

# Adjustable Rate Mortgage ("ARM") Early Disclosure Statement - Fixed to Adjustable

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## Early Disclosure Statement

3/27, 5/25 and 7/23 Fixed to Adjustable  
30 YEAR ARM FIRST MORTGAGE

If you wish to apply for an Adjustable Rate Mortgage (referred to in this Disclosure as an "ARM") with STAR ONE Credit Union ("Credit Union"), you should read the information below concerning this mortgage loan program. This disclosure describes the features of the specific ARM loan program that you are considering. Information on other ARM programs available from us will be provided to you upon request.

The loan offered by the Credit Union is an Adjustable Rate Mortgage. The applicable interest rate and monthly payments will change from time-to-time based upon movements of an interest rate index. The amount of the initial monthly payments is based on an interest rate which may be less than the sum of the current index plus margin. Because future movements of the index are related to market conditions that cannot be predicted, it is impossible to know in advance how much you will have to pay, either each month or over the life of the loan. Interest rate changes and payment changes will be made according to certain rules that are explained below.

## TERMS OF THE CREDIT UNION'S ADJUSTABLE RATE MORTGAGE

The ARM offered by the Credit Union is based on the terms and conditions set forth in the disclosure statement and in the promissory note. The interest rate, index and margin values, and any applicable fees listed herein are based upon examples of recent rates and terms used by the Credit Union. We suggest that you inquire about our current interest rates, discount, index, and margin values.

## INTEREST RATE INDEX

The initial interest rate is fixed for the first three, five or seven years of the loan, depending on which program you select. After the initial fixed rate period, the interest rate charged will be based on an interest rate index ("index") plus a margin, rounded to the nearest one-eighth of one percentage point (0.125%). The index is:

**The weekly average yield on United States Treasury securities adjusted to a constant maturity of 1 year, as made available by the Federal Reserve Board. The most recent Index figure available as of the date 45 days before each Change Date is called the "Current Index."**

Information about this index is published in the Federal Reserve Statistical Release, Form H.15 (519). Information about this index is announced weekly by the Federal Reserve Board. If the index ceases to be made available, we will choose a new index which is based upon comparable information

## **FREQUENCY OF ADJUSTMENTS**

After the initial fixed rate period, the applicable interest rate and payment amount under this ARM loan will be adjusted annually, based on movements of the index.

## **INTEREST RATE AND PAYMENT ADJUSTMENTS**

The initial interest rate will be specified by the Credit Union either at the time you receive a loan commitment or at the loan closing. Except for refinancing of an existing Credit Union ARM, the initial rate will be based on market conditions and will not be related to the index or margin used for later rate adjustments. Ask us for the amount the initial interest rate is currently discounted. You may also buy-down your initial Introductory Rate with the payment of discount points. Your payment with or without discount points is based on the amount necessary to fully amortize the remaining loan balance at the applicable interest rate over the remaining loan term. The amount that your interest rate and payment may change will also be affected by the lifetime interest rate limits which are discussed below.

Your initial monthly payment and starting interest rate may be below the interest rate called for by the index plus the margin on your ARM as of the date of loan closing. In addition, you may elect to pay a fee to reduce the initial interest rate. For this reason, it is unlikely that the index will fall enough to prevent interest rate increases and corresponding increases in your monthly payments after your initial fixed rate period. Only when the amount of your monthly payment is increased on the first and possibly subsequent change dates up to the amount equal to the monthly payment required by the index and the margin will subsequent adjustments in the amount of your monthly payment, based upon the new interest rate, begin to correspond with the movement, up or down, on the index of subsequent change dates.

## **ADJUSTMENT NOTICES**

The Credit Union will notify you in writing (at least 25 calendar days, but not more than 120 calendar days) before a change in the interest rate occurs. The notice will indicate the adjusted payment amount, interest rates, index values, and the outstanding loan balance at that time.

## **LIMITATIONS ON INTEREST RATE AND PAYMENT CHANGES**

Your interest rate will not increase or decrease on the first change date by more than two percentage points from the initial interest rate excluding any buy-down. After the first change date, your interest rate will not increase or decrease by more than two percentage points. Your interest rate cannot increase more than five percentage points above the initial interest rate (excluding any buy-down) over the life of the loan.

## **HOW YOUR PAYMENT CAN CHANGE**

Your monthly payment can increase or decrease substantially based on annual changes in the interest rate. Beginning on the first change date, your monthly payment will change annually based on the changes in the interest rate. For example, on a \$10,000.00, 30 year loan with a three year initial rate of 5.625% (an Initial Rate sample as of January 2007), the maximum amount that the interest rate can rise under this program is five percentage points to 10.625% and the monthly payment can rise from a first year payment of \$57.57 to a maximum of \$89.44 in the sixth year. On a \$10,000.00, 30 year loan with a five year initial rate of 5.750% (an Initial Rate sample as of January 2007), the maximum amount that

the interest rate can rise under this program is five percentage points to 10.750% and the monthly payment can rise from a first year payment of \$58.36 to a maximum of \$88.63 in the eighth year. On a \$10,000.00, 30 year loan with a seven year initial rate of 5.875% (the initial rate as of January 2007), the maximum amount that the interest rate can rise is five percentage points above the new loan initial interest rate to 10.875% and the monthly payment can rise from a first year payment of \$59.15 to a maximum of \$87.71 in the tenth year.

To see what your payment would be, divide your mortgage amount by \$10,000.00, then multiply the monthly payment from the above example by that amount. For example, the monthly payment for a new three year initial rate loan mortgage amount of \$60,000.00 would be \$60,000.00 divided by \$10,000.00 = 6; 6 x \$57.57 = \$345.42. The monthly payment for a five year initial rate loan mortgage amount of \$60,000.00 would be \$60,000.00 divided by \$10,000.00 = 6; 6 x \$58.36 = \$350.16. The monthly payment for a seven year initial rate mortgage amount of \$60,000.00 would be \$60,000.00 divided by \$10,000.00 = 6; 6 x \$59.15 = \$354.90.

## **CHANGE DATES**

Each new interest rate will become effective on the next change date. Your monthly payment will change as a result of each change in the interest rate, and the monthly payment will be effective the first monthly payment due date after the interest rate change.

[\(Back to Top\)](#)