ADJUSTABLE RATE MORTGAGE PROGRAM DISCLOSURE
Franklin Bank
5/1 ARM

This disclosure describes the features of the Adjustable Rate Mortgage (ARM) program you are considering. Information on other ARM programs is available upon request.

GENERAL DESCRIPTION OF THE ARM PROGRAM

Your interest rate and payment can change in five years and annually thereafter.

The changes will be based upon the movement of the interest rate index ("**index**"). The interest rate and payment amount will increase if the index rises, and decrease if the index falls, subject to certain rules and limitations ("caps and floor") described below and on the reverse side.

Your interest rate will be higher than the index, subject to the limitation ("**caps**") described below and on the reverse side. The "**margin**" is the amount which will be added to the index to determine the interest rate at each adjustment. Once the margin is established for your loan, the margin will not change throughout the term of the loan. Ask us for our current interest rate and margin.

Your index, and a source of information about the index, is identified on the reverse side of these disclosures in the TABLE OF INFORMATION. If this index is not available, a comparable index will be used.

HOW YOUR INITIAL INTEREST RATE AND INITIAL PAYMENT AMOUNT WILL BE DETERMINED

Your initial interest rate is not based on the index used to make later adjustments. The amount by which the initial interest rate is less than the rate that would be determined by adding the margin to the index (and then rounding) is called the "**initial interest rate discount**." Ask us for the amount of the initial interest rate discount which currently applies to our adjustable rate mortgages.

Your initial payment will be based on the initial interest rate, loan balance and loan term. This initial payment will be determined by calculating the amount required to repay the amount of the loan in substantially equal monthly payments over the loan term at the initial interest rate.

HOW YOUR INTEREST RATE CAN CHANGE

Your interest rate can change in five years and annually thereafter.

The dates when the interest rate can change are called "**interest rate change dates**."

At each adjustment, your interest rate cannot increase or decrease by an amount more than the "**periodic interest rate cap and floor**." The amount of the periodic interest rate cap is set forth on the reverse side in the TABLE OF INFORMATION.

During the life of the loan, your interest rate cannot increase or decrease by an amount more than the "**lifetime interest rate cap and floor**." The amount of the lifetime interest rate cap and floor is set forth on the reverse side in the TABLE OF INFORMATION.

The interest rate which will be effective on the change date ("**new interest rate**") will be based on the index, plus the margin. The new interest rate will be calculated by adding the margin to the most recent published index figure available 45 days before the interest rate change date. The result will be rounded, and then adjusted, if necessary, according to the periodic and lifetime interest rate caps and floors. The method of rounding is set forth on the reverse side of in the TABLE OF INFORMATION.

HOW YOUR PAYMENT CAN CHANGE

Your payment can change in five years and annually thereafter.

If the interest rate changes on an interest rate change date, the payment change will become effective with the payment due one month later.

The new payment will be based on the new interest rate, the loan balance on the change date and the remaining loan term. This new payment will be determined by calculating the amount required to repay the remaining balance in substantially equal monthly payments over the remaining loan term at the new interest rate.

NOTICE OF INTEREST RATE AND PAYMENT CHANGES

If your interest rate and payment change on any change date, you will notified at least 25 but not more than 76 days before the due date of a payment at the new level. This notice will contain information about the index, interest rates, payment amount and loan balance.

(See reverse side for more information)

TABLE OF INFORMATION

Loan Amount:	$10,000	Adjustments -	Payment:	In 5 years, then annual
Initial Interest Rate:	3.500 % (a)		Interest Rate:	In 5 years, then annual
Margin:	2.750 % (b)	Interest Rate Caps -	Periodic:	2.00%
Initial Premium:	.625 % (c)		Lifetime:	6.00%
		Interest Rate Floor: -	Periodic:	2.00%
			Lifetime:	2.750% (d)

(a) Initial Interest Rate:	This is an initial interest rate we have used recently; your initial interest rate may be different.
(b) Margin:	This is a margin we have used recently; your margin may be different.
(c) Initial Discount or Premium:	This is an initial interest rate discount or premium we have used recently; your discount or premium may be different.
(d)	This is a lifetime floor that we have used recently; your lifetime floor may be different.
Rounding:	The new interest rate is calculated by adding the margin to the index and rounding the result to the nearest 0.125% before being adjusted, if necessary, according to the periodic and lifetime interest rate caps and floors.
Index:	Weekly average yield on U.S. Treasury Securities adjusted to a constant maturity of one (1) year as made available in the Federal Reserve Statistical Release H.15 (519) for the first week of July.

Important Notice: Your monthly payment can increase or decrease substantially based on changes in the interest rate.

Ask us for our current interest rate, available terms and our current margin and initial interest rate discount.

EXAMPLE OF MAXIMUM INTEREST RATE AND MAXIMUM PAYMENT WHICH COULD BE REQUIRED

For example, on a $10,000.00 loan with an initial interest rate of 3.50% in effect in June, 2013, the maximum amount the interest rate can rise under this program is 6.00 percentage points to 9.50% and the payment can rise as follows, depending on the term of the loan, beginning with year 8:

	5 YEAR TERM	15 YEAR TERM	30 YEAR TERM
Initial Payment:	$181.92	$ 71.49	$ 44.90
Maximum Payment:	$181.92	$ 91.88	$ 77.35

(Note: The Payment Example is based on 5, 15 and 30 year terms, but other terms are also available.)

To see what your monthly payment would have been during that period, divide your mortgage amount by $10,000.00, then multiply the monthly payment by that amount. For example, the monthly payment for a mortgage amount of $60,000.00 would be:

5 Year Term	15 Year Term	30 Year Term
$60,000/$10,000=6	$60,000/$10,000=6	$60,000/$10,000=6
6 X $ 181.92	6 X $ 71.49	6 X $ 44.90
= $1,091.52	= $ 428.94	= $ 269.40

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Applicant

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Co-Applicant