



My Adjustable Rate Mortgage (ARM) is about to reset, what would my interest rate be?

That's a question on the minds of many homeowners who have adjustable rate mortgages (ARM). Whether you have a 3/1 or 3/6, 5/1 or 5/6, 7/1, or 10/1 ARM, after the initial period of the fixed rate expires, your rate will reset. How frequently your rate adjusts depends on the ARM agreement (you can find that information on your NOTE, more on that to follow). For example, a 3/1 means that the initial rate is fixed for 3 years, then it will be reset once every year. A 3/6 means that the rate will be reset once every 6 months.

In order to find out exactly what your rate will be, we need to take a look at your Note. It is the most important piece of document that holds the answer to our reset question. You would be able to find a copy of the Note within your loan document copy package from the Purchase or the last Refinance of your home. The Note is the document that has the header "Adjustable Rate Note" on top. If you cannot locate your Note, the best way is to contact your lender and request a copy (that might incur a charge from the lender).

The Note lists the date and your property address on the top. It also contains information regarding your loan amount, the lender (1), and your interest rate (2). Your initial monthly payment date, in this case, November 1, 2005, is stated under (3A). The payment amount is stated under (3B).

<p>InterestFirstSM ADJUSTABLE RATE NOTE (One-Year LIBOR Index (As Published In <i>The Wall Street Journal</i>)-Rate Caps)</p> <p>THIS NOTE CONTAINS PROVISIONS ALLOWING FOR A CHANGE IN MY FIXED INTEREST RATE TO AN ADJUSTABLE INTEREST RATE AND FOR CHANGES IN MY MONTHLY PAYMENT. THIS NOTE LIMITS THE AMOUNT MY ADJUSTABLE INTEREST RATE CAN CHANGE AT ANY ONE TIME AND THE MAXIMUM RATE I MUST PAY.</p>		
October 5, 2005 [Date]	Sweet City [City]	CA [State]
123 Home Ave., Sweet City, CA 12345 [Property Address]		

<p>1. BORROWER'S PROMISE TO PAY In return for a loan that I have received, I promise to pay U.S. \$556,000.00 (this amount is called "Principal"), plus interest, to the order of Lender. Lender is JPMorgan Chase Bank, N.A. a bank which is organized and existing under the laws of the United States of America I will make all payments under this Note in the form of cash, check or money order. I understand that Lender may transfer this Note. Lender or anyone who takes this Note by transfer and who is entitled to receive payments under this Note is called the "Note Holder."</p> <p>2. INTEREST Interest will be charged on unpaid principal until the full amount of Principal has been paid. I will pay interest at a yearly rate of 5.625%. The interest rate I will pay may change in accordance with Section 4 of this Note. The interest rate required by this Section 2 and Section 4 of this Note is the rate I will pay both before and after any default described in Section 7(B) of this Note.</p>



3. PAYMENTS

(A) Time and Place of Payments
I will make a payment on the first day of every month, beginning on December 1st, 2005. Before the First Principal and Interest Payment Due Date as described in Section 4 of this Note, my payment will consist only of the interest due on the unpaid principal balance of this Note. Thereafter, I will pay principal and interest by making a payment every month as provided below.
I will make monthly payments of principal and interest beginning on the First Principal and Interest Payment Due Date as described in Section 4 of this Note. I will make these payments every month until I have paid all of the principal and interest and any other charges described below that I may owe under this Note. Each monthly payment will be applied as of its scheduled due date, and if the payment includes both principal and interest, it will be applied to interest before Principal. If, on November 1, 2035, I still owe amounts under this Note, I will pay those amounts in full on that date, which is called the "Maturity Date."
I will make my monthly payments at JPMorgan Chase Bank, N.A., c/o Chase Home Finance, LLC
3415 Vision Drive, Columbus, OH 43219
or at a different place if required by the Note Holder.

(B) Amount of My Initial Monthly Payments
My monthly payment will be in the amount of U.S. \$ 2,606.25 before the First Principal and Interest Payment Due Date, and thereafter will be in an amount sufficient to repay the principal and interest at the rate determined as described in Section 4 of this Note in substantially equal installments by the Maturity Date. The Note Holder will notify me prior to the date of change in monthly payment.

Under (4) Interest Rate and Monthly Payment Changes, it tells you the first day of the initial interest rate change. In this example is a 5/1 Interest Only, therefore the initial interest rate changes on November 1, 2010, and it will change on that day every 12th month thereafter. The change will be based on the Index (4B) and margin. In this example, it's the one-year London Interbank Offered Rate ("LIBOR"). Some notes base the change on the Treasury Index. If that's the case, just substitute the correct data for the corresponding Index for your calculation.

Calculation of Changes (4C) denotes it will be based on the Index plus a margin of 2.25%. (4D) tells you that the rate change cannot be greater than 10.625% or less than 2.25% for the initial change, and cannot be increased or decreased by more than 2% every year from the rate.



4. ADJUSTABLE INTEREST RATE AND MONTHLY PAYMENT CHANGES

(A) Change Dates

The initial fixed interest rate I will pay will change to an adjustable interest rate on the first day of November, 2010, and the adjustable interest rate I will pay may change on that day every 12th month thereafter. The date on which my initial fixed interest rate changes to an adjustable interest rate, and each date on which my adjustable interest rate could change, is called a "Change Date."

(B) The Index

Beginning with the first Change Date, my adjustable interest rate will be based on an Index. The "Index" is the average of interbank offered rates for one-year U.S. dollar-denominated deposits in the London market ("LIBOR"), as published in *The Wall Street Journal*. The most recent Index figure available as of the date 45 days before each Change Date is called the "Current Index."

If the Index is no longer available, the Note Holder will choose a new index that is based upon comparable information. The Note Holder will give me notice of this choice.

(C) Calculation of Changes

Before each Change Date, the Note Holder will calculate my new interest rate by adding Two and one-quarter percentage points (2.250 %) to the Current Index. The Note Holder will then round the result of this addition to the nearest one-eighth of one percentage point (0.125%). Subject to the limits stated in Section 4(D) below, this rounded amount will be my new interest rate until the next Change Date.

The Note Holder will then determine the amount of the monthly payment that would be sufficient to repay the unpaid principal that I am expected to owe at the Change Date in full on the Maturity Date at my new interest rate in substantially equal payments. The result of this calculation will be the new amount of my monthly payment.

(D) Limits on Interest Rate Changes

The interest rate I am required to pay at the first Change Date will not be greater than 10.625 % or less than 2.250 %. Thereafter, my adjustable interest rate will never be increased or decreased on any single Change Date by more than two percentage points from the rate of interest I have been paying for the preceding 12 months. My interest rate will never be greater than 10.625 %.

For demonstration purposes, let's pretend today is November 1, 2010.

Initial rate: 5.625%

The 1 year LIBOR Index is at 1.975% (you can find the up-to-date index data from <http://google.com>)

Index + Margin = 1.975% + 2.25% = 4.225%

According to the above, the reset rate will be 4.225% for the year starting from the change date and it will reset again in 12 months.

Therefore, your interest rate might well be lower than what you currently have, especially due to the current economic climate. However, you need to be aware, particularly if you have an "interest only" loan, usually the first change date also means that you will start to pay "Principal & Interest" on your monthly payment, as denoted under (4G). In this example, after the initial 5 year period of fixed interest, the loan payment will be calculated by fully amortizing over 25 years.

(G) Date of First Principal and Interest Payment

The date of my first payment consisting of both principal and interest on this Note (the "First Principal and Interest Payment Due Date") shall be the first monthly payment date after the first Change Date.



General Mortgage Capital Corporation

Your loan, My solution!

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If you are still unsure about how your interest rate will reset, give me a call so that we can go over it together. You will have a good idea of what your rate and payment would be if your loan is set to reset in the near future. Even if your loan is not set to adjust in at least a 1 year or more, you will know exactly how that will impact you then. If you haven't done so already, it would also be a good idea to see if you can take advantage of the current low rates and turn your ARM into a 30 or 15 Year Fixed Rate loan if it benefits you.

I know it can be challenging navigating through that big pile of loan document, but if you currently have an Adjustable Rate Mortgage the hunt will be well worth your time. If you have any question or concern, be sure to contact me.

Sincerely,

Catherine Sun