees? If not, what are the estimates for these amounts?				

	Fixed-rate mortgage	ARM 1	ARM 2	ARM 3
What will my monthly payment be after 12 months if the index rate…				
▪ stays the same?				
▪ goes up 2%?				
▪ goes down 2%?				
What is the most my minimum monthly payment could be after one year?				
What is the most my minimum monthly payment could be after three years?				
What is the most my minimum monthly payment could be after five years?				

2. What is an ARM?

An adjustable-rate mortgage differs from a fixed-rate mortgage in many ways. Most importantly, with a fixed-rate mortgage, the interest rate and the monthly payment of principal and interest stay the same during the life of the loan. With an ARM, the interest rate changes periodically, usually in relation to an index, and payments may go up or down accordingly.

To compare two ARMs, or to compare an ARM with a fixed-rate mortgage, you need to know about indexes, margins, discounts, caps on rates and payments, negative amortization, payment options, and recasting (recalculating) your loan. You need to consider the maximum amount your monthly payment could increase. Most importantly, you need to know what might happen to your monthly mortgage payment in relation to your future ability to afford higher payments.

Lenders generally charge lower initial interest rates for ARMs than for fixed-rate mortgages. At first, this makes the ARM easier on your pocketbook than a fixed-rate mortgage for the same loan amount. Moreover, your ARM could be less expensive over a long period than a fixed-rate mortgage—for example, if interest rates remain steady or move lower.

Against these advantages, you have to weigh the risk that an increase in interest rates would lead to higher monthly payments in the future. It's a trade-off—you get a lower initial rate with an ARM in exchange for assuming more risk over the long run. Here are some questions you need to consider:

- Is my income enough—or likely to rise enough—to cover higher mortgage payments if interest rates go up?

Lenders and brokers: Mortgage loans are offered by many kinds of lenders—such as banks, mortgage companies, and credit unions. You can also get a loan through a mortgage broker. Brokers "arrange" loans; in other words, they find a lender for you. Brokers generally take your application and contact several lenders, but keep in mind that brokers are not required to find the best deal for you unless they have contracted with you to act as your agent, or have a duty to do so under state law.

- Will I be taking on other sizable debts, such as a loan for a car or school tuition, in the near future?
- How long do I plan to own this home? If you plan to sell soon, rising interest rates may not pose the problem they might if you plan to own the house for a long time.
- Do I plan to make any additional payments or pay the loan off early?

3. How ARMs work: the basic features

3.1 Initial rate and payment

The initial rate and payment amount on an ARM will remain in effect for a limited period—ranging from just one month to five years or more. For some ARMs, the initial rate and payment can vary greatly from the rates and payments later in the loan term. Even if interest rates are stable, your rates and payments could change a lot. If lenders or brokers quote the initial rate and payment on a loan, ask them for the annual percentage rate (APR). If the APR is significantly higher than the initial rate, then it is likely that your rate and payments will be a lot higher when the loan adjusts, even if general interest rates remain the same.

3.2 The adjustment period

Depending on the type of ARM loan, the interest rate and monthly payment will change every month, quarter, year, three years, or five years. The period between rate changes is called the adjustment period. For example, a loan with an adjustment period of one year is called a one-year ARM, because the interest rate and payment change once every year; a loan with a three-year adjustment period is called a three-year ARM.

If you take out an adjustable-rate mortgage, the company that collects your mortgage payments (your servicer) must notify you about the first interest rate adjustment at least seven months before you owe a payment at the adjusted interest rate. The advance notification needs to show:

- An estimate of the new interest rate and payment amount

- Alternatives available to you
- How to contact a HUD-approved housing counselor

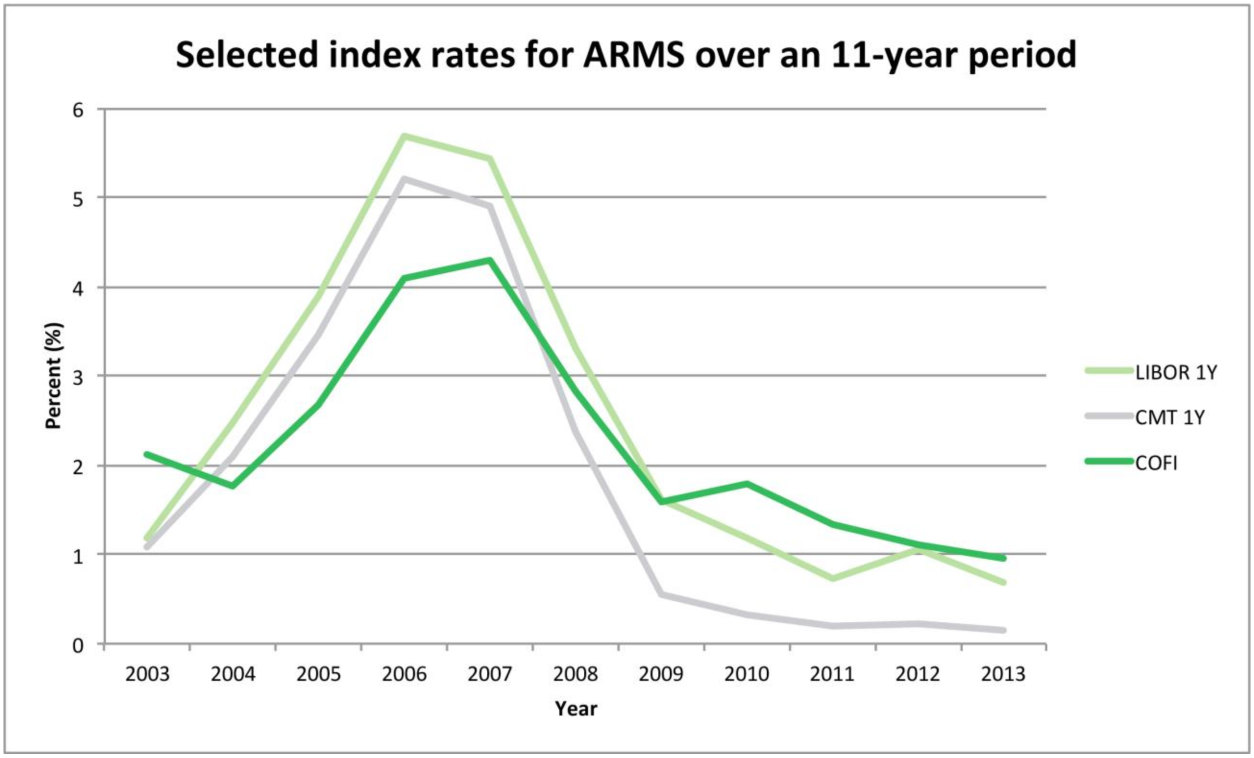
For the first interest rate adjustment, as well as for any adjustments that come later that give you a different payment amount, your servicer must also send you another notice, at least 60 days in advance, telling you what your new payment will be.

3.3 The index

The interest rate on an ARM is made up of two parts: the index and the margin. The index is a measure of interest rates generally, and the margin is an extra amount that the lender adds above the index. Your payments will be affected by any caps, or limits, on how high or low your rate can go. If the index rate moves up, your interest rate will also go up in most circumstances, and you will probably have to make higher monthly payments. On the other hand, if the index rate goes down, your monthly payment could go down. Not all ARMs adjust downward, however—be sure to read the information for the loan you are considering.

Lenders base ARM rates on a variety of indexes. Among the most common indexes are the rates on one-year constant-maturity Treasury (CMT) securities, the Cost of Funds Index (COFI), and the London Interbank Offered Rate (LIBOR). A few lenders use their own cost of funds as an index, rather than using other indexes. You should ask what index will be used, how it has fluctuated in the past, and where it is published—you can find a lot of this information in major newspapers and on the Internet.

To help you get an idea of how to compare different indexes, the following chart shows a few common indexes over an 11-year period (2003–2013). As you can see, some index rates tend to be higher than others, and some change more often than others.



3.4 The margin

To set the interest rate on an ARM, lenders add a few percentage points to the index rate, called the *margin*. The amount of the margin may differ from one lender to another, but it usually stays the same over the life of the loan. The *fully indexed rate* is equal to the margin plus the index. For example, if the lender uses an index that currently is 4 percent and adds a 3 percent margin, the fully indexed rate would be

Index	4%
Margin	3%
Fully indexed rate	**7%**

If the index on this loan rose to 5 percent, the fully indexed rate at the next adjustment would be 8 percent (5 percent + 3 percent). If the index fell to 2 percent, the fully indexed rate at adjustment would be 5 percent (2 percent + 3 percent).

Some lenders base the amount of the margin on your credit record— the better your credit, the lower the margin they add—and the lower the interest you will have to pay on your mortgage. The amount of the margin could also be based on other factors. In comparing ARMs, look at both the index and margin for each program.

If the initial rate on the loan is less than the fully indexed rate, it is called a discounted (or "teaser") index rate. Many ARM loans offer a discounted index rate until the first adjustment period, but some ARM loans have an initial rate that is higher than the fully indexed rate.

Ability to repay: When you apply for a loan, lenders are generally required to collect and verify enough of your financial information to determine you have the ability to repay the loan. For example, a lender might ask to see copies of your most recent pay stubs, income tax filings, and bank account statements. Lenders are generally required to consider your ability to repay the loan based on the fully indexed rate, or the highest rate you will be expected to pay in the first five years of the loan.

3.5 Interest-rate caps

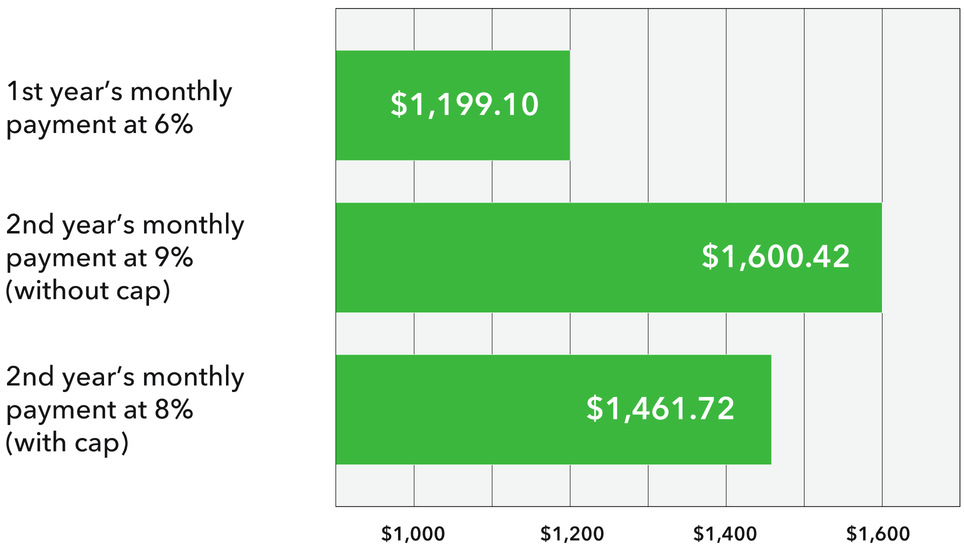
An interest-rate cap places a limit on the amount your interest rate can increase. Interest-rate caps come in two versions:

- *A periodic adjustment cap*, which limits the amount the interest rate can adjust up or down from one adjustment period to the next after the first adjustment, and
- *A lifetime cap*, which limits the interest-rate increase over the life of the loan. By law, virtually all ARMs must have a lifetime cap.

3.5.1 Periodic adjustment caps

Let's suppose you have an ARM with a periodic adjustment interest-rate cap of 2 percent. However, at the first adjustment, the index rate has risen 3 percent. The following example shows what happens.

🗨 **Examples in this handbook:** All examples in this handbook are based on a $200,000 loan amount and a 30-year term. Payment amounts in the examples do not include taxes, insurance, condominium or homeowner association fees, or similar items. These amounts can be a significant part of your monthly payment.



Difference in 2nd year between payment with cap and payment without = $138.70 per month

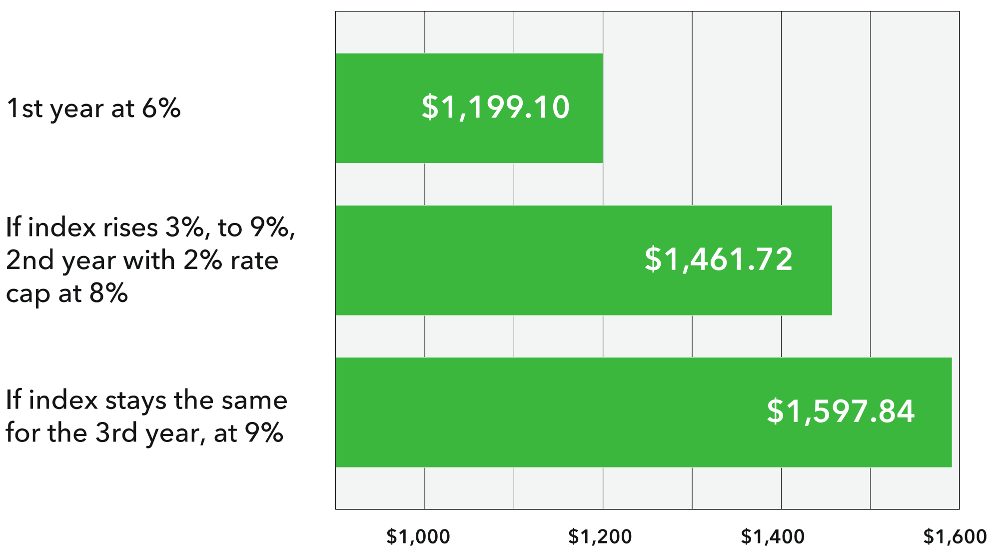
In this example, because of the cap on your loan, your monthly payment in year two is $138.70 per month lower than it would be without the cap, saving you $1,664.40 over the year.

Some ARMs allow a larger rate change at the first adjustment and then apply a periodic adjustment cap to all future adjustments.

A drop in interest rates does not always lead to a drop in your monthly payments. With some ARMs that have interest-rate caps, the cap may hold your rate and payment below what it would have been if the change in the index rate had been fully applied. The increase in the interest that was not imposed because of the rate cap might carry over to future rate adjustments. This is called *carryover*. So, at the next adjustment date, your payment might increase even though the index rate has stayed the same or declined.

The following example shows how carryovers work. Suppose the index on your ARM increased 3 percent during the first year.

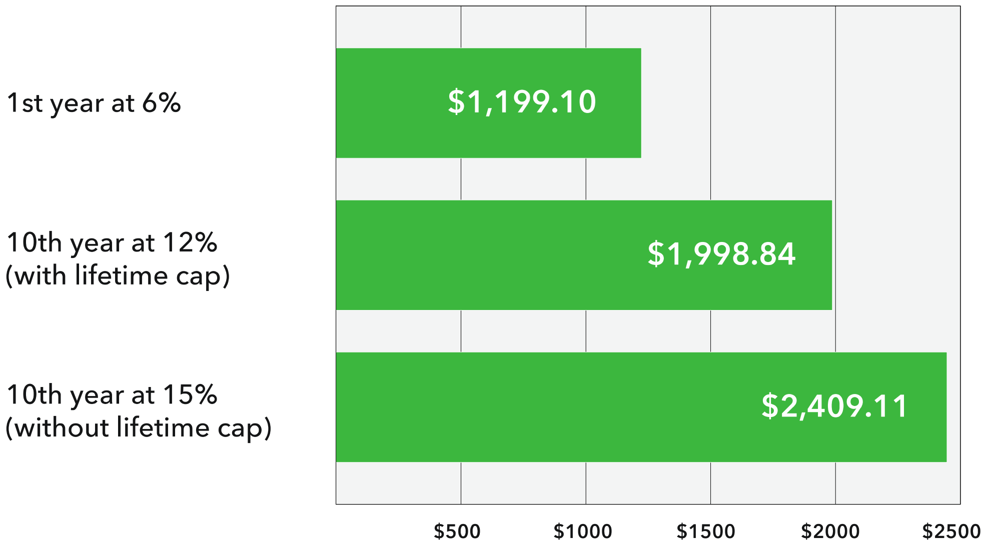
Because this ARM loan limits rate increases to 2 percent at any one time, the rate is adjusted by only 2 percent, to 8 percent for the second year. However, the remaining 1 percent increase in the index carries over to the next time the lender can adjust rates. So, when the lender adjusts the interest rate for the third year, even if there has been no change in the index during the second year, the rate still increases by 1 percent, to 9 percent.



In general, the rate on your loan can go up at any scheduled adjustment date when the lender's standard ARM rate (the index plus the margin) is higher than the rate you are paying before that adjustment.

3.5.2 Lifetime caps

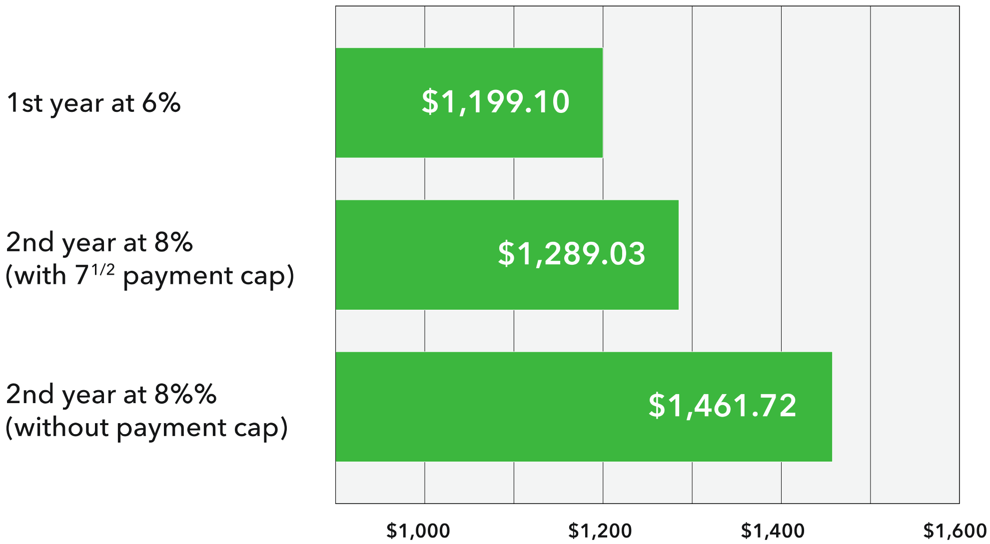
The next example shows how a lifetime rate cap would affect your loan. Let's say that your ARM starts out with a 6 percent rate and the loan has a 6 percent lifetime cap—that is, the rate can never exceed 12 percent. Suppose the index rate increases 1 percent in each of the next nine years. With a 6 percent overall cap, your payment would never exceed $1,998.84—compared with the $2,409.11 that it would have reached in the tenth year without a cap.



3.6 Payment caps

In addition to interest-rate caps, many ARMs—including payment-option ARMs (discussed on page 21)—limit, or cap, the amount your monthly payment may increase at the time of each adjustment. For example, if your loan has a payment cap of 7½ percent, your monthly payment won't increase more than 7½ percent over your previous payment, even if interest rates rise more. For example, if your monthly payment in year 1 of your mortgage was $1,000, it could only go up to $1,075 in year 2 (7½ percent of $1,000 is an additional $75). Any interest you don't pay because of the payment cap will be added to the balance of your loan. A payment cap can limit the increase to your monthly payments but also can add to the amount you owe on the loan. This is called negative amortization, a term explained on page 27.

Let's assume that your rate changes in the first year by two percentage points, but your payments can increase no more than 7½ percent in any one year. The following graph shows what your monthly payments would look like.



Difference in monthly payment = $172.69

While your monthly payment will be only $1,289.03 for the second year, the difference of $172.69 each month will be added to the balance of your loan and will lead to negative amortization.

Some ARMs with payment caps do not have periodic interest-rate caps. In addition, as explained below, most payment-option ARMs have a built-in recalculation period, usually every five years. At that point, your payment will be recalculated (lenders use the term recast) based on the remaining term of the loan. If you have a 30-year loan and you are at the end of year five, your payment will be recalculated for the remaining 25 years. The payment cap does not apply to this adjustment. If your loan balance has increased, or if interest rates have risen faster than your payments, your payments could go up a lot.

4. Types of ARMs

4.1 Hybrid ARMs

Hybrid ARMs often are advertised as 3/1 or 5/1 ARMs—you might also see ads for 7/1 or 10/1 ARMs. These loans are a mix— or a hybrid—of a fixed-rate period and an adjustable-rate period. The interest rate is fixed for the first few years of these loans—for example, for five years in a 5/1 ARM. After that, the rate may adjust annually (the 1 in the 5/1 example), until the loan is paid off. In the case of 3/1, 5/1, 7/1 or 10/1 ARMs:

- the first number tells you how long the fixed interest-rate period will be, and
- the second number tells you how often the rate will adjust after the initial period.

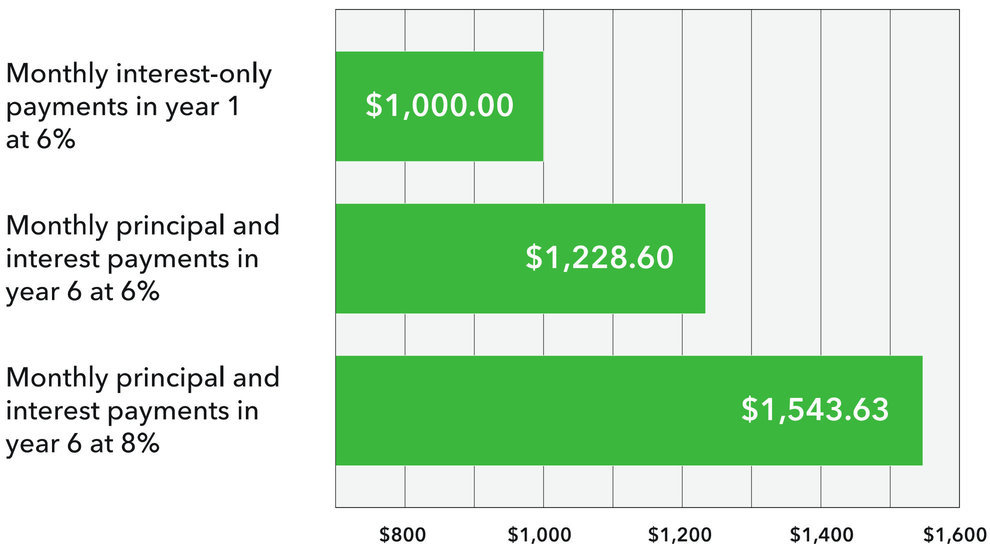
You may also see ads for 2/28 or 3/27 ARMs—the first number tells you how many years the fixed interest-rate period will be, and the second number tells you the number of years the rates on the loan will be adjustable. Some 2/28 and 3/27 mortgages adjust every six months, not annually.

4.2 Interest-only ARMs

An interest-only (I-O) ARM payment plan allows you to pay only the interest for a specified number of years, typically for three to 10 years. This allows you to have smaller monthly payments for a period. After that, your monthly payment will increase—even if interest rates stay the same—because you must start paying back the principal as well as the interest each month.

For some I-O loans, the interest rate adjusts during the I-O period as well.

For example, if you take out a 30-year mortgage loan with a five-year I-O payment period, you can pay only interest for five years and then you must pay both the principal and interest over the next 25 years. Because you begin to pay back the principal, your payments increase after year five, even if the rate stays the same. Keep in mind that the longer the I-O period, the higher your monthly payments will be after the I-O period ends.



4.3 Payment-option ARMs

A payment-option ARM is an adjustable-rate mortgage that allows you to choose among several payment options each month. The options typically include the following:

- *A traditional payment of principal and interest*, which reduces the amount you owe on your mortgage. These payments are based on a set loan term, such as a 15-, 30-, or 40-year payment schedule.
- *An interest-only payment*, which pays the interest but does not reduce the amount you owe on your mortgage as you make your payments.

- *A minimum (or limited) payment,* which may be less than the amount of interest due that month and may not reduce the amount you owe on your mortgage. If you choose this option, the amount of any interest you do not pay will be added to the principal of the loan, increasing the amount you owe and your future monthly payments, and increasing the amount of interest you will pay over the life of the loan. In addition, if you pay only the minimum payment in the last few years of the loan, you may owe a larger payment at the end of the loan term, called a *balloon payment*.

In addition to these options, in most cases you can choose to pay any amount over the required minimum payment.

The interest rate on a payment-option ARM is typically very low for the first few months (for example, 2 percent for the first one to three months). After that, the interest rate usually rises to a rate closer to that of other mortgage loans. Your payments during the first year are based on the initial low rate, meaning that if you only make the minimum payment each month, it will not reduce the amount you owe and it may not cover the interest due. The unpaid interest is added to the amount you owe on the mortgage, and your loan balance increases. This is called *negative amortization*. This means that even after making many payments, you could owe more than you did at the beginning of the loan. See a further caution about negative amortization in the "Consumer Cautions" section below. Also, as interest rates go up, your payments are likely to go up.

Payment-option ARMs have a built-in recalculation period, usually every five years. At this point, your payment will be recalculated (or "recast") based on the remaining term of the loan. If you have a 30-year loan and you are at the end of year five, your payment will be recalculated for the remaining 25 years. If your loan balance has increased because you have made only minimum payments, or if interest rates have risen faster than your payments, your payments will increase each time your loan is recast. At each recast, your new minimum payment will be a fully amortizing payment and any payment cap will not apply. This means that your monthly payment can increase a lot at each recast.

Lenders may recalculate your loan payments before the recast period if the amount of principal you owe grows beyond a set limit, say 110 percent or 125 percent of your original mortgage amount. For example, suppose you made only minimum payments on your $200,000 mortgage and had any unpaid interest added to your balance. If the balance grew to $250,000 (125 percent of $200,000), your lender would recalculate your payments so that you would pay off the loan over the remaining term. It is likely that your payments would go up substantially.

More information on interest-only and payment-option ARMs is available in a Federal Reserve Board brochure, *Interest-Only Mortgage Payments and Payment-Option ARMs—Are They for You?* (available online at fdic.gov/consumers/consumer/interest-only).

5. Consumer cautions

5.1 Discounted interest rates

Many lenders offer more than one type of ARM. Some lenders offer an ARM with an initial rate that is lower than their fully indexed ARM rate (that is, lower than the sum of the index plus the margin). Such rates—called discounted rates, start rates, or teaser rates—are often combined with large initial loan fees, sometimes called *points*, and with higher rates after the initial discounted rate expires.

Your lender or broker may offer you a choice of loans that may include “discount points” or a “discount fee.” You may choose to pay these points or fees in return for a lower interest rate. But keep in mind that the lower interest rate may only last until the first adjustment.

If a lender offers you a loan with a discount rate, don’t assume that means the loan is a good one for you. You should carefully consider whether you will be able to afford higher payments in later years when the discount expires and the rate is adjusted.

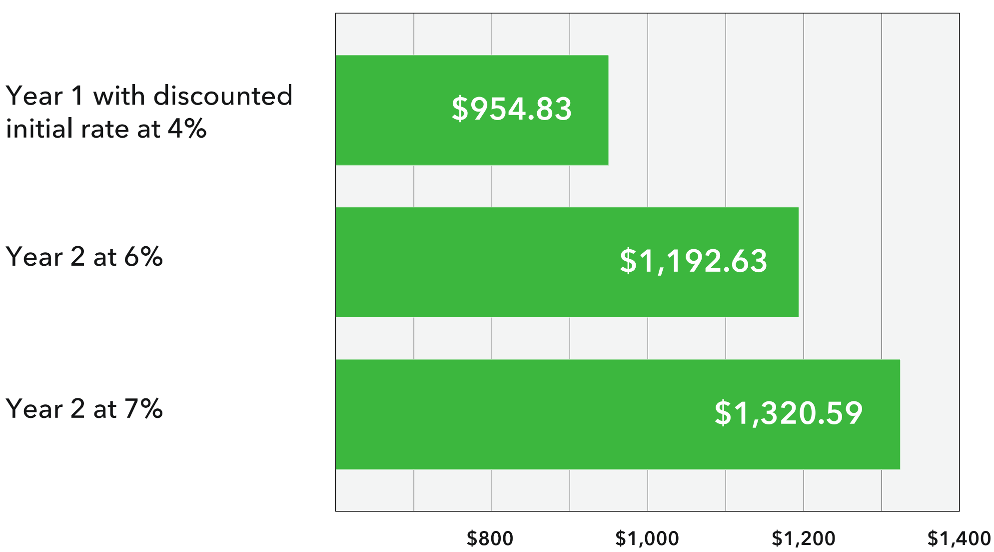
Here is an example of how a discounted initial rate might work. Let’s assume that the lender’s fully indexed 1-year ARM rate (index rate plus margin) is currently 6 percent; the monthly payment for the first year would be $1,199.10. But your lender is offering an ARM with a discounted initial rate of 4 percent for the first year. With the 4 percent rate, your first-year’s monthly payment would be $954.83.

With a discounted ARM, your initial payment will probably remain at $954.83 for only a limited time—and any savings during the discount period may be offset by higher payments over the remaining life of the mortgage. If you are considering a discount ARM, be sure to compare future payments with those for a fully indexed ARM. Lenders are generally required to consider your ability to repay the loan based on the fully indexed rate, or the highest rate you will be expected to pay in the first five years of the loan. Even so, if you buy a home or refinance using a deeply discounted initial rate, you run the risk of payment shock, negative amortization, or conversion fees. You should always look at your own budget to see how high of a payment and how big of a home loan you feel you can afford.

Another way you may get a discounted interest rate is through a "buydown." This is when the house seller pays an amount to the lender so the lender can give you a lower rate and lower payments, usually for an initial period in an ARM. The seller may increase the sales price to cover the cost of the buydown.

5.2 Payment shock

Payment shock may occur if your mortgage payment rises sharply at a rate adjustment. Let's see what would happen in the second year if the rate on your discounted 4 percent ARM were to rise to the 6 percent fully indexed rate.



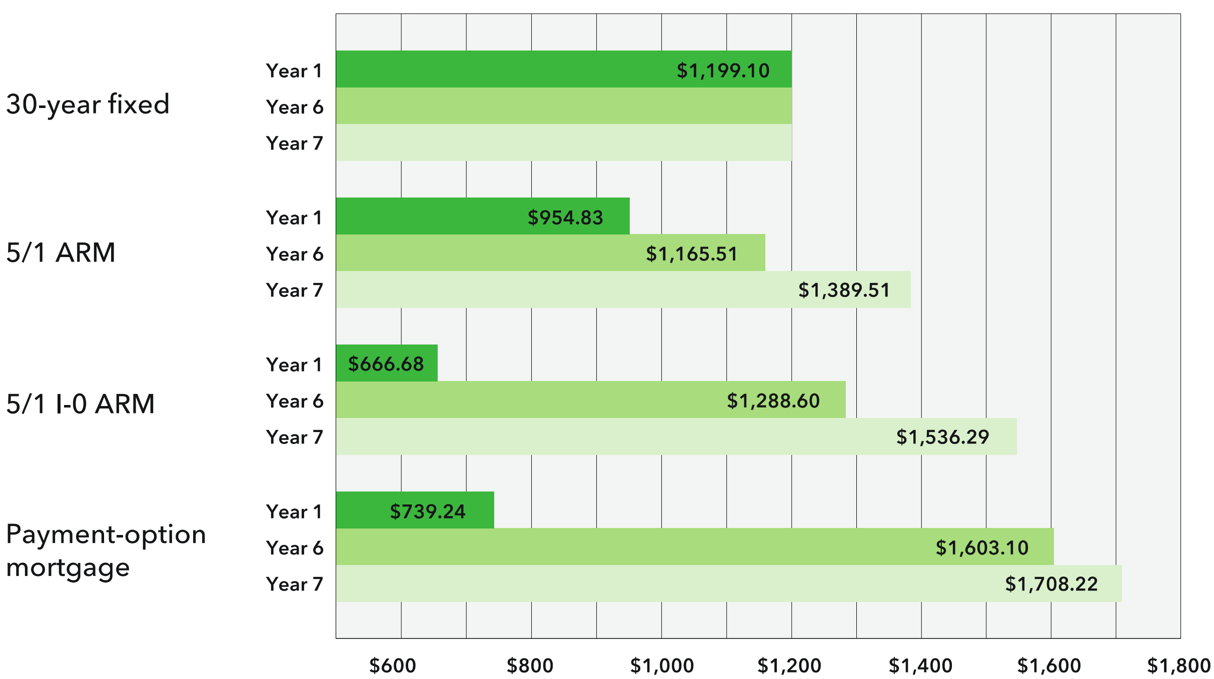
As the example shows, even if the index rate were to stay the same, your monthly payment would go up from $954.83 to $1,192.63 in the second year.

Suppose that the index rate increases 1 percent in one year and the ARM rate rises to 7 percent. Your payment in the second year would be $1,320.59.

That's an increase of $365.76 in your monthly payment. You can see what might happen if you choose an ARM because of a low initial rate. While your lender generally needs to consider this indexed rate in determining your ability to repay the loan, you also need to consider whether you will be able to afford future payments.

If you have an interest-only ARM, payment shock can also occur when the interest-only period ends. Or, if you have a payment-option ARM, payment shock can happen when the loan is recast.

The following example compares several different loans over the first seven years of their terms; the payments shown are for years one, six, and seven of the mortgage, assuming you make interest-only payments or minimum payments. The main point is that, depending on the terms and conditions of your mortgage and changes in interest rates, ARM payments can change quite a bit over the life of the loan—so while you could save money in the first few years of an ARM, you could also face much higher payments in the future.



5.3 Negative amortization

Negative amortization means that the amount you owe increases even when you make all your required payments on time. It occurs whenever your monthly mortgage payments are not large enough to pay all of the interest due on your mortgage—meaning the unpaid interest is added to the principal on your mortgage and you will owe more than you originally borrowed. This can happen because you are making only minimum payments on a payment-option mortgage or because your loan has a payment cap.

For example, suppose you have a $200,000, 30-year payment-option ARM with a 2 percent rate for the first three months and a 6 percent rate for the remaining nine months of the year. Your minimum payment for the year is $739.24, as shown in the previous graph. However, once the 6 percent rate is applied to your loan balance, you are no longer covering the interest costs. If you continue to make minimum payments on this loan, your loan balance at the end of the first year of your mortgage would be $201,118—or $1,118 more than you originally borrowed.

Because payment caps limit only the amount of payment increases, and not interest-rate increases, payments sometimes do not cover all the interest due on your loan. This means that the unpaid interest is automatically added to your debt, and interest may be charged on that amount. You might owe more later in the loan term than you did at the beginning.

A payment cap limits the increase in your monthly payment by deferring some of the interest. Eventually, you would have to repay the higher remaining loan balance at the interest rate then in effect. When this happens, there may be a substantial increase in your monthly payment.

Some mortgages include a cap on negative amortization. The cap typically limits the

Home prices, home equity, and ARMs: Sometimes home prices rise rapidly, allowing people to quickly build equity in their homes. This can make some people think that even if the rate and payments on their ARM get too high, they can avoid those higher payments by refinancing their loan or, in the worst case, selling their home. It's important to remember that home prices do not always go up quickly—they may increase a little or remain the same, and sometimes they fall. If housing prices fall, your home may not be worth as much as you owe on the mortgage. Also, you may find it difficult to refinance your loan to get a lower monthly payment or rate. Even if home prices stay the same, if your loan lets you make minimum payments (see payment-option ARMs above), you may owe your lender more on your mortgage than you could get from selling your home.

total amount you can owe to 110 percent to 125 percent of the original loan amount. When you reach that point, the lender will set the monthly payment amounts to fully repay the loan over the remaining term. Your payment cap will not apply, and your payments could be substantially higher. You may limit negative amortization by voluntarily increasing your monthly payment.

Be sure you know whether the ARM you are considering can have negative amortization. If so, and if you are a first-time borrower, your lender is required to make sure you get homeownership counseling before the lender can lend you the money.

5.4 Prepayment penalties and conversion

If you get an ARM, you may decide later that you don’t want to risk any increases in the interest rate and payment amount. When you are considering an ARM, ask whether you would be able to convert your ARM to a fixed-rate mortgage.

5.4.1 Prepayment penalties

Some mortgage loans can require you to pay special fees or penalties if you refinance or pay off the loan early (usually within the first three years of the loan). These are called prepayment penalties, and they are not allowed on ARMs.

5.4.2 Conversion fees

Your agreement with the lender may include a clause that lets you convert the ARM to a fixed-rate mortgage at designated times. When you convert, the new rate is generally set using a formula given in your loan documents.

The interest rate or up-front fees may be somewhat higher for a convertible ARM. Also, a convertible ARM may require a fee at the time of conversion.

5.5 Graduated-payment or stepped-rate loans

Some fixed-rate loans start with one rate for one or two years and then change to another rate for the remaining term of the loan. While these are not ARMs, your payment will go up according to the terms of your contract. Talk with your lender or broker and read the information provided to you to make sure you understand when and by how much the payment will change.

6. Where to get information

6.1 Disclosures from lenders

You should receive information in writing about each ARM program you are interested in before you have paid a nonrefundable fee. It is important that you read this information and ask the lender or broker about anything you don't understand—index rates, margins, caps, and other features such as negative amortization. After you have applied for a loan, you will get more information from the lender about your loan, including the annual percentage rate (APR) and a rate and payment summary table.

The APR is the cost of your credit as a yearly rate. It takes into account interest, points paid on the loan, any fees paid to the lender for making the loan, and any mortgage insurance premiums you may have to pay. You can compare APRs on similar ARMs (for example, compare APRs on a 5/1 and a 3/1 ARM) to determine which loan will cost you less in the long term, but you should keep in mind that because the interest rate for an ARM can change, APRs on ARMs cannot be compared directly to APRs for fixed-rate mortgages.

You may want to talk with financial advisers, housing counselors, and other trusted advisers. The U.S. Department of Housing and Urban Development (HUD) supports housing counseling agencies throughout the country that can provide free or low-cost advice. You can search for HUD-approved housing counseling agencies in your area on the Consumer Financial Protection Bureau's website at consumerfinance.gov/find-a-housing-counselor or by calling HUD's interactive toll-free number at 800-569-4287.

Also, see the *More information* and *Contact information* appendices below for more information available from the CFPB and a list of other federal agencies that can provide more information and assistance.

6.2 Newspapers and the Internet

When buying a home or refinancing your existing mortgage, remember to shop around. Compare costs and terms, and negotiate for the best deal. Your local newspaper and the Internet are good places to start shopping for a loan. You can usually find information on interest rates and points for several lenders. Since rates and points can change daily, you'll want to check information sources often when shopping for a home loan.

The Mortgage Shopping Worksheet at the beginning of this booklet may also help you. Take it with you when you speak to each lender or broker, and write down the information you obtain. Don't be afraid to make lenders and brokers compete with each other for your business by letting them know that you are shopping for the best deal.

6.3 Advertisements

Any initial information you receive about mortgages probably will come from advertisements or mail solicitations from builders, real estate brokers, mortgage brokers, and lenders. Although this information can be helpful, keep in mind that these are marketing materials—the ads and mailings are designed to make the mortgage look as attractive as possible. These ads may play up low initial interest rates and monthly payments, without emphasizing that those rates and payments could increase substantially later. So, get all the facts.

Any ad for an ARM that shows an initial interest rate should also show how long the rate is in effect and the APR on the loan. If the APR is much higher than the initial rate, your payments may increase a lot after the introductory period, even if interest rates stay the same.

Choosing a mortgage may be the most important financial decision you will make. You are entitled to have all the information you need to make the right decision. Don't hesitate to ask questions about ARM features when you talk to lenders, mortgage brokers, real estate agents, sellers, and your attorney, and keep asking until you get clear and complete answers.

APPENDIX A:

Defined terms

This glossary provides general definitions for terms commonly used in the real estate market. They may have different legal meanings depending on the context.

DEFINED TERM	
ADJUSTABLE-RATE MORTGAGE (ARM)	A mortgage that does not have a fixed interest rate. The rate changes during the life of the loan based on movements in an index rate, such as the rate for Treasury securities or the Cost of Funds Index. ARMs usually offer a lower initial interest rate than fixed-rate loans. The interest rate fluctuates over the life of the loan based on market conditions, but the loan agreement generally sets maximum and minimum rates. When interest rates increase, generally your loan payments increase; and when interest rates decrease, your monthly payments may decrease.
ANNUAL PERCENTAGE RATE (APR)	The cost of credit expressed as a yearly rate. For closed-end credit, such as car loans or mortgages, the APR includes the interest rate, points, broker fees, and other credit charges that the borrower is required to pay. An APR, or an equivalent rate, is not used in leasing agreements.
BALLOON PAYMENT	A large extra payment that may be charged at the end of a mortgage loan or lease.
BUYDOWN	When the seller pays an amount to the lender so that the lender can give you a lower rate and lower payments, usually for an initial period in an ARM. The seller may increase the sales price to cover the cost of the buydown. Buydowns can occur in all types of mortgages, not just ARMs.

CAP, INTEREST RATE	A limit on the amount that your interest rate can increase. The two types of interest rate caps are periodic adjustment caps and lifetime caps. Periodic adjustment caps limit the interest-rate increase from one adjustment period to the next. Lifetime caps limit the interest-rate increase over the life of the loan. All adjustable-rate mortgages have an overall cap.
CAP, PAYMENT	A limit on the amount that your monthly mortgage payment on a loan may change, usually a percentage of the loan. The limit can be applied each time the payment changes or during the life of the mortgage. Payment caps may lead to negative amortization because they do not limit the amount of interest the lender is earning.
CONVERSION CLAUSE	A provision in some ARMs that allows you to change the ARM to a fixed-rate loan at some point during the term. Conversion is usually allowed at the end of the first adjustment period. At the time of the conversion, the new fixed rate is generally set at one of the rates then prevailing for fixed-rate mortgages. The conversion feature may be available at extra cost.
DISCOUNTED INITIAL RATE (ALSO KNOWN AS A START RATE OR TEASER RATE)	In an ARM with a discounted initial rate, the lender offers you a lower rate and lower payments for part of the mortgage term (usually for 1, 3, or 5 years). After the discount period, the ARM rate will probably go up depending on the index rate. Discounts can occur in all types of mortgages, not just ARMs.
EQUITY	In housing markets, equity is the difference between the fair market value of the home and the outstanding balance on your mortgage plus any outstanding home equity loans.

HYBRID ARM	These ARMs are a mix—or a hybrid—of a fixed-rate period and an adjustable-rate period. The interest rate is fixed for the first several years of the loan; after that period, the rate can adjust annually. For example, hybrid ARMs can be advertised as 3/1 or 5/1—the first number tells you how long the fixed interest-rate period will be and the second number tells you how often the rate will adjust after the initial period. For example, a 3/1 loan has a fixed rate for the first 3 years and then the rate adjusts once each year beginning in year 4.
INDEX	The economic indicator used to calculate interest-rate adjustments for adjustable-rate mortgages or other adjustable-rate loans. The index rate can increase or decrease at any time. See also the chart on page 14, Selected index rates for ARMs over an 11-year period, for examples of common indexes that have changed in the past.
INTEREST	The rate used to determine the cost of borrowing money, usually stated as a percentage and as an annual rate.
INTEREST-ONLY (I-O) ARM	Interest-only ARMs allow you to pay only the interest for a specified number of years, typically between three and 10 years. This arrangement allows you to have smaller monthly payments for a prescribed period. After that period, your monthly payment will increase— even if interest rates stay the same—because you must start paying back the principal and the interest each month. For some I-O loans, the interest rate adjusts during the I-O period as well.
MARGIN	The number of percentage points the lender adds to the index rate to calculate the interest rate of an adjustable-rate mortgage (ARM) at each adjustment.

NEGATIVE AMORTIZATION	Occurs when the monthly payments in an adjustable-rate mortgage loan do not cover all the interest owed. The interest that is not paid in the monthly payment is added to the loan balance. This means that even after making many payments, you could owe more than you did at the beginning of the loan. Negative amortization can occur when an ARM has a payment cap that results in monthly payments that are not high enough to cover the interest due or when the minimum payments are set at an amount lower than the amount you owe in interest.
PAYMENT-OPTION ARM	An ARM that allows the borrower to choose among several payment options each month. The options typically include (1) a traditional amortizing payment of principal and interest, (2) an interest-only payment, or (3) a minimum (or limited) payment that may be less than the amount of interest due that month. If the borrower chooses the minimum-payment option, the amount of any interest that is not paid will be added to the principal of the loan. See also the definition of negative amortization, above.
POINTS (ALSO CALLED DISCOUNT POINTS)	One point is equal to 1 percent of the principal amount of a mortgage loan. For example, if the mortgage is $200,000, one point equals $2,000. Lenders frequently charge points in both fixed-rate and adjustable-rate mortgages to cover loan origination costs or to provide additional compensation to the lender or broker. These points usually are paid at closing and may be paid by the borrower or the home seller, or may be split between them. In some cases, the money needed to pay points can be borrowed (incorporated in the loan amount), but doing so will increase the loan amount and the total costs. Discount points (also called discount fees) are points that the borrower voluntarily chooses to pay in return for a lower interest rate.
PREPAYMENT PENALTY	Extra fees that may be due if you pay off your loan early by refinancing the loan or by selling the home. These fees are not allowed for ARMs or for high-cost mortgages. For mortgages where they are allowed, the penalty cannot go beyond the first three years of the loan’s term.
PRINCIPAL	The amount of money borrowed or the amount still owed on a loan.

APPENDIX B:

More information

For more information about mortgages, visit consumerfinance.gov/mortgage. For answers to questions about mortgages and other financial topics, visit consumerfinance.gov/askcfpb. You may also visit the CFPB's website at consumerfinance.gov/owning-a-home to access interactive tools and resources for mortgage shoppers, which are expected to be available beginning in 2014.

Housing counselors can be very helpful, especially for first-time home buyers or if you're having trouble paying your mortgage. The U.S. Department of Housing and Urban Development (HUD) supports housing counseling agencies throughout the country that can provide free or low-cost advice. You can search for HUD-approved housing counseling agencies in your area on the CFPB's website at consumerfinance.gov/find-a-housing-counselor or by calling HUD's interactive toll-free number at 800-569-4287.

The company that collects your mortgage payments is your loan servicer. This may not be the same company as your lender. If you have concerns about how your loan is being serviced, or another aspect of your mortgage, you may wish to submit a complaint to the CFPB at consumerfinance.gov/complaint or by calling (855) 411-CFPB (2372).

When you submit a complaint to the CFPB, the CFPB will forward your complaint to the company and work to get a response. Companies have 15 days to respond to you and the CFPB. You can review the company's response and give feedback to the CFPB.

APPENDIX C:

Contact information

For additional information or to submit a complaint, you can contact the CFPB or one of the other federal agencies listed below, depending on the type of institution. If you are not sure which agency to contact, you can submit a complaint to the CFPB and if the CFPB determines that another agency would be better able to assist you, the CFPB will refer your complaint to that agency and let you know.

Regulatory agency	Regulated entities	Contact information
Consumer Financial Protection Bureau (CFPB) P.O. Box 4503 Iowa City, IA 52244	Insured depository institutions and credit unions with assets greater than $10 billion (and their affiliates), and non-bank providers of consumer financial products and services, including mortgages, credit cards, debt collection, consumer reports, prepaid cards, private education loans, and payday lending	(855) 411-CFPB (2372) consumerfinance.gov consumerfinance.gov/complaint
Board of Governors of the Federal Reserve System (FRB) Consumer Help P.O. Box 1200 Minneapolis, MN 55480	Federally insured state-chartered bank members of the Federal Reserve System	(888) 851-1920 federalreserveconsumerhelp.gov

Regulatory agency	Regulated entities	Contact information
Office of the Comptroller of the Currency (OCC) Customer Assistance Group 1301 McKinney Street Suite 3450 Houston, TX 77010	National banks and federally chartered savings banks/associations	(800) 613-6743 occ.treas.gov helpwithmybank.gov
Federal Deposit Insurance Corporation (FDIC) Consumer Response Center 1100 Walnut Street, Box #11 Kansas City, MO 64106	Federally insured state-chartered banks that are not members of the Federal Reserve System	(877) ASK-FDIC or (877) 275-3342 fdic.gov fdic.gov/consumers
Federal Housing Finance Agency (FHFA) Consumer Communications Constitution Center 400 7th Street, S.W. Washington, DC 20024	Fannie Mae, Freddie Mac, and the Federal Home Loan Banks	Consumer Helpline (202) 649-3811 fhfa.gov fhfa.gov/Default.aspx?Page=369 ConsumerHelp@fhfa.gov
National Credit Union Administration (NCUA) Consumer Assistance 1775 Duke Street Alexandria, VA 22314	Federally chartered credit unions	(800) 755-1030 ncua.gov mycreditunion.gov
Federal Trade Commission (FTC) Consumer Response Center 600 Pennsylvania Ave, N.W. Washington, DC 20580	Finance companies, retail stores, auto dealers, mortgage companies and other lenders, and credit bureaus	(877) FTC-HELP or (877) 382-4357 ftc.gov ftc.gov/bcp

Regulatory agency	Regulated entities	Contact information
Securities and Exchange Commission (SEC) Complaint Center 100 F Street, N.E. Washington, DC 20549	Brokerage firms, mutual fund companies, and investment advisers	(202) 551-6551 sec.gov sec.gov/complaint/select.shtml
Farm Credit Administration Office of Congressional and Public Affairs 1501 Farm Credit Drive McLean, VA 22102	Agricultural lenders	(703) 883-4056 fca.gov
Small Business Administration (SBA) Consumer Affairs 409 3rd Street, S.W. Washington, DC 20416	Small business lenders	(800) U-ASK-SBA or (800) 827-5722 sba.gov
Commodity Futures Trading Commission (CFTC) 1155 21st Street, N.W. Washington, DC 20581	Commodity brokers, commodity trading advisers, commodity pools, and introducing brokers	(866) 366-2382 cftc.gov/ConsumerProtection/index.htm

Regulatory agency	Regulated entities	Contact information
U.S. Department of Justice (DOJ) Civil Rights Division 950 Pennsylvania Ave, N.W. Housing and Civil Enforcement Section Washington DC 20530	Fair lending and housing issues	(202) 514-4713 TTY–(202) 305-1882 FAX–(202) 514-1116 To report an incident of housing discrimination: 1-800-896-7743 fairhousing@usdoj.gov
Department of Housing and Urban Development (HUD) Office of Fair Housing/Equal Opportunity 451 7th Street, S.W. Washington, DC 20410	Fair lending and housing issues	(800) 669-9777 hud.gov/complaints

APPENDIX D:

More resources

Looking for the Best Mortgage—Shop, Compare, Negotiate
hud.gov/buying/booklet.pdf

Interest-Only Mortgage Payments and Payment-Option ARMs—Are They for You?
fdic.gov/consumers/consumer/interest-only/

A Consumer's Guide to Mortgage Lock-Ins
federalreserve.gov/pubs/lockins/

A Consumer's Guide to Mortgage Settlement Costs
federalreserve.gov/pubs/lockins/

Know Before You Go . . . To Get a Mortgage: A Guide to Mortgage Products and a Glossary of Lending Terms
bos.frb.org/consumer/knowbeforeyougo/mortgage/mortgage.pdf

Online Mortgage Calculator
mortgagecalculator.org/