197—11.6(534) Disclosure.

11.6(1) An applicant must be given, at the time of receipt of an application, or upon request, a disclosure notice in the following form:

IMPORTANT INFORMATION ABOUT THE ADJUSTABLE MORTGAGE LOAN
PLEASE READ CAREFULLY

You have received an application form for an adjustable mortgage loan ("AML"). The AML may differ from other mortgages with which you are familiar.

General Description of Adjustable Mortgage Loan

The adjustable mortgage loan is a flexible loan instrument. Its interest rate may be adjusted by the lender from time to time. Such adjustments will result in increases or decreases in your payment amount, in the outstanding principal loan balance, in the loan term, or in all three (see discussion below relating to these types of adjustments). State regulations place no limit on the amount by which the interest rate may be adjusted either at any one time or over the life of the loan, or on the frequency with which it may be adjusted. Adjustments to the interest rate must reflect the movement of a single, specified index (see discussion below). This does not mean that the particular loan agreement you sign must, by law, permit unlimited interest rate changes. It merely means that, if you desire to have certain rate adjustment limitations placed in your loan agreement, that is a matter you should negotiate with the lender. You may also want to make inquiries concerning the loan terms offered by other lenders on AMLs to compare the terms and conditions.

Another flexible feature of the AML is that the regular payment amount may be increased or decreased by the lender from time to time to reflect changes in the interest rate. Again, state regulations place no limitations on the amount by which the lender may adjust payments at any one time, or on the frequency of payment adjustments. If you wish to have particular provisions in your loan agreement regarding adjustments to the payment amount, you should negotiate such terms with the lender.

A third flexible feature of the AML is that the outstanding principal loan balance (the total amount you owe) may be increased or decreased from time to time when, because of adjustments to the interest rate, the payment amount is either too small to cover interest due on the loan, or larger than is necessary to pay off the loan over the remaining term of the loan.

The final flexible feature of the AML is that the loan term may be lengthened or shortened from time to time, corresponding to an increase or decrease in the interest rate. When the term is extended in connection with a rate increase, the payment amount does not have to be increased to the same extent as if the term had not been lengthened. In no case may the total term of the loan exceed 40 years.

The combination of these four basic features allows an association to offer a variety of mortgage loans. For example, one type of loan could permit rate adjustments with corresponding changes in the payment amount. Alternatively, a loan could permit rate adjustments to occur more frequently than payment adjustments, limit the amount by which the payment could be adjusted, or provide for corresponding adjustments to the principal loan balance.

Index

Adjustments to the interest rate of an AML must correspond directly to the movement of an index, subject to such rate-adjustment limitations as may be contained in the loan contract. If the index has moved down, the lender must reduce the interest rate by at least the decrease in the index. If the index has moved up, the lender has the right to increase the interest rate by that amount. Although taking such

an increase is optional by the lender, you should be aware that the lender has this right and may become contractually obligated to exercise it.

[Name and description of index to be used for applicant's loan, initial index value (if known) or date of initial index value, a source or sources where the index may be readily obtained by the borrower, and the high and low index rates during the previous calendar year.]

Key Terms of Savings and Loan Association's
Adjustable Mortgage Loan

Following is a summary of the basic terms on the type of AML to be offered to you. This summary is intended for reference purposes only. Important information relating specifically to your loan will be contained in the loan agreement.

[Provide summary of basic terms of the loan, including the loan term, the frequency of rate changes, the frequency of payment changes, the maximum rate change, if any, at one time, the maximum rate change, if any, over the life of the loan, the maximum payment change, if any, at one time, minimum increments, if any, of rate changes, and whether there will be adjustments to the principal loan balance, in the following format:

Loan term . . . . . .
Frequency of rate changes . . . . . .
Frequency of payment changes . . . . .]

How Your Adjustable Mortgage Loan Would Work

Initial Interest Rate

The initial interest rate offered by _____ Savings and Loan Association on your AML will be established and disclosed to you on [commitment date, etc.] based on market conditions at the time.

[Insert a short description of each of the key terms of the type of AML to be offered to the borrower, using headings where appropriate.]

Notice of payment adjustments

_____ Savings and Loan Association will send you notice of an adjustment to the payment amount at least 30 but not more than 45 days before it becomes effective. [Describe what information the notice will contain.]

Prepayment penalty

You may prepay an AML in whole or in part without penalty at any time during the term of the loan, if you have mortgaged your single family dwelling or duplex, in which you reside, as security for the loan. If the security property is other than one of the above, a penalty may be assessed to you for early loan prepayment which is not greater than that as provided by law.

Fees

You will be charged fees by _____ Savings and Loan Association and by other persons in connection with the origination of your AML. The association will give you an estimate of these fees after receiving your loan application. However, you will not be charged any

costs or fees in connection with any regularly-scheduled adjustment to the interest rate, the payment, the outstanding principal loan balance, or the loan term initiated by the lender.

Example of operation of your type of AML

[Set out an example of the operation of the type of AML to be offered to the borrower, including, where appropriate, the use of a table.]

11.6(2) Reserved.