LOAN STRUCTURE BUYER DECISION GUIDE

Fixed-Rate vs ARM: Which Is Right for Me?

A fixed-rate mortgage locks your principal-and-interest payment for the life of the loan. An adjustable-rate mortgage (ARM) trades a lower initial rate for a rate that can change after a set period, based on a published index plus a margin, inside caps set at closing. Today's ARMs are not the loose products from before 2008 - lenders must qualify you using rules that account for the payment after adjustment, and negative amortization on qualified mortgages isn't allowed. The honest way to choose is to compare the fixed rate against the ARM's initial rate, run what happens at the first and worst-case adjustment, and be realistic about how long you'll actually keep the loan and whether refinancing later is something you can count on or just something you hope for.

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Key facts at a glance

WHAT STAYS FIXED ON AN ARM
Initial period only - Common structures: 5, 7, or 10 years before the first adjustment.

WHAT CONTROLS FUTURE RATE
Index + margin - Capped by the caps disclosed at closing, e.g., 5/2/5.

HOW ARMS ARE QUALIFIED TODAY
At the higher of note rate or fully indexed rate - Post-2008 ability-to-repay rules, not the teaser rate.

BREAK-EVEN DRIVER
Expected hold period - Shorter holds favor ARMs; longer holds favor fixed.

The one-minute answer

A fixed-rate mortgage locks your principal-and-interest payment for the life of the loan. An adjustable-rate mortgage (ARM) trades a lower initial rate for a rate that can change after a set period, based on a published index plus a margin, inside caps set at closing. Today's ARMs are not the loose products from before 2008 - lenders must qualify you using rules that account for the payment after adjustment, and negative amortization on qualified mortgages isn't allowed. The honest way to choose is to compare the fixed rate against the ARM's initial rate, run what happens at the first and worst-case adjustment, and be realistic about how long you'll actually keep the loan and whether refinancing later is something you can count on or just something you hope for.

Buy now if:

A fixed rate fits if you plan to keep the home or the loan longer than the ARM's initial fixed period, you value payment certainty, or you can't say with confidence that you'd move or refinance before the first adjustment.

Wait if:

An ARM fits if you have a specific, well-supported reason to expect you'll sell, pay off, or refinance the loan before the initial period ends - and the lower initial rate is buying you something concrete, like more qualifying room or lower payments during a defined stretch.

Consider an alternative if:

A 15-year fixed loan is worth pricing before either choice. It carries a lower rate than a 30-year fixed and none of an ARM's adjustment risk, in exchange for a materially higher required payment.

MECHANICS

How an ARM actually works

> BRIAN MIX, NMLS #111175
> An ARM isn't a bet on the market. It's a bet on your own timeline - how long you'll actually keep the loan.

An adjustable-rate mortgage has two phases. During the initial fixed period - commonly 5, 7, or 10 years, written as the first number in a label like 5/6 ARM - the rate doesn't move at all, and it's usually lower than a comparable 30-year fixed rate. After that period ends, the rate adjusts on a set schedule, often every six months on newer ARMs (the '6' in 5/6 ARM), based on a published index plus a fixed margin set by your lender.

The index tracks a broader interest-rate benchmark and moves with the market; the margin is added on top and does not change for the life of the loan. Add them together and you get the fully indexed rate, which is what your rate resets to at each adjustment, subject to caps.

Caps limit how much the rate can move, and there are three of them:

- Initial cap - the most the rate can change at the very first adjustment.
- Periodic cap - the most it can change at each adjustment after that.
- Lifetime cap - the most it can ever rise above the starting rate, for the life of the loan.

A common structure is written as, for example, 5/2/5: up to 5 percentage points at the first adjustment, up to 2 points at each adjustment after, and never more than 5 points above the starting rate overall. These numbers vary by lender and product, and Regulation Z requires the lender to disclose them clearly before you commit - see the affordability calculator to model what a capped increase would do to your budget before you sign anything.

Understanding the caps is the whole game. A borrower who reads '5-year ARM' and stops there hasn't actually learned anything about their risk. The caps are the risk.

> FAST
> Read the caps as a worst case, not a forecast. A 5/2/5 ARM starting at 6% could theoretically reach 11% over the life of the loan. Qualify yourself against that number, not just the starting rate.

HISTORY CHECK

Why today's ARM isn't the 2008 ARM

ARMs earned a bad reputation heading into 2008, and the reputation was earned honestly - but the products that caused the damage are largely gone from the market. Understanding what changed matters, because it explains why a 2026 ARM is a fundamentally different risk than the ones underwriting standards were rebuilt to prevent.

Ability-to-repay rules. Federal rules adopted after the crisis require lenders to make a reasonable, good-faith determination that a borrower can repay the loan, considering income, assets, debts, and the payment - not just the teaser rate. This closed the door on approving borrowers who could only afford the introductory payment.

Qualifying at a higher rate. Many ARMs today are qualified using the higher of the note rate or the fully indexed rate, so the approval reflects a payment closer to what you might actually face after adjustment, not just the discounted starting number. Ask your loan officer exactly which rate your file was qualified against - this varies by loan type and lender overlay.

No negative amortization on qualified mortgages. Before 2008, some ARMs allowed a minimum payment lower than the interest due, so the unpaid balance grew even while payments were made. Qualified mortgages today are not allowed to include this feature - your payment always covers at least the interest accruing.

Clearer disclosure. Regulation Z requires specific ARM disclosures, including the index, margin, caps, and a worst-case payment example, delivered early enough to actually inform your decision.

None of this makes an ARM risk-free. It still means your payment can rise. But 'ARM' in 2026 describes a disclosed, capped, ability-to-repay-qualified product - not the stated-income, negative-amortization loans that defined the crisis.

> TIP
> Ask your loan officer for the ARM disclosure that shows the worst-case payment at the first adjustment and at the lifetime cap. If they can't produce it before you lock, that's a signal to slow down.

THE MATH THAT MATTERS

The honest break-even analysis

The entire ARM decision comes down to one question: how long will you actually keep this loan? Everything else is detail.

An ARM's advantage is a lower rate during the initial fixed period. That advantage is worth something specific - a dollar amount saved per month, which you can total across however many months you expect to keep the loan. Compare that total savings against the risk of what happens if you're still in the loan when it adjusts.

Short expected hold (inside the initial fixed period). If you're confident you'll sell, refinance, or pay off the loan before the first adjustment - say, a 5-year ARM and a job that reliably relocates you every three to four years - you may collect the lower rate's full benefit and never face an adjustment at all.

Hold period close to or past the fixed period. This is the riskiest zone. You've paid down some principal and enjoyed lower payments, but now you're exposed to the first adjustment with a note that could rise by the initial cap. Run this scenario in the mortgage payment calculator using the fully indexed rate, not the teaser rate.

Long expected hold, well past the fixed period. The ARM's savings during the initial years have to be weighed against years of potential increases afterward. For most buyers in this situation, a fixed rate is simpler and the math often favors it once you include the adjustment risk.

The hardest part of this analysis isn't the arithmetic - it's being honest about your own plans. 'I'll probably move in five years' is a guess, not a plan, unless it's backed by something concrete: a military assignment, a signed relocation, a documented career path. Should I rent or buy? covers how to stress-test a hold-period assumption more generally.

> WATCH
> Life plans change more often than mortgage terms do. Divorces, job losses, and family needs regularly extend a 'we'll definitely sell in five years' plan into a decade or more. Qualify yourself for the adjusted payment, not just the plan.

THE HIDDEN BET

"I'll just refinance before it adjusts" isn't a guarantee

The most common justification for taking an ARM is a version of: rates will probably be lower by the time mine adjusts, or I'll refinance into a fixed rate before then. Both are forecasts, and forecasts about future interest rates are not something any lender, this guide, or anyone else can promise you.

Refinancing itself is never guaranteed, for reasons entirely separate from where rates go:

- Your income or employment could change. A job loss, a reduction in hours, or a shift to self-employment can all affect whether you requalify.
- Your credit could change. New debt, a missed payment, or a dispute can move your score enough to affect pricing or eligibility.
- The home's value could change. If home values in your area soften, you may have less equity than expected, which affects loan-to-value pricing and mortgage insurance requirements.
- Refinancing has real costs. Closing costs on a refinance commonly run 2%-5% of the loan amount. The refinance calculator shows whether the savings from a new rate would earn those costs back before you'd likely move again.

None of this means refinancing is unlikely - many ARM borrowers do refinance successfully. It means you should not choose an ARM on the assumption that a future refinance is available on demand. The safer framing: choose the ARM because the initial rate and terms work for your plan even if a refinance never happens, and treat any future refinance as a bonus rather than the foundation of the plan.

> WATCH
> Before closing on an ARM, ask yourself: if I could never refinance this loan and rates never fell, would I still be comfortable with the payment at the lifetime cap? If the answer is no, the ARM is riskier than your budget can absorb.

THE OVERLOOKED OPTION

The 15-year fixed: a third path worth pricing

Most ARM-versus-fixed conversations quietly assume the fixed alternative is a 30-year loan. It's worth pausing to price a 15-year fixed loan too, because it solves a different problem than either of the other two options.

A 15-year fixed loan typically carries a lower interest rate than a 30-year fixed, often meaningfully lower, because the lender's risk is shorter. Combined with a faster amortization schedule, this means significantly less total interest paid over the life of the loan and equity building at a much faster pace. It also carries none of an ARM's adjustment risk - the rate is fixed for the entire term, full stop.

The tradeoff is a materially higher required monthly payment, because the loan balance is paid off over half the time. That higher payment is not optional or averaged out the way an ARM's lower initial payment is; it's the actual required payment from month one.

Who this fits: borrowers who can comfortably afford the higher payment today, want to minimize total interest cost, and value the combination of a lower rate and total payment certainty - without wanting to bet on their own timeline the way an ARM requires. It's especially worth comparing for borrowers with a shorter time horizon on the loan itself, such as those a decade or so from retirement.

Who this doesn't fit: borrowers who need the ARM's lower initial rate to qualify or to comfortably manage a stretched budget in the first years. In that case, the 15-year fixed's higher required payment may not be workable, and the comparison should stay between an ARM and a 30-year fixed.

Run all three side by side in the mortgage payment calculator before assuming the choice is a binary one.

> TIP
> If a 15-year fixed payment is workable, it often beats an ARM outright: a comparably low rate with none of the adjustment risk. It's underused simply because the higher required payment rules it out for many buyers.

FIT CHECK

Who each product genuinely fits

Set aside general advice and be specific about your own situation. Here's a realistic breakdown.

A fixed rate genuinely fits you if:
- You plan to stay in the home longer than any ARM's initial fixed period, or you're not confident enough in your timeline to bet against it.
- Budget certainty matters more to you than optimizing for the lowest possible initial payment.
- Your income doesn't have much room to absorb a higher payment if an adjustment or a failed refinance leaves you exposed.
- You're buying what will likely be a long-term or forever home.

An ARM genuinely fits you if:
- You have a documented, concrete reason to expect you'll sell or refinance before the first adjustment - a military assignment, a signed job relocation, a firm family plan.
- The lower initial rate is solving a real qualifying problem, and you understand and can absorb the fully indexed, worst-case payment if your plan changes.
- You've compared the ARM's initial savings against a 15-year fixed and a 30-year fixed and the ARM still wins for your specific hold period.

- You're financially disciplined enough to bank the monthly savings rather than spend it, in case you need it to buffer a future adjustment.

Neither product fits you if:
- You can't state your hold period with any confidence and you can't afford the worst-case ARM payment.
- You're choosing based on hope that rates will fall, rather than on your own documented plans.
- The only way any of these payments work is with a stretched debt-to-income ratio - see the DTI calculator and consider paying down debt before buying first.

The Readiness Score can help pressure-test which of these situations actually describes you, rather than which one you'd prefer to be true.

> LOCAL
> Ask your loan officer to run your specific numbers - index, margin, and caps vary by lender and program, and the disclosed worst-case payment is the only version of this comparison that reflects your actual loan.

Your options, compared

30-year fixed rate

Payment certainty for the full life of the loan.

Pros

- Principal and interest never change, for 30 years
- Simplest product to budget around
- No exposure to index or margin movement
- Widely available across loan programs

Cons

- Higher initial rate than a comparable ARM
- Slower equity buildup than a 15-year term
- No built-in benefit if rates fall, unless you refinance

Best for: Buyers staying long-term, or anyone who can't confidently predict their hold period.

Avoid if: You have a firm, short timeline and the ARM's lower rate solves a real qualifying need.

15-year fixed rate

Lower rate and faster equity, in exchange for a higher required payment.

Pros

- Typically a lower rate than a 30-year fixed
- Builds equity much faster
- Total interest paid is significantly lower

- No adjustment risk at all

Cons

- Monthly payment is materially higher, not optional
- Less room in the budget for other goals
- May reduce the maximum price you can qualify for

Best for: Buyers who can comfortably afford the higher payment and want to minimize total interest cost.

Avoid if: The higher payment would strain your budget or crowd out savings and reserves.

Adjustable-rate mortgage (ARM)

A lower initial rate in exchange for future rate uncertainty.

Pros

- Lower initial rate than a comparable fixed loan
- Can improve qualifying room or lower payments during the initial period
- Caps limit - but don't eliminate - how much the rate can rise
- Well-suited to a genuinely short, confident hold period

Cons

- Payment can rise materially after the initial period
- Refinancing before adjustment is never guaranteed
- Requires understanding index, margin, and caps to use safely
- Harder to budget around long-term

Best for: Buyers with a concrete, short expected hold period who can also absorb the worst-case payment.

Avoid if: Your hold-period plan is a guess, or you can't afford the payment at the lifetime cap.

Fixed with a temporary buydown

A fixed-rate loan with a lower payment for the first year or two, often seller-funded.

Pros

- Underlying loan is fixed-rate, so there's no adjustment risk
- Lower payments during the buydown period can ease the first year or two
- Often paid for by a seller as a concession, at no extra cost to the buyer

Cons

- Payment steps up to the full fixed rate after the buydown period ends
- Not universally offered - depends on the seller and the deal
- Still qualified based on the full note rate in most cases

Best for: Buyers expecting income growth soon, or negotiating concessions in a buyer's market.

Avoid if: You're relying on the low initial payment simply to qualify at all.

Decision tree

1. Do you have a concrete, documented reason to expect you'll sell or refinance within the ARM's initial fixed period?

A firm relocation or a specific, planned event counts. A hope that you'll probably move doesn't.

Verdict: No lean fixed-rate

2. Could you comfortably afford the payment at the ARM's fully indexed, worst-case rate?

Run this in the mortgage payment calculator using the lifetime cap, not the starting rate.

Verdict: No do not choose an ARM

3. Is the ARM's lower rate solving a real qualifying or budget problem, or just feeling like a discount?

If you'd qualify and be comfortable on a fixed rate anyway, the ARM isn't buying you much.

Verdict: Feels like a discount lean fixed-rate

4. Could you afford a 15-year fixed payment comfortably?

If yes, compare its total interest savings and certainty against the ARM before deciding either way.

Verdict: Yes price the 15-year fixed

5. Do you expect to stay in this home well past the ARM's initial period?

Longer expected holds shift the math toward a fixed rate, since adjustment risk compounds over more years.

Verdict: Yes lean fixed-rate

6. Are you financially disciplined enough to bank the ARM's monthly savings as a buffer?

An ARM's savings only protect you from future adjustments if they're actually set aside, not spent.

Verdict: No lean fixed-rate

7. All conditions for an ARM genuinely met?

Confirm the index, margin, and caps in writing with your loan officer before you lock.

Verdict: Yes an ARM may fit your plan

Cost examples

A $400,000 loan: 5/6 ARM vs. 30-year fixed

Illustrative round numbers, not a quote. A borrower financing $400,000 compares a 5/6 ARM starting below market against a 30-year fixed, then models the ARM's first adjustment at its 2-point periodic cap.

	30-year fixed	5/6 ARM
Illustrative starting rate	6.75%	5.75%

Monthly principal & interest (years 1-5)	~$2,594	~$2,334
Monthly savings during initial period	-	~$260/month
Total savings over 5 years (illustrative)	-	~$15,600
Payment after first adjustment (worst case, +2 pts)	no change	~$2,798
Payment change vs. fixed at that point	no change	~$204/month higher

> TAKEAWAY
> The ARM saves real money during the initial period, but the worst-case first adjustment can erase the advantage and then exceed the fixed payment. Whether that's an acceptable trade depends entirely on how confident you are in leaving the loan before year five.

A $400,000 loan: 30-year fixed vs. 15-year fixed

Illustrative round numbers, not a quote. Same $400,000 loan amount compared as a 30-year fixed against a 15-year fixed at a lower illustrative rate.

	30-year fixed	15-year fixed
Illustrative rate	6.75%	6.00%
Monthly principal & interest	~$2,594	~$3,376
Difference in monthly payment	-	~$782/month higher
Estimated total interest paid over the loan	~$534,000	~$207,000
Estimated equity after 7 years (illustrative)	~$56,000	~$179,000
Adjustment risk	None	None

> TAKEAWAY
> The 15-year fixed builds equity dramatically faster and saves a large amount of total interest, but only works if the higher required payment fits comfortably in the budget today - it isn't a phased-in cost the way an ARM's early period is.

Timeline

Shop and compare quotes

Ask each lender for the fixed rate, the ARM's index/margin/caps, and a 15-year fixed quote on the same loan amount.

Model the worst case

Use the mortgage payment calculator with the ARM's fully indexed, lifetime-cap rate - not the starting rate.

Confirm your hold-period plan in writing

If it's not backed by something concrete, treat it as uncertain when choosing.

Review the ARM disclosure with your loan officer

Confirm the index, margin, initial cap, periodic cap, and lifetime cap before locking.

Lock and close

Get the final terms in writing and confirm the qualifying rate used for your approval.

Calendar the adjustment date

If you chose an ARM, mark the first adjustment date and revisit your refinance options 6-12 months ahead of it.

Common mistakes

Comparing only the starting rate

The ARM's initial rate looks attractive on its own, but it isn't the whole story. Compare the fully indexed, worst-case rate before deciding anything.

Treating 'I'll probably move' as a plan

A vague expectation isn't the same as a documented relocation or a firm plan. If your timeline changes, you're exposed to whatever the ARM adjusts to.

Assuming a future refinance is guaranteed

Income, credit, and home value can all change between now and your first adjustment. A refinance is a possibility, not a fallback you should count on.

Not asking which rate you were qualified against

Some ARMs qualify borrowers at the fully indexed rate, others don't, depending on the program. This materially changes your real risk.

Skipping the 15-year fixed comparison

Buyers often compare only the ARM and the 30-year fixed, missing a product that may offer a similar rate with none of the adjustment risk.

Spending the ARM's monthly savings instead of saving it

If the lower payment isn't building a buffer, it isn't actually protecting you from a future adjustment.

Ignoring the periodic cap

The lifetime cap gets the attention, but the periodic cap determines how fast payment shock can arrive at any single adjustment.

Confusing today's ARMs with pre-2008 products

Modern qualified ARMs don't allow negative amortization and require ability-to-repay underwriting. Don't dismiss or embrace an ARM based on outdated assumptions either way.

Choosing based on the payment alone, ignoring total interest

A lower monthly payment isn't automatically the cheaper loan once you account for the full term and any rate changes.

Expert tips

- Ask your loan officer to print the ARM's worst-case payment example required under Regulation Z disclosures - it's the single most useful number in this decision.
- If a 15-year fixed payment is within reach, price it seriously. It's the most underused option in this comparison and often beats an ARM outright on both rate and certainty.
- Bank the ARM's monthly savings in a separate account during the initial period rather than spending it, so it's available as a buffer if the rate adjusts.
- Get the index, margin, and all three caps in writing before you lock - verbal summaries from a rate sheet can miss details that matter.
- If your hold-period plan depends on a job or life event, write down the date. A wait or a plan without a deadline tends to drift.
- Run the refinance calculator now, using today's typical closing costs, to see what rate drop you'd actually need for a future refinance to make sense.

Decision checklist

- [ ] Get quotes for a 30-year fixed, a 15-year fixed, and any available ARM on the same loan amount
- [ ] Ask for the ARM's index, margin, initial cap, periodic cap, and lifetime cap in writing
- [ ] Calculate the ARM's fully indexed, worst-case payment and confirm you could afford it
- [ ] Confirm which rate your file was qualified against - note rate or fully indexed rate
- [ ] Write down your honest, documented expected hold period for the home
- [ ] Run the refinance calculator to see what a future refinance would need to save to break even
- [ ] Compare total interest paid over the life of each option, not just the initial payment
- [ ] Check your reserves - could you absorb an adjustment if you couldn't refinance?
- [ ] Ask whether a temporary buydown is available as a middle-ground option
- [ ] Confirm your understanding matches the ARM disclosure before you lock the rate

Frequently asked questions

What does 5/6 or 7/1 mean on an ARM?

The first number is the length of the initial fixed-rate period in years. The second number is how often the rate adjusts afterward - '6' typically means every 6 months, and '1' typically means once a year. A 5/6 ARM is fixed for 5 years, then adjusts every 6 months after that.

Are ARMs safe now, or are they like the loans that caused the 2008 crisis?

Today's ARMs operate under post-2008 ability-to-repay rules, meaning lenders must reasonably determine you can repay the loan, and negative amortization isn't allowed on qualified mortgages. This is materially different from the loosely underwritten, negative-amortization ARMs common before 2008. That doesn't mean an ARM is risk-free - your payment can still rise - but the products themselves are more disclosed and more carefully qualified than before.

What are ARM caps and why do they matter?

Caps limit how much your rate can change: an initial cap for the first adjustment, a periodic cap for each adjustment after that, and a lifetime cap on the total increase over the life of the loan. They matter because they define your actual worst-case payment, which is the number you should qualify yourself against, not the starting rate.

Will my ARM payment definitely go up after the fixed period?

Not necessarily - it depends on where the index is when your loan adjusts, and it's possible the rate could stay flat or even decrease. But because you can't know that in advance, the safer approach is to plan around the worst-case scenario allowed by your caps rather than hoping for a favorable outcome.

Can I refinance out of an ARM before it adjusts?

Often, yes, but it's never guaranteed. Refinancing requires requalifying based on your income, credit, and the home's value at that time, and it comes with its own closing costs, typically 2%-5% of the loan amount. Treat a future refinance as a possible bonus, not a plan you're relying on.

Is a 15-year fixed better than an ARM?

It depends on whether you can comfortably afford the higher required payment. A 15-year fixed often offers a rate close to or better than an ARM's initial rate, with none of the adjustment risk, but the monthly payment is meaningfully higher because the loan amortizes over half the time.

How much lower is an ARM's initial rate compared to a fixed rate?

This varies by lender, program, and market conditions, so there's no fixed number - sometimes the gap is small, sometimes it's larger. Always ask your loan officer for both quotes on the same loan amount so you're comparing your actual numbers rather than a general rule of thumb.

What's the difference between the index and the margin on an ARM?

The index is a published benchmark rate that moves with broader market conditions and is outside your lender's control. The margin is a fixed amount your lender adds on top of the index, and it does not change for the life of the loan. Together, index plus margin equals the fully indexed rate your loan adjusts to, subject to caps.

Do I qualify at the ARM's starting rate or its future rate?

This depends on the loan program and lender. Many ARMs today qualify borrowers using the higher of the note rate or the fully indexed rate, which is meant to reflect a more realistic future payment. Ask your loan officer directly which rate your specific approval was based on.

Can I get a temporary rate buydown instead of an ARM?

In some deals, yes. A temporary buydown lowers the payment on a fixed-rate loan for the first year or two, sometimes paid for by the seller as a concession, and then the payment steps up to the full fixed rate. It offers a lower initial payment without the ongoing adjustment risk of an ARM.

Does an ARM help me qualify for a larger loan amount?

It can, since ARMs sometimes carry a lower initial rate, but not always - some programs qualify ARM borrowers at the fully indexed rate rather than the initial rate, which limits or eliminates this advantage. Confirm with your loan officer exactly which rate your qualification is based on before assuming an ARM will increase your buying power.

How long should I plan to stay in a home if I get an ARM?

A common rule of thumb is planning to sell, pay off, or refinance before the initial fixed period ends, but the safer standard is being able to afford the loan even if you don't. If your timeline is uncertain, weigh that uncertainty seriously against the ARM's savings.

What happens if rates fall after I choose a fixed-rate loan?

You keep the same rate unless you choose to refinance. If rates fall enough that a refinance would meaningfully lower your payment after accounting for closing costs, the refinance calculator can help you determine whether it's worth it at that time.

Is an ARM ever the safer choice?

It can be safer for a specific, well-supported situation - for example, a documented short-term relocation where the borrower can also comfortably afford the worst-case payment as a backstop. It's not inherently riskier or safer in general; the risk depends on how well the loan matches your actual, documented plans.

Sources

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