

MODEL ADJUSTABLE RATE SECOND NOTE FORM

(HOME EQUITY CONVERSION)

FHA Case No.

ADJUSTABLE RATE SECOND NOTE

[Date]

[Property Address]

1. DEFINITIONS

"Borrower" means each person signing at the end of this Note. "Secretary" or Lender means the Secretary of Housing and Urban Development or his or her authorized representatives.

2. BORROWER'S PROMISE TO PAY; INTEREST

In return for amounts to be advanced by Lender to or for the benefit of Borrower under the terms of a Home Equity Conversion Loan Agreement dated _____, 19____ ("Loan Agreement"), Borrower promises to pay to the order of Lender a principal amount equal to the sum of all Loan Advances made by Lender under the Loan Agreement with interest. Interest will be charged on unpaid principal at the rate of _____ percent (____%) per year until the full amount of principal has been paid. The interest rate may change in accordance with Paragraph 5 of this Note. Accrued interest shall be added to the principal balance as a Loan Advance at the end of each month.

3. PROMISE TO PAY SECURED

Borrower's promise to pay is secured by a mortgage, deed of trust or similar security instrument that is dated the same date as this Note and called the "Security Instrument" or the "Second Security Instrument." The Security Instrument protects the Lender from losses which might result if Borrower defaults under this Note. Borrower also executed a First Security Instrument and First Note when the Second Security Instrument and this Note were executed.

4. MANNER OF PAYMENT

(A) Time

Borrower shall pay all outstanding principal and accrued interest to Lender upon receipt of a notice by Lender requiring immediate payment in full, as provided in Paragraph 7 of this Note.

(B) Place

Payment shall be made at the Office of the Housing-FHA Comptroller, Director of Mortgage Insurance Accounting and Servicing, 451 7th Street, S.W., Washington, DC 20410, or any such other place as Lender may designate in writing by notice to Borrower.

(C) Limitation of Liability

Borrower shall have no personal liability for payment of the debt. Lender shall enforce the debt only through sale of the Property covered by the Security Instrument ("Property").

5. INTEREST RATE CHANGES /1

(A) Change Date

The interest rate may change on the first day of 19 , and on that day of each succeeding year. "Change Date" means each date on which the interest rate could change.

(B) The Index

Beginning with the first Change Date, the interest rate will be based on an Index. "Index" means the weekly average yield on United States Treasury Securities adjusted to a constant maturity of one year, as made available by the Federal Reserve Board. "Current Index" means the most recent Index figure available 30 days before the Change Date. If the Index (as defined above) is no longer available, Lender will use as a new Index any index prescribed by the Secretary. Lender will give Borrower notice of the new Index.

(C) Calculation of Interest Rate Changes

Before each Change Date, Lender will calculate a new interest rate by adding a margin of percentage points (%) to the current Index. /2 Subject to the limits stated in Paragraph 5(D) of this Note, this amount will be the new interest rate until the next Change Date.

(D) Limits on Interest Rate Changes

The interest rate will never increase or decrease by more than two percentage points (2.0%) on any single Change Date. The interest rate will never be more than five percentage points (5.0%) higher or lower than the initial interest rate stated in Paragraph 2 of this Note.

(E) Notice of Changes

Lender will give notice to Borrower of any change in the interest rate. The notice must be given at least 25 days before the new interest rate takes effect, and must set forth (i) the date of the notice, (ii) the Change Date, (iii) the old interest rate, (iv) the new interest rate, (v) the Current Index and the date it was published, (vi) the method of calculating the adjusted interest rate, and (vii) any other information which may be required by law from time to time.

(F) Effective Date of Changes

A new interest rate calculated in accordance with paragraphs 5(C) and 5(D) of this Note will become effective on the Change Date, unless the Change Date occurs less than 25 days after Lender has given the required notice. If the interest rate calculated in accordance with Paragraphs 5(C) and 5(D) of this Note decreased, but Lender failed to give timely notice of the decrease and applied a higher rate than the rate which should have been stated in a timely notice, then Lender shall recalculate the principal balance owed under this Note so it does not reflect any excessive interest.

6. BORROWER'S RIGHT TO PREPAY

A Borrower receiving monthly payments under the Loan Agreement has the right to pay the debt evidenced by this Note, in whole or in part, without charge or penalty on the first day of any month. Otherwise, a Borrower has

the right to pay the debt evidenced by this Note, in whole or in part, without charge or penalty after giving Lender two weeks notice. Any amount of debt prepaid will first be applied to reduce the principal balance of this Note and then to reduce the principal balance of the First Note.

All prepayments of the principal balance shall be applied by Lender as follows:

First, to that portion of the principal balance representing aggregate payments for mortgage insurance premiums;

Second, to that portion of the principal balance representing aggregate payments for servicing fees;

Third, to that portion of the principal balance representing accrued interest due under the Note; and

Fourth, to the remaining portion of the principal balance. A Borrower may specify whether a prepayment is to be credited to that portion of the principal balance representing monthly payments or the line of credit. If Borrower does not designate which portion of the principal balance is to be prepaid, Lender shall apply any partial prepayments to an existing line of credit or create a new line of credit.

7. IMMEDIATE PAYMENT IN FULL

(A) Death or Sale

Lender may require immediate payment in full of all outstanding principal and accrued interest if:

(i) A Borrower dies and the Property is not the principal residence of at least one surviving Borrower, or

(ii) A Borrower conveys all of his or her title to the Property and no other Borrower retains title to the Property in fee simple or on a leasehold interest as set forth in 24 CFR 206.45(a).

(B) Other Grounds

Lender may require immediate payment in full of all outstanding principal and accrued interest, upon approval by an authorized representative of the Secretary, if:

(i) The Property ceases to be the principal residence of a Borrower for reasons other than death and the Property is not the principal residence of at least one other Borrower;

(ii) For a period of longer than 12 consecutive months, a Borrower fails to physically occupy the Property because of physical or mental illness and the Property is not the principal residence of at least one other Borrower; or

(iii) An obligation of the Borrower under the Security Instrument is not performed.

(C) Payment of Costs and Expenses

If Lender has required immediate payment in full as described above, the debt enforced through sale of the Property may include costs and expenses, including reasonable and customary attorney's fees, associated with enforcement of this Note. Such fees and costs

shall bear interest from the date of disbursement at the same rate as the principal of this Note.

(D)Trusts

Conveyance of a Borrower's interest in the Property to a trust which meets the requirements of the Secretary, or conveyance of a trust's interests in the Property to a Borrower, shall not be considered a conveyance for purposes of this Paragraph. A trust shall not be considered an occupant or be considered as having a principal residence for purposes of this Paragraph.

8.WAIVERS

Borrower waives the rights of presentment and notice of dishonor. "Presentment" means the right to require Lender to demand payment of amounts due. "Notice of dishonor" means the right to require Lender to give notice to other persons that amounts due have not been paid.

9.GIVING OF NOTICES

Unless applicable law requires a different method, any notice that must be given to Borrower under this Note will be given by delivering it or by mailing it by first class mail to Borrower at the property address above or at a different address if Borrower has given the Secretary a notice of Borrower's different address.

Any notice that must be given to the Secretary under this Note will be given by first class mail to the HUD Field Office with jurisdiction over the Property or any other address designated by the Secretary.

10.OBLIGATIONS OF PERSONS UNDER THIS NOTE

If more than one person signs this Note, each person is fully obligated to keep all of the promises made in this Note. Lender may enforce its rights under this Note only through sale of the Property.

11.RELATIONSHIP TO FIRST NOTE

(A)Second Note

Because Borrower will be required to repay amounts which the Secretary may make to or on behalf of Borrower pursuant to Section 255(i)(1)(A) of the National Housing Act and the Loan Agreement, the Secretary has required Borrower to grant this Note to the Secretary.

(B)Relationship of Secretary Payments to First Note

Payments made by the Secretary shall be included in the debt due under this Note unless:

(i)The First Note is assigned to the Secretary; or

(ii) The Secretary accepts reimbursements by the Lender for all payments made by the Secretary.

If the circumstances described in (i) or (ii) occur, then all payments by the Secretary, including interest on the payments, shall be included in the debt under the First Note.

(C)Notice of Interest Rate Adjustments

Borrower agrees that as long as the holder of the First Note

continues to make Loan Advances, any notice of interest rate adjustment given to Borrower under Paragraph 5(E) of the First Note shall also be considered to be notice to Borrower under Paragraph 5(E) of this Note, so that the same interest rate shall apply for the First Note and this Note.

12.SHARED APPRECIATION /3

If Borrower has executed a Shared Appreciation Allonge, the covenants of the Allonge shall be incorporated into and supplement the covenants of this Note as if the Allonge were a part of this Note.

BY SIGNING BELOW, Borrower accepts and agrees to the terms and covenants contained in this Note. /4, /5

Borrower (SEAL)

Borrower (SEAL)

Footnotes for Model Adjustable Rate Second Note Form (Home Equity Conversion)

1. The Model Adjustable Rate Second Note Form is designed for mortgages with interest rates that adjust annually, subject to annual and lifetime caps on increases. If the mortgage has interest rates that adjust monthly subject only to a lifetime cap, the following modifications to the Model Adjustable Rate Second Note Form are mandatory:

(a)Change Paragraph 5(A) to read:

(A)Change Date

The interest rate may change on the first day of _____, 19____, and on the first day of each succeeding month. "Change Date" means each date on which the interest rate could change.

(b)Change Paragraph 5(C) to read:

(C)Calculation of Interest Rate Changes

Before each Change Date, Lender will calculate a new interest rate by adding a margin of _____ percentage points (____%) to the current Index. /2 Subject to the limit stated in Paragraph 5(D) of this Note, this amount will be the new interest rate until the next Change Date.

(c)Change Paragraph 5(D) to read:

(D)Limit on Interest Rate

The interest rate will never increase above _____ percent (____%).

2. If Lender intends to round the interest rate, the phrase "and rounding the sum to the nearest one-eighth of one percentage point (0.125%)" shall be added.

3. The paragraph may be omitted if the holder of the First Note does not offer a shared appreciation mortgage.

4.Include any required or customary form of authentication.

5. The model note is a multistate form which requires adaption for the following jurisdictions:

(a) Alaska. Add the Borrower's Post Office address, if different from the property address.

(b) Kansas. Delete "including reasonable and customary attorney's fees" from Paragraph 7(C).

(c) Kentucky. Paragraph 7(C) should be changed to read: "If Lender has required immediate payment in full as described above, the debt enforced through sale of the Property may include \$500.00 for costs and expenses for enforcing this Note. Such cost and expenses shall bear interest from the date of disbursement at the same rate as the principal of this Note."

(d) Louisiana. Add the following text following the Borrower's signature lines:

"NE VARIETUR" for identification with a mortgage given before me on _____, 19__.

Notary qualified in _____ Parish, Louisiana.

(e) Puerto Rico. Mortgages and notes in Puerto Rico, together with any associated riders or allonges, shall have alternating English and Spanish lines so that the complete text of each document appears in both languages. Mortgagees should contact the HUD Caribbean Office to obtain model Puerto Rico documents that contain both languages and contain other adaptations of the regular model forms that have been approved by the Caribbean Office.

(f) Virginia. The first sentence of Paragraph 8 should be changed to read: "Borrower and any other person who has obligations under this Note waive the right of presentment and notice of dishonor, and waive the homestead exemption."

After the Borrower's signature lines, add:

This is to certify that this is the Note described in and secured by a Deed of Trust dated _____, 19__ on the Property located in _____, Virginia.

My Commission expires:

Notary Public