

# What is an ARM?

ARM stands for ADJUSTABLE RATE MORTGAGE (yes its yelling at you). This means the initial/start interest rate has a fixed rate for a period of time. After that period of time the rate will adjust every six months for the current ARM products. (5/6, 7/6, and 10/6)

Click link to view product description and underwriting guidelines.

[Seller's Guide - Products \(flagstar.com\)](#)

## ADJUSTABLE RATE DETAILS

<b>Interest Rate</b>	5/6 ARM: Initial – 2% up/down; Subsequent – 1% up/down; Lifetime – 5% up
<b>Adjustment Caps</b>	7/6 and 10/6 ARMs: Initial – 5% up/down; Subsequent – 1% up/down; Lifetime – 5% up
<b>Margin</b>	See <a href="#">Price Indication Sheet</a>
<b>Index</b>	30 Day SOFR (Secured Overnight Financing Rate)
<b>Interest Rate Floor</b>	The interest rate floor is equal to the margin
<b>Change Dates *</b>	5/6 - The first change date is the 60th payment due date. There is a new Change Date every 6 months thereafter.
	7/6 - The first change date is the 84th payment due date. There is a new Change Date every 6 months thereafter.
	10/6 - The first change date is the 120th payment due date. There is a new Change Date every 6 months thereafter.
<b>Conversion Option</b>	None
<b>Assumption</b>	Subject to conditions, fees and rate adjustment
<b>Negative Amortization</b>	None

## Features and benefits

- 5/6, 7/6 and 10/6
- Max LTV up to 95%
- Giftable down payment
- Blended ratios for non-occupant co-borrower

## Eligible property types

- 1 to 4-unit properties
- Fannie Mae/Freddie Mac-warrantable condominiums
- Planned unit developments
- Modular Homes

- On a 5/6 ARM the first change rate will always be 2 + the current rate. The max rate it will ever be is 5 + the current rate.

(Screenshot pending)

- On 7/6 and 10/6 ARM the first change rate will always be 5 + the current rate. The max rate will equal the same.

**7/6 ARM (Mortrac and P8)**

Product	Agency 7/6 SOFR ARM
Mortgage Product: Agency 7/6 SOFR ARM	

**10/6 ARM (Mortrac and P8)**

Product	Agency 10/6 SOFR ARM
Mortgage Product: Agency 10/6 SOFR ARM	

- The First change rate will always be 5 + the current rate. The max rate will equal the same.

## Check the margin

- The first thing to check is the Margin! If the Margin is wrong, we do not purchase.
- MARGIN must EQUAL 3% (this is subject to possibly change, but notification would be provided)

Loan Info	Loan Dates	ARM Details	Lender Info	Wire Instructions	Licenses	Lender Options
Interest rate: 2.625	Margin: 3.000	Index: 0.048	Max Rate: 7.625			
Adjustment	Adjustment Amount	Adjustment Amount Basis	Actuals			
First Adjustment Cap Up/First Change Rate Increase	5.000	% Over Initial Rate	7.625			
First Adjustment Cap Down/First Change Rate Decrease	5.000	% Below Initial Rate	3.000			
Subsequent Adjustment Cap Up	1.000	% Over Initial Rate	1.000			
Subsequent Adjustment Cap Down	1.000	% Below Initial Rate	1.000			
Life Cap	5.000	% Over Initial Rate	7.625			
Floor Rate		Margin	3.000			
Lookback Period	45	Flat	45			
First Rate Adjustment Date	04/01/2032	Flat	04/01/2032			
Subsequent Payment Adjustment Date	11/01/2032	Flat				
Subsequent Rate Adjustment Date	10/01/2032	Flat				
Rounding Factor	0.125	Flat				

**(D) Limits on Interest Rate Changes**

The interest rate I am required to pay at the first Change Date will not be greater than **7.625 %** or less than **3.000 %**. Thereafter, my interest rate will never be increased or decreased on any single Change Date by more than **ONE** percentage points ( **1.000 %** ) from the rate of interest I have been paying for the preceding **6** months. My interest rate will never be greater than **7.625 %** or less than **3.000 %**.

## Check the dates

- Note shown below is a 10/6 SOFR ARM. You also want to check the change date on the Note. For a 10/6 ARM it would be 10 years from the first payment. First adjustment date is determined by length of fixed period of an ARM loan.
  - 7/6 ARM- seven years from the first payment
  - 5/6 ARM - five years from the first payment.
- This is a 10/6 SOFR ARM. First payment was 05/01/2022. First change would be 04/01/2032

### 3. PAYMENTS

#### (A) Time and Place of Payments

I will pay principal and interest by making a payment every month. This amount is called my "Monthly Payment."

I will make my Monthly Payment on the 1st day of each month beginning on **May 1, 2022**. 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 will be applied to interest before the Principal. If, on **April 1, 2052**, I still owe amounts under this Note, I will pay those amounts on that date, which is called the "Maturity Date."

I will make my Monthly Payments at [REDACTED]

or at a different place if required by the Note Holder.

#### (B) Amount of My Initial Monthly Payments

Each of my initial Monthly Payments will be in the amount of U.S. **\$2,374.36**. This amount may change. This payment amount does not include any property taxes, insurance, or other charges that I may be required to pay each month.

#### (C) Monthly Payment Changes

Changes in my Monthly Payment will reflect changes in the unpaid Principal of my loan and in the interest rate that I must pay. The Note Holder will determine my new interest rate and the changed amount of my Monthly Payment in accordance with Section 4 of this Note.

### 4. 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 1st day of **April, 2032** and the adjustable interest rate I will pay may change on the 1st day of the month every 6th month thereafter. Each date on which my adjustable interest rate could change is called a "Change Date."

First Payment Date:	05/01/2022
Maturity Date:	04/01/2052
Interest Paid To Date:	04/01/2022
Next Payment Date:	05/01/2022

## Compliance Testing

- For the Compliance testing tab in the final disclosure screen above the HMDA and Date test the correspondent index will be recorded using the ARM details tab if not completed already.

Correspondent Index:  Correspondent Index Override:

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Interest rate: 2.625      Margin: 3.000      Index: 0.048      Max Rate: 7.625

- When testing the loan for TILA... enter the index. We can do a 45-day lock back from the Note date. If the loan was locked and locked within 45 days. You can find the index the lender used typically on their rate lock agreement in P8, their own compliance testing or the lenders amortization schedule.
  - Example 1: In this case when we calculate the new interest rate at the 121 payment (First change date) we will add the Margin plus the index 3 (margin) + .050 (index) = 3.050. We will round down to 3%
  - Example 2: 3 (margin) + .115 (index)= 3.115 round up 3.125. You round to the nearest .125.
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ARM	
1st Cap:	5.000%
1st Adjust Months:	120
Adj. Cap:	1.000%
Adj. Months:	6
Index:	0.050%
Margin:	3.000%
Ceiling:	7.625%
Floor:	3.000%

- Example of Lenders Amortization schedule
  - **10/6ARM**



### GENERAL LOAN PARAMETERS:

Sales Price: N/A

Original Value: 345,000.00

Original Principal Balance: 241,500.00

Term/Amortization: 360/360 Months

Initial Interest Rate: 2.875

Interest Only: N/A

First Payment Date: MAY 1, 2022

Interest Change Date: APRIL 1, 2032

Payment Change Date: MAY 1, 2032

Margin: 3.000

Current Index: 0.050

Ceiling (Max.) Rate: 7.875

Floor (Min.) Rate: 3.000

First Interest Change: 120 Months

First Interest Cap: 5.000

Subsequent Interest Change Period: 6 Months

Subsequent Rate Cap: 1.000

Life-of-Loan Cap: 5.000

### o 7/6 ARM

### GENERAL LOAN PARAMETERS:

Sales Price: 705,000.00

Original Value: 705,000.00

Original Principal Balance: 528,750.00

Term/Amortization: 360/360 Months

Initial Interest Rate: 3.625

Interest Only: N/A

First Payment Date: MAY 1, 2022

Interest Change Date: APRIL 1, 2029

Payment Change Date: MAY 1, 2029

Margin: 3.000

Current Index: 0.050

Ceiling (Max.) Rate: 8.625

Floor (Min.) Rate: 3.000

First Interest Change: 84 Months

First Interest Cap: 5.000

Subsequent Interest Change Period: 6 Months

Subsequent Rate Cap: 1.000

Life-of-Loan Cap: 5.000

Run Test  
Send to Imaging  
View Worksheet  
Zoom +  
Zoom -  
**View ARM Index**  
ARM Look Back Test  
PASS

**ARM INDEX RATE TABLE**

Select one of the following rates:

Index Name: 30-Day SOFR	
Rate	Effective Date
0.048	02/18/2022
0.048	02/17/2022
0.048	02/16/2022
<b>0.049</b>	<b>02/15/2022</b>
0.048	02/14/2022
0.048	02/11/2022
0.048	02/10/2022
0.049	02/09/2022
0.049	02/08/2022

**Submit**      Close

# Example of a correct Note

## FIXED/ADJUSTABLE RATE NOTE (30-day Average SOFR Index (As Published by the Federal Reserve Bank of New York) – Rate Caps)

THIS NOTE CONTAINS PROVISIONS ALLOWING FOR A CHANGE IN MY FIXED INTEREST RATE TO AN ADJUSTABLE INTEREST RATE. THIS NOTE LIMITS THE AMOUNT MY ADJUSTABLE INTEREST RATE CAN CHANGE AT ANY ONE TIME AND THE MINIMUM AND MAXIMUM RATES I MUST PAY.

March 14, 2022  
[Note Date]

California  
[State of Execution]

### 1. BORROWER'S PROMISE TO PAY

In return for a loan in the amount of U.S. \$591,150.00 (the "Principal") that I have received from OnY Glo, Inc. DBA LoanLock, a Corporation

(the "Lender"), I promise to pay the Principal, plus interest, to the order of the Lender. I will make all payments under this Note in the form of cash, check or money order in U.S. currency.

I understand that the Lender may transfer this Note. The Lender or anyone who takes this Note by transfer and who is entitled to receive payments under this Note is called the "Note Holder."

### 2. INTEREST

Interest will be charged on unpaid Principal until the full amount of the Principal has been paid. I will pay interest at a yearly rate of 2.625%. The interest rate I will pay will 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.

### 3. PAYMENTS

#### (A) Time and Place of Payments

I will pay principal and interest by making a payment every month. This amount is called my "Monthly Payment."

I will make my Monthly Payment on the 1st day of each month beginning on May 1, 2022. 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 will be applied to interest before the Principal. If, on April 1, 2052, I still owe amounts under this Note, I will pay those amounts on that date, which is called the "Maturity Date."

I will make my Monthly Payments at 6 Hutton Centre Drive, Suite 1030  
Santa Ana, CA 92707

or at a different place if required by the Note Holder.

#### (B) Amount of My Initial Monthly Payments

Each of my initial Monthly Payments will be in the amount of U.S. \$2,374.36. This amount may change. This payment amount does not include any property taxes, insurance, or other charges that I may be required to pay each month.

#### (C) Monthly Payment Changes

Changes in my Monthly Payment will reflect changes in the unpaid Principal of my loan and in the interest rate that I must pay. The Note Holder will determine my new interest rate and the changed amount of my Monthly Payment in accordance with Section 4 of this Note.

### 4. 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 1st day of April, 2032 and the adjustable interest rate I will pay may change on the 1st day of the month every 6th month thereafter. 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 interest rate will be based on an index that is calculated and provided to the general public by an administrator (the "Administrator"). The "Index" is a benchmark, known as the 30-day Average SOFR Index. The Index is currently published by the Federal Reserve Bank of New York. The most recent Index value available as of the date 45 days before each Change Date is called the "Current Index," provided that if the Current Index is less than zero, then the Current Index will be deemed to be zero for purposes of calculating my interest rate.

If the Index is no longer available, it will be replaced in accordance with Section 4(G) below.

#### (C) Calculation of Changes

Before each Change Date, the Note Holder will calculate my new interest rate by adding THREE percentage points ( 3.000% ) (the "Margin") to the Current Index. The Margin may change if the Index is replaced by the Note Holder in accordance with Section 4(G)(2) below. The Note Holder will then round the result of the Margin plus the Current Index 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 or First change date for 10yr ARM is 5 plus current rate. The rate was 2.625 so 2.625 + 5 = 7.625 new interest rate in substantially equal payments. The result of this calculation will be the new a ment.

**(D) Limits on Interest Rate Changes**

The interest rate I am required to pay at the first Change Date will not be greater than **7.625 %** or This statement must be correct. **3.000 %**. Thereafter, my interest rate will never be increased or decreased on any single Change Date than **ONE** percentage points (**1.000 %**) from the rate of interest I have been paying for the preceding **ONE** month. **My interest rate will never be greater than 7.625 % or less than 3.000 %.**

**(E) Effective Date**

Your floor will never be less than the Margin. Our Margin is 3% My new interest rate will be effective on each Change Date. I will determine the amount of my new Monthly Payment beginning on the first day of the month after the Change Date until the next Change Date again.

**(F) Notice of Changes**

This is the subsequent rate, this will always be 1%. This means that every six months they look to see if the rate can go down or up 1% per the current index. The Note Holder will deliver or mail to me a notice of any change in my adjustable interest rate and of any changes in my adjustable interest rate before the effective date of any change. The notice will include the amount of my Monthly Payment, any information required by law to be given to me and also the title and telephone number of a person who will answer any question I may have regarding the notice.

**(G) Replacement Index and Replacement Margin**



## Example of incorrect Note

- Margin should be 3% however note is showing as 2.750%

SOFR Index. The Index is currently published by the Federal Reserve Bank of New York. The most recent Index value available as of the date 45 days before each Change Date is called the "Current Index." provided that if the Current Index is less than zero, then the Current Index will be deemed to be zero.

If the Index is no longer available, it will be replaced in accordance with Section 4(G) below.

### (C) Calculation of Changes

Before each Change Date, the Note Holder will calculate my new interest rate by adding **TWO AND THREE-FOURTHS** percentage points ( **2.750 %** ) (the "Margin") to the Current Index. The Margin may change if the Index is replaced by the Note Holder in accordance with Section 4(G)(2) below. The Note Holder will then round the result of the Margin plus the Current Index 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.

This always has to be 3%

MULTISTATE FIXED/ADJUSTABLE RATE NOTE – 30-day Average SOFR – Single Family

Fannie Mae / Freddie Mac Uniform Instrument Form 3442 04/20

ICE Mortgage Technology, Inc.

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## Beta checklist Questions for note and rider

### 4. ADJUSTABLE INTEREST RATE AND MONTHLY PAYMENT CHANGES

#### **A (A) Change Dates**

The initial fixed interest rate I will pay will change to an adjustable interest rate on the first day of **FEBRUARY, 2022**, 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 value available as of the date 45 days before each Change Date is called the "Current Index," provided that if the Current Index is less than zero, then the Current Index will be deemed to be zero for purposes of calculating my interest rate.

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.

#### **D (C) Calculation of Changes**

Before each Change Date, the Note Holder will calculate my new interest rate by adding **TWO AND 250/1000** percentage points (**2.250%**) (the "Margin") 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**

**B&C** The interest rate I am required to pay at the first Change Date will not be greater than x.xx% or less than x.xx%.

**E** 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. **F** My interest rate will never be greater than x.xx% or less than the Margin.

#### **(E) Effective Date of Changes**

My new interest rate will become effective on each Change Date. I will pay the amount of my new monthly payment beginning on the first monthly payment date after the Change Date until the amount of my monthly payment changes again.

#### **(F) Notice of Changes**

The Note Holder will deliver or mail to me a notice of any changes in my initial fixed interest rate to an adjustable interest rate and of any changes in my adjustable interest rate before the effective date of any change. The notice will include the amount of my monthly payment, any information required by law to be given to me and also the title and telephone number of a person who will answer any question I may have regarding the notice.

### 5. BORROWER'S RIGHT TO PREPAY

I have the right to make payments of Principal at any time before they are due. A payment of Principal only is known as a "Prepayment." When I make a Prepayment, I will tell the Note Holder in writing that I am doing so. I may not designate a payment as a Prepayment if I have not made all the monthly payments due under this Note.

I may make a full Prepayment or partial Prepayments without paying any Prepayment charge. The Note Holder will use my Prepayments to reduce the amount of Principal that I owe under this Note. However, the Note Holder may apply my Prepayment to the accrued and unpaid interest on the Prepayment amount before applying my Prepayment to reduce the Principal amount of this Note. If I make a partial Prepayment, there will be no changes in the due dates of my monthly payments unless the Note Holder agrees in writing to those changes. My partial

## ARM Note & Rider Checklist questions

<b>A</b>	Does first change date match Mortrac? (PS - Package Return)	<b>A</b>	<ul style="list-style-type: none"> <li>This is the month &amp; year the loan adjusts for the 1st time.</li> </ul>
	First change date on Note ( ) does not match system ( ). Flagstar unable to purchase loan. (Ref memo #14114)		<ul style="list-style-type: none"> <li><b>Example:</b> 5/1 ARM. 1st payment date is 3/1/17. 1st adjustment date will be 2/1/22.</li> </ul>
	Verbiage on the note will generally read as <b>"The initial fixed interest rate I will pay will change to an adjustable interest rate on the first day of MONTH, YEAR..."</b>		
<b>B</b>	Does the first change rate increase match Mortrac? (PS - Package Return)	<b>B</b>	<ul style="list-style-type: none"> <li>This is the initial/start interest rate % <b>PLUS</b> first adjustment cap UP %.</li> </ul>
	First Change Rate Increase on Note ( ) does not match system ( ). Flagstar unable to purchase loan. (Ref memo #14114)		<ul style="list-style-type: none"> <li><b>Example:</b> 3.75% (initial/start rate) + 5% (1st change cap) = <b>8.75%</b>; therefore <b>the most the rate will increase (at the 1st adjustment/change) is 8.75%</b>.</li> </ul>
	Verbiage on the note will generally read as <b>The interest rate I am required to pay at the first Change Date will not be greater than X.XX% or less than X.XX%..."</b>		
<b>C</b>	Does the first change rate decrease match Mortrac? (PS - Package Return)	<b>C</b>	<ul style="list-style-type: none"> <li>This is the initial/start interest rate % <b>MINUS</b> first adjustment cap DOWN %. <b>Rate cannot be lower than margin (2.25%) at any adjustment.</b></li> </ul>
	First Change Rate decrease on Note ( ) does not match system ( ). Flagstar unable to purchase loan. (Ref memo #14114)		<ul style="list-style-type: none"> <li><b>Example 1:</b> 3.75% (initial/start rate) - 5% (1st change cap) = <b>1.25%</b>; therefore <b>lowest rate possible (at the 1st adjustment/change) will be 2.25% (margin).</b></li> <li><b>Example 2:</b> 5.25% (initial/start rate) - 2% (1st change cap) = <b>3.25%</b>; therefore <b>lowest rate possible (at the 1st adjustment/change) will be 3.25%</b>.</li> </ul>
	Verbiage on the note will generally read as <b>The interest rate I am required to pay at the first Change Date will not be greater than X.XX% or less than X.XX%..."</b>		
<b>D</b>	Does the margin match Mortrac? (If not see manual for additional instructions.)	<b>D</b>	<ul style="list-style-type: none"> <li>Compare margin on document to margin set in system.</li> </ul>
	Margin on Note ( ) does not match system ( ). Sent to management for further review. ( )		<ul style="list-style-type: none"> <li><b>Definition:</b> This is the amount that is added to the index to establish the interest rate on each adjustment date, a subject to any limitations on the interest rate change.</li> </ul>
	Verbiage on the note will generally read as <b>"Before each Change Date the Note Holder will calculate my new interest rate by adding X.XX% to the current index."</b>		
<b>E</b>	Does the subsequent cap match Mortrac? (PS - Package Return)	<b>E</b>	<ul style="list-style-type: none"> <li>This is maximum % the rate can increase or decrease, <b>after the 1st adjustment.</b></li> </ul>
	Subsequent cap on Note ( ) does not match system ( ). Flagstar unable to purchase loan. (Ref memo #14114)		<ul style="list-style-type: none"> <li><b>Example:</b> 5.50% (current rate) +2% = 7.50%    <b>Example 2:</b> 5.50% (current rate) -2% = 3.50%</li> </ul>
	Verbiage on the note will generally read as <b>"Thereafter, my adjustable interest rate will never be increased or decreased on any single change date by more than 2%."</b>		
<b>F</b>	Does the life cap match Mortrac? (PS - Package Return)	<b>F</b>	<ul style="list-style-type: none"> <li>This is the maximum % the rate can increase <b>over the life of the loan.</b></li> </ul>
	Life cap on Note ( ) does not match system ( ). Flagstar unable to purchase loan. (Ref memo #14114)		<ul style="list-style-type: none"> <li><b>Example:</b> 3.75% (initial/start rate) + 5% (1st change cap) = <b>8.75%</b>; therefore <b>the most the rate will increase (over the life of loan) is 8.75%</b>.</li> </ul>
	Verbiage on the note will generally read as <b>"My interest rate will never be greater than x.xx% or less than the Margin."</b>		

**Checklist questions for ARM note are identical to checklist questions for ARM Rider.**