ADJUSTABLE RATE MORTGAGES

GMFS LLC
CHANGING LIVES
gmfspartners.com

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GMFS ARM Product Offering

GMFS is pleased to offer a Conforming Conventional Adjustable Rate Mortgage (ARM)

- We will offer a 5/1,7/1, and 10/1 LIBOR ARM
  - 1 year Libor
  - 2/2/5 on 5/1 Libor ARM
  - 5/2/5 on 7/1 and 10/1 Libor ARM
  - 2.25% margin

Both Conforming have the same characteristics. Let's get into the details…

ARM TERMS

Not to be confused with the Term on the Mortgage! When you are talking to clients <u>and/or entering the loan in Optimal Blue</u>, your Loan Term is still a 30 year fixed. Your ARM Term can be the following:

- *5/1 – Which means the Interest rate is fixed for 60 months before it can adjust for the first time*
- *7/1 – The interest rate is fixed for 84 months before it can adjust.*
- *10/1 – The interest rate is fixed for 120 months before it can adjust.*

There are shorter adjustments in the marketplace but GMFS will offer these terms because they are the most liquid, common and competitive for your borrower.

ARM INDEX

ARM loans are tied to an Index. There are many indices including: CMT, Treasury Bill, MTA, COSI , COFI, LIBOR and much more. Some of the indices are weekly, 6-month or yearly. GMFS decided to offer 1yr - LIBOR because it is the most widely used in the industry and therefore allows us to offer the most competitive price.

- LIBOR stands for London Interbank Offered Rate. It is similar to the fed funds rate, but it is the interbank rate.
- You can find more on the 1yr LIBOR at www.bankrate.com or the Wall Street Journal

ARM CAPS

All of the ARMS that GMFS offer today have a “2/2/5” on 5/1 ARM and “5/2/5” on 7/1 and 10/1 ARM cap. Each program has a 5% total life adjustment, they vary on the initial adjustment.

Let’s use a 5/1 ARM to look at how these interest rate caps would be applied. For example, assume that you close a 5/1 ARM at a 4% rate.

- After 60 months the loan will adjust. The most it can adjust is 2% on the first adjustment over the initial note rate. (we will give an example on how it is calculated on another page). So worse case scenario the loan could move up to 6% on the first adjustment or best case down to 2.25% *
- Each year after that it can adjust up or down 2% from what is now the current interest rate
- Over the life time of the loan it can never move up or down more than 5% from the initial interest rate*

MARGIN

- The Margin GMFS will use is 2.25%. You may see other margins in the marketplace but this is the most common. The Margin is what is added to your Index to determine the new interest rate when the loan adjust. It is also your floor! You can never go below 2.25% interest rate regardless of where your loan started.

  - For example, if your 5/1 loan was ready to adjust you would add the 1 year LIBOR Rate (.67) to the margin (2.25) and round to the nearest .125%. So your new rate would be 2.875% in this example
  - Don't be surprised if the margin say 1.75% in Optimal Blue – this is your net margin and is not what you will see on the note rate

- See more on Lookback and History of ARMs to determine what your client may expect.

Other ARM Characteristics

- Look Back Period – This is used to determine which index figure to use on each change date. GMFS will use one that was published 45 days prior to the change date. This is typical and allows time for the servicer of the loan to get the new payment and paperwork to the borrower.
  - *So for example, if your payment was due to change on October 1st we would use the August 15th 1 YR LIBOR Rate to calculate your next payment due. That payment will be fixed for a year, till it is time to do it again.*
- These loans cannot be converted to fixed rates at any time.
- GMFS will not offer an Interest Only ARM.

Pricing Compare

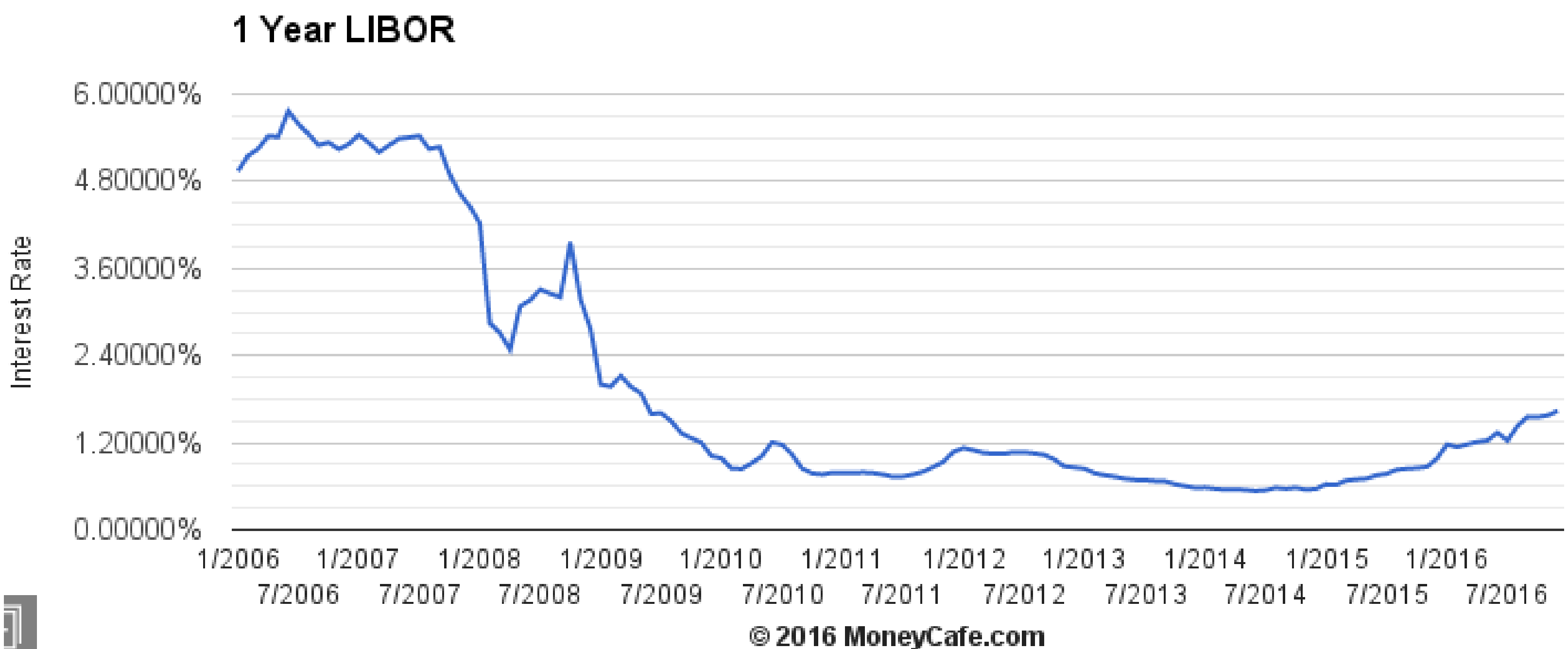
Links	Eligible Product	Rate	Price	Days	P&I	Detail	Compare
	GMFS Fannie Retail - DU 9.0 5/1 LIBOR ARM Plus 5/2/5 (Plan 2737)	3.375	100.093	30	$796	Show	
	GMFS Fannie Retail - DU 9.0 7/1 LIBOR ARM Plus (Plan 2727)	3.875	100.062	30	$846	Show	
	GMFS Fannie Retail - 30yr Conforming	4.250	100.058	30	$885	Show	

So in the example above, if we select a 5/1 ARM instead of 30 year we can reduce the monthly payment by $89.72. In addition to the monthly savings, after 60 months:

- While making a smaller payment you have been able to reduce your principal by $2,348.14 more than if you selected the 30 year option
- You paid $7,731.26 less in interest over 5 years

Let's look at the History of the 10 year….

10 Year History of 1 Year LIBOR



At the peak Rate would be 8.016
(5.766+2.25)

Average over 10 years same month 4.23
(1.98+2.25)

Pricing Compare

So in the example from the earlier page… what will happen in year 5?

- If you use the average LIBOR index over 10 year (4.23%), your payment will still be less in year six. This is because you are starting with a lower principal at the end of year 5 than the 30 year mortgage will have. Your new payment is $802.49 versus the 30 year payment of $885.49.
- If you use the worse case over the last 10 years your payment will jump to $1,201.19.

It is important that the ARMS are used as budgeting tool and not a speculation vehicle. Although history has shown the LIBOR ARM can remain very competitive, we have to feel comfortable that our borrowers will be in a good position when their ARM adjust.

Questions?