

**Arm Yourself with Important Information Regarding  
ADJUSTABLE RATE, PAYMENT CHOICE and INTEREST ONLY Mortgages**

The mortgage market and investors have become more innovative in the design of loan products that fit a wider range of homeowner's specific financial needs and situations. Many of these loan programs include adjustable interest rate features and/or different options the borrower may choose when it comes to the amount of their monthly payment. While these loans may be attractive due to low initial interest rates and lower payments, there are some important factors that need to be considered in order to make an informed decision about the selection of these products.

**Adjustable Rate Mortgage**

One of the advantages of an adjustable rate mortgage (ARM) loan is that the initial interest rate is often a low introductory rate that will last for a specified amount of time. The lower initial interest rate is attractive to borrowers who, for example, know they will not own the home for a long period of time. However, when the initial period is over there is the possibility that the interest rate will increase due to changes in the current market rate. This may result in a higher payment than the borrower is accustomed to making. Also, the interest rate may change periodically (ie. Monthly, quarterly, annually, etc), depending on the loan program selected.

**Payment Choice Mortgage**

The same advantages also apply to loan programs which have Payment Choice features. These loans have an adjustable interest rate which often features a low introductory interest rate. Additionally these loan programs offer different options as to the amount of monthly payment the borrower must make. For these loans, the interest rate may change but there will be a minimum payment that will remain constant until the payment change date. The borrower may choose to pay the lower minimum payment, however, if the minimum payment does not cover the interest being charged due to an interest rate increase, the unpaid interest will be added to the balance of the loan resulting in negative amortization.

**Interest Only Mortgage**

Another loan option is the interest only option, which depending on the loan program, can be utilized in combination with the above features and on fixed rate loans as well. On these loans the borrower pays only the interest for a specified amount of time which results in a lower payment but none of the payment is applied toward reducing the loan balance. At the end of the interest only period, the payment will increase to an amount sufficient to repay all principal and interest within the remaining term of the loan.

**In Summary**

All of these features can offer attractive advantages for certain borrowers that are willing to accept the risk of higher future interest rates and payments. Low beginning rates and the ability to choose the amount of the monthly payment through Payment Choice

options can be invaluable to borrowers for such personal scenarios as:

- Borrowers with cyclical incomes such as self employed or with incomes with bonus/commissions paid quarterly or annually.
- Borrowers may invest or save funds monthly that would normally be used for mortgage payments. (ie. Increase payments to 401K or children’s college funds)
- Borrowers that are financially savvy or have complex income sources. Tax consultant may advise on benefits of deferred interest payments.

Anytime a borrower’s monthly payment may increase, extra caution needs to be taken in the decision whether this type of loan is best for you and a mortgage professional is very important.

First Horizon Home Loans is committed to helping homeowners protect and secure their long-term financial future and their homes. First Horizon has a wide variety of loan programs incorporating all of the features listed above and knowledgeable professionals to make sure that these features are used in the wisest and most beneficial way.

For Arm loans refer to the Adjustable Rate Loan Disclosure Statement for the specific features of the program you are interested in learning more about.

**Compare Payment and Balance Information for a Fixed Rate Loan and an ARM Loan with Payment Choice Options**

Loan amount: \$100,000

Introductory Start Rate: 1.0% (for a period of three months loan is fully amortized; does not apply to fixed rate)

Margin: 2.875%

Index: 3.30%

	<b>Fixed Rate Payment at 5.5% *</b>	<b>Payment Choice Arm Minimum Payment <sup>1,2</sup> *</b>	<b>Payment Choice Arm Interest Only Payment <sup>3</sup> *</b>
<b>Year 1</b>	\$568	\$322	\$510 <sup>5</sup>
<b>Year 2</b>	\$568	\$346	\$583
<b>Year 3</b>	\$568	\$375	\$656
<b>Year 4</b>	\$568	\$400	\$729
<b>Year 5</b>	\$568	\$1,025	\$802
<b>Remaining Balance</b>	\$92,461	\$110,000 <sup>4</sup>	\$99,283 <sup>5</sup>

1. Minimum payment required when Interest Only Payment is less than Minimum Payment.
2. Minimum Payment based on 7.5% annual payment cap regardless of interest rate.
3. Interest rate change is based on assumed index increase per year of: 0.898.
4. Paying minimum payment resulted in negative amortization which is capped at 110%. Unpaid interest in the amount of \$10,000 was added to original balance of \$100,000.
5. First three months of interest only at 1% equals \$83.00. Required minimum payment of \$322 leaves \$239 to go to principal for three months. After the three months the payment goes to fully indexed interest only payment of \$510.

\*Payments do not include taxes, insurance or Private Mortgage Insurance. Payments may have been rounded and should be considered approximations. This disclosure is supplemental to the federally mandated Adjustable Rate Mortgage Loan Disclosure required for each ARM loan program.

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Borrower Date Borrower Date

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