

Loan Number:

Min:

**INTEREST-ONLY PERIOD ADJUSTABLE RATE NOTE**  
(One-Year LIBOR Index (As Published In The Wall Street Journal)  
Rate Caps-10 Year Interest Only Period)

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.

Jersey City, NEW JERSEY 07302  
(Property Address)

**1. BORROWER'S PROMISE TO PAY**

In return for a loan that I have received, I promise to pay U.S. \$450,000.00 (this amount is called "Principal"), plus interest, to the order of the Lender. Lender is **Equity Now Inc.** I will make all payments under this note in the form of cash, check, or money order.

I understand the Lender may transfer the 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."

**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 the 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 make a payment on the 1<sup>st</sup> day of every month, beginning on April 1, 2007. Before the First principal and Interest Payment Due Date as described in Section 4 of the note, my payment will consist only of 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 my 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 it's scheduled due date, and if the payment includes both principal and interest, it will be applied to interest before principal. If, on March 1, 2037,

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 payment at

Equity Now Inc.  
1370 Avenue of the Americas  
New York, NY 10019  
Or at a different place 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. \$2109.38 until the first change date. After the first change date, my monthly payment will be in an amount sufficient to pay the accrued interest, at the rate determined as described in Section 4 of this note until the First Principal and Interest payment Due Date. On that date and thereafter, my monthly payment 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 changes in my monthly payment.

**(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 on my monthly payment in accordance with Section 4 or 5 of this note.

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

**(A) Change Dates**

The initial fixed interest rate I will pay will change to an adjustable rate on the 1<sup>st</sup> day of March, 2014, and the adjustable interest rate I will pay may change on that day every 12<sup>th</sup> 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 of 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 Changes 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 the choice.

**(C) Calculation of Changes**

Before, each Change Date, the note holder will calculate my new interest rate by adding **TWO AND ONE FORTH** 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 my monthly payment. For payment adjustments occurring before the First Principal and Interest Due Date, the

amount of my monthly payment will be sufficient to repay all accrued interest each month on the unpaid principal balance at the new interest rate. If I make a voluntary payment of principal before the First Principal and Interest Payment Due Date, my payment amount for subsequent payments will be reduced to the amount necessary to repay all accrued interest on the reduced principal balance at the current interest rate. For payment adjustments occurring on or after the First Principal and Interest Payment Due Date, the amount of my monthly payment will be sufficient to repay unpaid principal and interest that I am expected to owe in full on the maturity date at the current interest rate in substantially equal payments.

**(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 on interest I have been paying for the preceding TWELVE months. My interest rate will never be greater than 10.625%.

**(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 Change**

Before the effective date of any change in my interest rate and/or monthly payment, the note holder will deliver or mail to me a notice of such change. The notice will include 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) 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 that date which is the 10<sup>th</sup> anniversary date of the first payment due date, as reflected in Section 3(A) of the note.

**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 the note.

I may make a full prepayment or partial prepayment without paying a prepayment charge. The note holder will use my prepayment 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 the note. If I make a partial prepayment, there will be no changes in the due date of my monthly payment unless the note holder agrees in writing to those changes. If the partial prepayment is made during the period when my monthly payments consist only of interest, the amount of the monthly payment will decrease for the remainder of the term when my payments consist of only interest. If the partial prepayment is made during the period when my payments consist of principal and interest, my partial prepayment may reduce the amount of my monthly payments after the

first change date following my partial prepayment. However, any reduction due to my partial prepayment may be offset by an interest rate increase.

## **6. Loan Charges**

If a law, which applies to this loan and which sets maximum loan charges, is finally interpreted so that the interest or other loan charges collected or to be collected in connection with this loan exceed the permitted limits, then: (a) any such loan charges shall be reduced by the amount necessary to reduce the charge to the permitted limit; and (b) any sums already collected from me that exceeded permitted limits will be refunded to me. The note holder may choose to make this refund by reducing the principal I owe under this note or by making a direct payment to me. If a refund reduces principal, the reduction will be treated as a partial prepayment.

## **7. BORROWER'S FAILURE**

### **(A) Late Charges for overdue payments**

If the note holder has not received the full amount of any monthly payment by the end of the **FIFTEEN** calendar days after the date it is due, I will pay a late charge to the note holder. The amount of the charge will be **5.000%** of my overdue payment of interest, during the period when my payment is interest only, and of principal and interest thereafter. I will pay this late charge promptly but only once on each late payment.

### **(B) Default**

If I do not pay the full amount of each monthly payment on the date it is due, I will be in default.

### **(C) Notice of Default**

If I am in default, the note holder may send me a written notice telling me that if I do not pay the overdue amount by a certain date, the note holder may require me to pay immediately the full amount of principal that has not been paid and all the interest that I owe on that amount. That date must be at least 30 days after the date on which the notice is mailed to me or delivered by other means.

### **(D) No Waiver By Note Holder**

Even if, at a time when I am in default, the note holder does not require me to pay immediately in full as described above, the note holder will still have the right to do so if I am in default at a later time.

### **(E) Payment of Note Holder's Cost and Expenses**

If the Note Holder has required me to pay immediately in full as described above, the note holder will have the right to be paid back by me for all of its costs and expenses in enforcing this note to the extent not prohibited by applicable law. Those expenses include, for example, reasonable attorney's fees.

## **8. GIVING OF NOTICES**

Unless applicable law requires a different method, any notice that must be given to me under this note will be given by delivering it or by mailing it by first class mail to me at the property address above or at a different address if I give the note holder a notice of my different address.

Unless the note holder requires a different method, any notice that must be given to the note holder under this note will be given by mailing it by first class mail to the note

holder at the address stated in Section 3(A) above or at a different address if I am given notice of that different address.

## **9. OBLIGATIONS OF PERSONS UNDER THIS NOTE**

If more than one person signs this note, each person is fully and personally obligated to keep all of the promises made in this note, including the promise to pay in full the amount owed. Any person who is a guarantor, surety or endorser on this note is also obligated to do these things. Any person who takes over these obligations, including the obligations of guarantor, surety or endorser of this note, is also obligated to keep all of the promises made in this note. The note holder may enforce its rights under this note against each person individually or against all of us together. This means that any one of us may be required to pay all of the amounts owed under this note.

## **10. Waivers**

I and any other person who has obligations under this note waive the rights of presentment and notice of dishonor. "Presentment" means the right to require the note holder to demand payment of amounts due. "Notice of Dishonor" means the right to require the note holder to give notice to other persons that amounts due have not been paid.

## **11. UNIFORM SECURED NOTE**

This note is a uniform instrument with limited variations in some jurisdictions. In addition to the protections given to the note holder under this note, a Mortgage, Deed of Trust, or Security Deed (the "Security instrument"), dated the same date as this note, protects the note holder from possible losses that might result if I do not keep the promise that I make in this note. The Security Instrument describes how and under what conditions I may be required to make immediate payment in full of all amounts I owe under this note. Some of those conditions read as follows:

(A) Until my initial fixed interest rate changes to an adjustable rate under the terms stated in Section 4 above, Uniform Covenant 18 of the Security instrument shall read as follows

**Transfer of the Property or a Beneficial Interest in Borrower.** As used in this Section 18, "Interest in the property" means any legal or beneficial interest in the property, including, but not limited to, those beneficial interests transferred in a bond for deed, contract for deed, installment sale contract or escrow agreement, the intent of which is the transfer of title by borrower at a future date to a purchaser.

If all or any part of the property or any Interest in the property is sold or transferred (or if Borrower is not a natural person and a beneficial interest in Borrower is sold or transferred) without Lender's prior written consent, Lender may require immediate payment in full of all sums secured by this Security Instrument. However, this option shall not be exercised by Lender if such exercise is prohibited by applicable law.

If Lender exercises this option, Lender shall give borrower notice of acceleration. The notice shall provide a period of not less than 30 days from the date the notice is given in accordance with Section 15 within which Borrower must pay all sums secured by this Security Instrument. If Borrower fails to pay these sums prior to the expiration of this

period, Lender may invoke any remedies permitted by this Security Instrument without further notice or demand on Borrower.

(B) When my initial fixed interest rate changes to an adjustable interest rate under the terms stated in Section 4 above, Uniform Covent 18 of the Security Instrument describes in Section 11 (A) above shall then cease to be in effect, and uniform Covent 18 of the Security Instrument shall instead read as follows:

Transfer of the property or a beneficial Interest in Borrower. As used in the Section 18, "Interest in the Property" means any legal or beneficial interest in the Property, including, but not limited to, those beneficial interest transferred in a bond for deed, contract for deed, installment sales contract or escrow agreement, the intent of which is the transfer of title by borrower at a future date to a purchaser.

If all or any of the property or any Interest in the Property is sold or transferred (or if borrower is not a natural person and a beneficial interest in Borrower is sold or transferred) without Lender's prior written consent, Lender may require immediate payment in full of all sums secured by this Security Instrument. However, this option shall not be exercised by Lender if such exercise is prohibited by Applicable Law. Lender also shall not exercise this option if: (a) Borrower causes to be submitted to Lender information required by Lender to evaluate the intended transferee as if a new loan were being made to the transferee; (b) Lender reasonably determines that Lender's security will not be impaired by the loan assumption and that the risk of a breach of any covenant or agreement in this Security Instrument is acceptable to Lender.

To the extent permitted by Applicable Law, Lender may charge a reasonable fee as a condition to Lender's consent to the loan assumption. Lender also may require the transferee to sign an assumption agreement that is acceptable to Lender and that obligates the transferee to keep all promises and agreements made in the note and in this security instrument. Borrower will continue to be obligated under the note and this Security Instrument unless Lender releases Borrower in writing.

If Lender exercises the option to require immediate payment in full, Lender shall give borrower notice of acceleration. The notice shall provide a period of not less than 30 days from the date the notice is given in accordance with Section 15 within which Borrower must pay all sums secured by this Security Instrument. If borrower fails to pay these sums prior to the expiration of this period, Lender may invoke any remedies permitted by this Security Instrument without further notice or demand on Borrower.

WITNESS THE HAND(S) AND Seal(S) OF THE UNDERSIGNED

\_\_\_\_\_  
(Seal)  
-Borrower

\_\_\_\_\_  
(Seal)  
-Borrower

*(sign original only)*

- Introductory rate**

An introductory rate, or teaser rate, is the initial rate paid on an adjustable-rate loan. On a mortgage, the introductory rate might last as short as one month and as long as 10 years. The telltale words to watch for are, "The interest rate I will pay may change ..." This passage says that the rate is 8.29 percent and that it "may change" according to rules described later in the contract. If a loan note gives the interest rate, and then says it may change, you have an adjustable-rate loan with an introductory rate.
- Payment amounts**

A clue that this is an adjustable-rate mortgage is the phrase "initial monthly payments" and the sentence "This amount may change." This passage tells you how much the monthly payment will be -- until the change date. On this loan, that change date comes quickly.
- Change dates**

This part of the contract describes how long the teaser rate will last. This loan closed in March 2007, and the contract says the rate will "change to an adjustable interest rate" in March 2014 and can change every March after that. In the mortgage world, this is known as a 7/1 ARM because the initial rate lasts seven years, then the rate changes every one year. The rate change is widely known as reset, but the term "reset" is not used in this contract.
- Index**

The rate on this loan changes every six months after the second anniversary. The new rate is calculated by adding an index plus a margin. An index is an interest rate or bond yield paid on some other type of debt, such as U.S. Treasury notes, an average of savings-account rates paid in the Western states, or rates that banks charge one another in wholesale money markets in London. This passage tells you which index the loan uses -- the six-month LIBOR. Although this description doesn't use the phrase "six-month LIBOR," the heading at the top of the first page does, as well as the footer at the bottom of each page. This loan's index is the six-month LIBOR rate on the first business day before each change date. The first time this loan's rate changes, it will be based upon the six-month LIBOR rate on Friday, Jan. 2, 2009. (Jan. 1 isn't a business day because it's a holiday.)
- Margin**

Whenever the reset date rolls around, the new rate is calculated by adding a margin to an index. The index is the six-month LIBOR; the margin, as described in this passage, is 7.04 percent. Let's say the index is 5 percent. Add the margin to that, and you get 12.04 percent. In virtually all cases, the six-month LIBOR won't be a round number like that. Let's say it's 5.358 percent. Add the margin of 7.04 percent to that, and you get 12.398 percent. Then you round it, up or down, to the nearest 0.125 percent. In this case, the lender would round down to 12.375 percent. Note that this contract never uses the word "margin" to describe the margin.
- Caps**

An adjustable-rate mortgage's interest rate is based upon an index plus a margin, but that's not all that determines the new rate. There are limits, often called "caps," that restrict how much the rate can change at one time or cumulatively.

Note that the word "cap" doesn't appear in this description of the caps. This passage describes three caps. First, it says that the first time the rate is reset, it can't jump higher than 10.625 percent and it can't drop lower than 2.25 percent. In other words, the initial rate jump can't be more than 5 percentage points from the teaser rate of 5.625 percent. After that, the rate can change every year, but it can't jump or drop more than 2 percentage points. This is known as the periodic cap. Finally, the rate can never exceed 10.625 percent. That's known as the lifetime cap.

- **Recasting**

This 7/1 ARM allows the borrower to pay only interest for the first 10 years. This passage spells it out, saying that the first payment of both interest and principal is due on the loan's 10th anniversary. It refers to Section 3(A) of the note, which says that the payments must be enough to pay off the loan by its 30th anniversary. In practice, this means that on the mortgage's 10th anniversary, the loan must be "recast" to pay off the remaining principal and interest over the next 20 years. If the borrower hasn't paid down any principal, the jump in payment will be considerable. This passage looks innocuous, but woe to the borrower who doesn't understand the implications.

- **Prepayments**

The borrower can make principal payments at any time over the interest-only period, or make extra payments toward principal afterward, without incurring a prepayment penalty. The mortgage can be paid in full at any time without risk of a prepayment penalty.

- **Late charges**

More than 15 days late with the payment? Tack on an extra 5 percent to the minimum amount owed.