

Home Loan Application Package Instructions

Dear Client(s),

First, I would like to welcome you to RJV Funding, Inc. and personally thank you for the opportunity and privilege to earn your business. Hello, my name is Armando Serrano. As a mortgage loan consultant, with over 16 years in the business, I have taken great pride to establish my reputation as a mortgage professional who takes exceptional care of my customers, as well as the professional Realtor, with simple good ol' fashion service.

Over the years, I have discovered that the people looking for loans are as different as the types of loans themselves. As a result, the array of accessible loan programs and investors I have at my disposal have made every "challenge", one that can be overcome. From the simplest, to some of the more "creative", I can provide you with choices on a variety of financing options to service virtually any borrower's needs. I get the job done by offering you solutions, not excuses!

Attached and for your convenience, following this cover page you will find our home loan application package. Please print all the pages and complete them as follows...

IMPORTANT!

Note that the forms you see on your computer screen where already highlighted to assist you and making it easier for you to complete all the forms without having to unnecessarily fill out the entire loan package. Also, you will notice that your printed forms will NOT be "highlighted" since most of us don't normally have the luxury of a color printer. Please use the "highlighted sections" of the forms shown on your computer screen as your guide to help you complete this loan package. I am sure you'll find it helpful as well as a time saver. ;)

Once the application is completed, please return it to me at the address shown below;

c/o Armando Serrano
RJV Funding, Inc.
725 Town & Country Road, Suite 100
Orange, CA 92686

In the meantime, should you have any questions, please do not hesitate to contact me at the telephone numbers below. Again, I welcome you to RJV Funding and look forward to working with you.

Armando Serrano
RJV Funding, Inc.
Ph: (562) 227-0997
www.ajserrano.com

Uniform Residential Loan Application

This application is designed to be completed by the applicant(s) with the Lender's assistance. Applicants should complete this form as "Borrower" or "Co-Borrower", as applicable. Co-Borrower information must also be provided (and the appropriate box checked) when the income or assets of a person other than the Borrower (including the Borrower's spouse) will be used as a basis for loan qualification or the income or assets of the Borrower's spouse or other person who has community property rights pursuant to state law will not be used as a basis for loan qualification, but his or her liabilities must be considered because the spouse or other person has community property rights pursuant to applicable law and Borrower resides in a community property state, the security property is located in a community property state, or the Borrower is relying on other property located in a community property state as a basis for repayment of the loan.
 If this is an application for joint credit, Borrower and Co-Borrower each agree that we intend to apply for joint credit (sign below).

Borrower _____ **Co-Borrower** _____

I. TYPE OF MORTGAGE AND TERMS OF LOAN

| | | | |
|--|-----------------|--------------------|--|
| Mortgage Applied for: <input type="checkbox"/> VA <input type="checkbox"/> Conventional <input type="checkbox"/> Other (explain): | | Agency Case Number | Lender Case Number |
| <input type="checkbox"/> FHA <input type="checkbox"/> USDA/Rural Housing Service | | | |
| Amount \$ | Interest Rate % | No. of Months | Amortization Type: <input type="checkbox"/> Fixed Rate <input type="checkbox"/> Other (explain): <input type="checkbox"/> GPM <input type="checkbox"/> ARM (type): |

II. PROPERTY INFORMATION AND PURPOSE OF LOAN

| | | |
|---|--|---|
| Subject Property Address (street, city, state, & ZIP) | | No. of Units |
| Legal Description of Subject Property (attach description if necessary) | | Year Built |
| Purpose of Loan: <input type="checkbox"/> Purchase <input type="checkbox"/> Refinance <input type="checkbox"/> Construction <input type="checkbox"/> Construction-Permanent <input type="checkbox"/> Other (explain): | | Property will be: <input type="checkbox"/> Primary Residence <input type="checkbox"/> Secondary Residence <input type="checkbox"/> Investment |

Complete this line if construction or construction-permanent loan.

| | | | | | |
|-------------------|------------------|--------------------------|-----------------------------|-----------------------------|----------------|
| Year Lot Acquired | Original Cost \$ | Amount Existing Liens \$ | (a) Present Value of Lot \$ | (b) Cost of Improvements \$ | Total (a+b) \$ |
|-------------------|------------------|--------------------------|-----------------------------|-----------------------------|----------------|

Complete this line if this is a refinance loan.

| | | | | |
|---------------|------------------|--------------------------|----------------------|--|
| Year Acquired | Original Cost \$ | Amount Existing Liens \$ | Purpose of Refinance | Describe Improvements <input type="checkbox"/> made <input type="checkbox"/> to be made Cost \$ |
|---------------|------------------|--------------------------|----------------------|--|

| | | |
|---|------------------------------------|---|
| Title will be held in what Name(s) | Manner in which Title will be held | Estate will be held in: <input type="checkbox"/> Fee Simple <input type="checkbox"/> Leasehold (show expiration date) |
| Source of Down Payment, Settlement Charges and/or Subordinate Financing (explain) | | |

III. BORROWER INFORMATION

| Borrower | Co-Borrower |
|--|--|
| Borrower's Name (include Jr. or Sr. if applicable) | Co-Borrower's Name (include Jr. or Sr. if applicable) |
| Social Security Number | Social Security Number |
| Home Phone (incl. area code) | Home Phone (incl. area code) |
| DOB (MM/DD/YYYY) | DOB (MM/DD/YYYY) |
| Yrs. School | Yrs. School |
| <input type="checkbox"/> Married <input type="checkbox"/> Unmarried (include single, divorced, widowed) <input type="checkbox"/> Separated | <input type="checkbox"/> Married <input type="checkbox"/> Unmarried (include single, divorced, widowed) <input type="checkbox"/> Separated |
| Dependents (not listed by Co-Borrower) no. ages | Dependents (not listed by Borrower) no. ages |
| Present Address (street, city, state, ZIP) <input type="checkbox"/> Own <input type="checkbox"/> Rent No. Yrs. | Present Address (street, city, state, ZIP) <input type="checkbox"/> Own <input type="checkbox"/> Rent No. Yrs. |
| Mailing Address, if different from Present Address | Mailing Address, if different from Present Address |
| If residing at present address for less than two years, complete the following: | |
| Former Address (street, city, state, ZIP) <input type="checkbox"/> Own <input type="checkbox"/> Rent No. Yrs. | Former Address (street, city, state, ZIP) <input type="checkbox"/> Own <input type="checkbox"/> Rent No. Yrs. |

IV. EMPLOYMENT INFORMATION

| Borrower | Co-Borrower |
|--|---|
| Name & Address of Employer <input type="checkbox"/> Self Employed | Name & Address of Employer <input type="checkbox"/> Self Employed |
| Yrs. on this job | Yrs. on this job |
| Yrs. employed in this line of work/profession | Yrs. employed in this line of work/profession |
| Position/Title/Type of Business | Position/Title/Type of Business |
| Business Phone (incl. area code) | Business Phone (incl. area code) |
| If employed in current position for less than two years or if currently employed in more than one position, complete the following: | |
| Name & Address of Employer <input type="checkbox"/> Self Employed | Name & Address of Employer <input type="checkbox"/> Self Employed |
| Dates (from-to) | Dates (from-to) |
| Monthly Income \$ | Monthly Income \$ |
| Position/Title/Type of Business | Position/Title/Type of Business |
| Business Phone (incl. area code) | Business Phone (incl. area code) |
| Name & Address of Employer <input type="checkbox"/> Self Employed | Name & Address of Employer <input type="checkbox"/> Self Employed |
| Dates (from-to) | Dates (from-to) |
| Monthly Income \$ | Monthly Income \$ |
| Position/Title/Type of Business | Position/Title/Type of Business |
| Business Phone (incl. area code) | Business Phone (incl. area code) |

V. MONTHLY INCOME AND COMBINED HOUSING EXPENSE INFORMATION

| Gross Monthly Income | Borrower | Co-Borrower | Total | Combined Monthly Housing Expense | Present | Proposed |
|---|-----------|-------------|-----------|----------------------------------|-----------|-----------|
| Base Empl. Income* | \$ | \$ | \$ | Rent | \$ | |
| Overtime | | | | First Mortgage (P&I) | | \$ |
| Bonuses | | | | Other Financing (P&I) | | |
| Commissions | | | | Hazard Insurance | | |
| Dividends/Interest | | | | Real Estate Taxes | | |
| Net Rental Income | | | | Mortgage Insurance | | |
| Other (before completing, see the notice in "describe other income," below) | | | | Homeowner Assn. Dues | | |
| | | | | Other: | | |
| Total | \$ | \$ | \$ | Total | \$ | \$ |

* Self Employed Borrower(s) may be required to provide additional documentation such as tax returns and financial statements.

Described Other Income Notice: Alimony, child support, or separate maintenance income need not be revealed if the Borrower (B) or Co-Borrower (C) does not choose to have it considered for repaying this loan.

| B/C | Monthly Amount |
|-----|----------------|
| | \$ |
| | |
| | |

VI. ASSETS AND LIABILITIES

This Statement and any applicable supporting schedules may be completed jointly by both married and unmarried Co-Borrowers if their assets and liabilities are sufficiently joined so that the Statement can be meaningfully and fairly presented on a combined basis; otherwise separate Statements and Schedules are required. If the Co-Borrower section was completed about a non-applicant spouse or other person, this Statement and supporting schedules must be completed about that spouse or other person also.
 Completed Jointly Not Jointly

| ASSETS | Cash or Market Value | Liabilities and Pledged Assets. List the creditor's name, address and account number for all outstanding debts, including automobile loans, revolving charge accounts, real estate loans, alimony, child support, stock pledges, etc. Use continuation sheet, if necessary. Indicate by (*) those liabilities which will be satisfied upon sale of real estate owned or upon refinancing of the subject property. | | |
|---|----------------------|---|--------------------------------------|----------------|
| Description | | LIABILITIES | Monthly Payment & Months Left to Pay | Unpaid Balance |
| Cash deposit toward purchase held by: | \$ | | | |
| List checking and savings accounts below | | Name and address of Company | \$ Payment/Months | \$ |
| Name and address of Bank, S&L, or Credit Union | | | | |
| Acct. no. | | | | |
| Acct. no. | \$ | Name and address of Company | \$ Payment/Months | \$ |
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| Acct. no. | | | | |

VI. ASSETS AND LIABILITIES (cont.)

Schedule of Real Estate Owned (If additional properties are owned, use continuation sheet.)

| Property Address (enter S if sold, PS if pending sale or R if rental being held for income) | Type of Property | Present Market Value | Amount of Mortgages & Liens | Gross Rental Income | Mortgage Payments | Insurance, Maintenance, Taxes & Misc. | Net Rental Income |
|---|------------------|----------------------|-----------------------------|---------------------|-------------------|---------------------------------------|-------------------|
| | | \$ | \$ | \$ | \$ | \$ | \$ |
| | | | | | | | |
| | | | | | | | |
| | | | | | | | |
| | Totals | \$ | \$ | \$ | \$ | \$ | \$ |

List any additional names under which credit has previously been received and indicate appropriate creditor name(s) and account number(s):

| Alternate Name | Creditor Name | Account Number |
|----------------|---------------|----------------|
| | | |

VII. DETAILS OF TRANSACTION

VIII. DECLARATIONS

| | \$ | If you answer "Yes" to any questions a through i, please use continuation sheet for explanation. | Borrower | | Co-Borrower | |
|--|----|--|--------------------------|--------------------------|--------------------------|--------------------------|
| | | | Yes | No | Yes | No |
| a. Purchase Price | | | | | | |
| b. Alterations, improvements, repairs | | | | | | |
| c. Land (if acquired separately) | | a. Are there any outstanding judgments against you? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| d. Refinance (incl. debts to be paid off) | | b. Have you been declared bankrupt within the past 7 years? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| e. Estimated prepaid items | | c. Have you had property foreclosed upon or given title or deed in lieu thereof in the last 7 years? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| f. Estimated closing costs | | d. Are you a party to a lawsuit? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| g. PMI, MIP, Funding Fee | | e. Have you directly or indirectly been obligated on any loan which resulted in foreclosure, transfer of title in lieu of foreclosure, or judgment? <small>(This would include such loans as home mortgage loans, SBA loans, home improvement loans, educational loans, manufactured (mobile) home loans, any mortgage, financial obligation, bond, or loan guarantee. If "Yes," provide details, including date, name and address of Lender, FHA or VA case number, if any, and reasons for the action.)</small> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| h. Discount (if Borrower will pay) | | f. Are you presently delinquent or in default on any Federal debt or any other loan, mortgage, financial obligation, bond or loan guarantee? If "Yes," give details as described in the preceding question. | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| i. Total costs (add items a through h) | | g. Are you obligated to pay alimony, child support, or separate maintenance? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| j. Subordinate financing | | h. Is any part of the down payment borrowed? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| k. Borrower's closing costs paid by Seller | | i. Are you a co-maker or endorser on a note? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| l. Other Credits (explain) | | ----- j. Are you a U.S. citizen? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| | | k. Are you a permanent resident alien? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| | | l. Do you intend to occupy the property as your primary residence? If "Yes," complete question m below. | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| m. Loan amount (exclude PMI, MIP, Funding Fee financed) | | m. Have you had an ownership interest in a property in the last three years? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| n. PMI, MIP, Funding Fee financed | | (1) What type of property did you own – principal residence (PR), second home (SH), or investment property (IP)? | | | | |
| o. Loan amount (add m & n) | | (2) How did you hold title to the home – solely by yourself (S), jointly with your spouse (SP), or jointly with another person (O)? | | | | |
| p. Cash from / to Borrower (subtract j, k, l & o from i) | | | | | | |

IX. ACKNOWLEDGEMENT AND AGREEMENT

Each of the undersigned specifically represents to Lender and to Lender's actual or potential agents, brokers, processors, attorneys, insurers, servicers, successors and assigns and agrees and acknowledges, that: (1) the information provided in this application is true and correct as of the date set forth opposite my signature and that any intentional or negligent misrepresentation of this information contained in this application may result in civil liability, including monetary damages, to any person who may suffer any loss due to reliance upon any misrepresentation that I have made on this application, and/or in criminal penalties including, but not limited to, fine or imprisonment or both under the provisions of Title 18, United States Code, Sec. 1001, et seq.; (2) the loan requested pursuant to this application (the "Loan") will be secured by a mortgage or deed of trust on the property described in this application; (3) the property will not be used for any illegal or prohibited purpose or use; (4) all statements made in this application are made for the purpose of obtaining a residential mortgage loan; (5) the property will be occupied as indicated in this application; (6) the Lender, its servicers, successors or assigns may retain the original and/or electronic record of this application, whether or not the Loan is approved; (7) the Lender and its agents, brokers, insurers, servicers, successors and assigns may continuously rely on the information contained in the application, and I am obligated to amend and/or supplement the information provided in this application if any of the material facts that I have represented herein should change prior to closing of the Loan; (8) in the event that my payments on the Loan become delinquent, the Lender, its servicers, successors or assigns may, in addition to any other rights and remedies that it may have relating to such delinquency, report my name and account information to one or more consumer reporting agencies; (9) ownership of the Loan and/or administration of the Loan account may be transferred with such notice as may be required by law; (10) neither Lender nor its agents, brokers, insurers, servicers, successors or assigns has made any representation or warranty, express or implied, to me regarding the property or the condition or value of the property; and (11) my transmission of this application as an "electronic record" containing my "electronic signature," as those terms are defined in applicable federal and/or state laws (excluding audio and video recordings), or my facsimile transmission of this application containing a facsimile of my signature, shall be as effective, enforceable and valid as if a paper version of this application were delivered containing my original written signature.

Acknowledgement: Each of the undersigned hereby acknowledges that any owner of the Loan, its servicers, successors and assigns, may verify or reverify any information contained in this application or obtain any information or data relating to the Loan, for any legitimate business purpose through any source, including a source named in this application or a consumer reporting agency.

| Borrower's Signature | Date | Co-Borrower's Signature | Date |
|----------------------|------|-------------------------|------|
| X | | X | |

X. INFORMATION FOR GOVERNMENT MONITORING PURPOSES

The following information is requested by the Federal Government for certain types of loans related to a dwelling in order to monitor the lender's compliance with equal credit opportunity, fair housing and home mortgage disclosure laws. You are not required to furnish this information, but are encouraged to do so. The law provides that a lender may not discriminate either on the basis of this information, or on whether you choose to furnish it. If you furnish the information, please provide both ethnicity and race. For race, you may check more than one designation. If you do not furnish ethnicity, race, or sex, under Federal regulations, this lender is required to note the information on the basis of visual observation and surname if you have made this application in person. If you do not wish to furnish the information, please check the box below. (Lender must review the above material to assure that the disclosures satisfy all requirements to which the lender is subject under applicable state law for the particular type of loan applied for.)

| BORROWER | <input type="checkbox"/> I do not wish to furnish this information. | CO-BORROWER | <input type="checkbox"/> I do not wish to furnish this information. |
|-------------------|---|--------------------|---|
| Ethnicity: | <input type="checkbox"/> Hispanic or Latino <input type="checkbox"/> Not Hispanic or Latino | Ethnicity: | <input type="checkbox"/> Hispanic or Latino <input type="checkbox"/> Not Hispanic or Latino |
| Race: | <input type="checkbox"/> American Indian or Alaska native <input type="checkbox"/> Asian <input type="checkbox"/> Black or African American <input type="checkbox"/> Native Hawaiian or Other Pacific Islander <input type="checkbox"/> White | Race: | <input type="checkbox"/> American Indian or Alaska native <input type="checkbox"/> Asian <input type="checkbox"/> Black or African American <input type="checkbox"/> Native Hawaiian or Other Pacific Islander <input type="checkbox"/> White |
| Sex: | <input type="checkbox"/> Female <input type="checkbox"/> Male | Sex: | <input type="checkbox"/> Female <input type="checkbox"/> Male |

| To be Completed by Interviewer | Interviewer's Name (print or type) | Name and Address of Interviewer's Employer |
|---|--|--|
| This application was taken by: <input type="checkbox"/> Face-to-face interview <input type="checkbox"/> Mail <input type="checkbox"/> Telephone <input type="checkbox"/> Internet | Interviewer's Signature | |
| | Date | |
| | Interviewer's Phone Number (incl. area code) | |

Continuation Sheet/Residential Loan Application

Use this continuation sheet if you need more space to complete the Residential Loan Application. Mark B for Borrower or C for Co-Borrower.

Borrower:

Agency Case Number:

Co-Borrower:

Lender Case Number:

VI. ASSETS AND LIABILITIES

| ASSETS | Cash or Market Value | LIABILITIES | Monthly Payt. & Mos. Left to Pay | Unpaid Balance |
|--|----------------------|-----------------------------|----------------------------------|----------------|
| Name and address of Bank, S&L, or Credit Union | | Name and address of Company | \$ Payt./Mos. | \$ |
| Acct. no. | \$ | Acct. No. | | |
| Name and address of Bank, S&L, or Credit Union | | Name and address of Company | \$ Payt./Mos. | \$ |
| Acct. no. | \$ | Acct. No. | | |
| Name and address of Bank, S&L, or Credit Union | | Name and address of Company | \$ Payt./Mos. | \$ |
| Acct. no. | \$ | Acct. No. | | |
| Name and address of Bank, S&L, or Credit Union | | Name and address of Company | \$ Payt./Mos. | \$ |
| Acct. no. | \$ | Acct. No. | | |
| Name and address of Bank, S&L, or Credit Union | | Name and address of Company | \$ Payt./Mos. | \$ |
| Acct. no. | \$ | Acct. No. | | |
| Name and address of Bank, S&L, or Credit Union | | Name and address of Company | \$ Payt./Mos. | \$ |
| Acct. no. | \$ | Acct. No. | | |
| Name and address of Bank, S&L, or Credit Union | | Name and address of Company | \$ Payt./Mos. | \$ |
| Acct. no. | \$ | Acct. No. | | |
| Name and address of Bank, S&L, or Credit Union | | Name and address of Company | \$ Payt./Mos. | \$ |
| Acct. no. | \$ | Acct. No. | | |
| Name and address of Bank, S&L, or Credit Union | | Name and address of Company | \$ Payt./Mos. | \$ |
| Acct. no. | \$ | Acct. No. | | |

I/We fully understand that it is a Federal crime punishable by fine or imprisonment, or both, to knowingly make any false statements concerning any of the above facts as applicable under the provisions of Title 18, United States Code, Section 1001, et seq.

Borrower's Signature:

Date

Co-Borrower's Signature:

Date

X

X

...For all your Real Estate funding needs...

GOOD FAITH ESTIMATE

| | | | |
|-------------------|--------------|-------|------------|
| APPLICANTS: | | | |
| PROPERTY ADDRESS: | | CITY: | ZIP: |
| SALES PRICE: | LOAN AMOUNT: | TYPE: | EST. RATE: |

| COMMENTS | CLOSING COSTS | |
|----------|---|-----------|
| | LOAN ORIGATION FEE (Loan Amount X _____%) | \$ |
| | LOAN DISCOUNT (Loan Amount X _____%) | \$ |
| | APPRAISAL | \$ |
| | CREDIT REPORT | \$ |
| | DOCUMENT PREPARATION | \$ |
| | PEST INSPECTION | \$ |
| | PHOTO INSPECTION | \$ |
| | PROCESSING | \$ |
| | RECORDING | \$ |
| | SETTLEMENT OR ESCROW CLOSING | \$ |
| | SUB-ESCROW | \$ |
| | TAX SERVICE CONTRACT | \$ |
| | TITLE INSURANCE | \$ |
| | <input type="checkbox"/> FHA MIP or <input type="checkbox"/> VA FUNDING FEE | \$ |
| | UNDERWRITING | \$ |
| | OTHER #1 | \$ |
| | OTHER #2 | \$ |
| | OTHER #3 | \$ |
| | SUB-TOTAL (A) | \$ |

| BUYERS PRE-PAIDS | | |
|---|----------------------|-----------|
| (1) INTEREST ADJUSTMENT FOR 30 or _____ DAYS @ \$ _____ PER DAY | | \$ |
| CONVENTIONAL 1st YEAR MORTGAGE INSURANCE PREMIUM | | \$ |
| 1st YEAR HAZARD INSURANCE PREMIUM | | \$ |
| HAZARD INSURANCE IMPOUNDS x 2 MONTHS. @ \$ _____ PER MONTH | | \$ |
| MORTGAGE INSURANCE IMPOUNDS x 2 MONTHS @ \$ _____ PER MONTH | | \$ |
| PROPERTY TAX IMPOUNDS x _____ MONTHS @ \$ _____ PER MONTH | | \$ |
| ASSOCIATION x _____ MONTHS @ \$ _____ PER MONTH | | \$ |
| | SUB-TOTAL (B) | \$ |

| | |
|---|-----------|
| ESTIMATED TOTAL SETTLEMENT CHARGES (A + B) | \$ |
|---|-----------|

(1) This interest calculation which was computed on _____ days, could represent the maximum amount of interest you may be required to pay at settlement of your loan. The actual amount will be determined by the number of days remaining in the month in which you settle, multiplied by the daily interest rate of your loan. (Shown above under the "Estimated Rate" box)

| ESTIMATED MONTHLY HOUSING EXPENSE | |
|-------------------------------------|-----------|
| PRINCIPAL & INTEREST | \$ |
| PROPERTY TAXES | \$ |
| HAZARD INSURANCE | \$ |
| MORTGAGE INSURANCE | \$ |
| OTHER / HOA (Associations) | \$ |
| Total Monthly Payment (PITI) | \$ |

| ESTIMATED TOTAL CHARGES & CREDITS | |
|-----------------------------------|-----------|
| DOWN PAYMENT | \$ |
| CLOSING COSTS | \$ |
| BUYERS PREPAIDS | \$ |
| LESS DEPOSITS | \$ |
| LESS OTHER CREDITS | \$ |
| Total Cash Required | \$ |

NOTICE: The foregoing is only an estimate of the items stated. The actual charges may be more or less. This estimate is based on the amount of the loan and rate applied for: If these change, the charges will change. This form does not cover all items you will be required to pay in cash at settlement. You may be required to pay other additional amounts at settlement. This Good Faith Estimate is provided to you in compliance with the REAL ESTATE SETTLEMENT PROCEDURES ACT (RESPA). It is not an approval of your loan application nor a commitment to make the loan. NFS Loans, Inc.

| | | |
|---------------------------------|------------|-------|
| LENDER/REPRESENTATIVE SIGNATURE | PRINT NAME | DATE |
| | | PAGER |

Applicants acknowledge receipt of a copy of this Good Faith Estimate and the special information Booklet pre-prepared by the U.S. Department of Housing and Urban Development (HUD).

| | |
|------------------|--------------|
| APPLICANT | DATE: |
| APPLICANT | DATE: |

... FOR ALL YOUR REAL ESTATE FUNDING NEEDS...

BORROWER(s) and CO-BORROWER(s) and/or ANY OTHER APPLICANT(s) ...MUST INITIAL EACH APPLICABLE ITEM LISTED BELOW...

EQUAL CREDIT OPPORTUNITY ACT AND FAIR LENDING ACT

I / WE HAVE READ AND UNDERSTAND THE FOLLOWING NOTICE:

THE FEDERAL EQUAL CREDIT OPPORTUNITY ACT PROHIBITS CREDITORS FROM DISCRIMINATING AGAINST CREDIT APPLICANTS ON THE BASIS OF RACE, COLOR, RELIGION, NATIONAL ORIGIN, SEX, MARITAL STATUS, AGE (PROVIDED THAT THE APPLICANT(S) HAS THE CAPACITY TO ENTER INTO A BINDING CONTRACT) ; BECAUSE ALL OR PART OF THE APPLICANTS'S INCOME DERIVES FROM ANY PUBLIC ASSISTANCE PROGRAM; OR BECAUSE THE APPLICANT(S) HAS IN GOOD FAITH EXERCISED ANY RIGHT UNDER THE CONSUMER CREDIT PROTECTION ACT. THE FEDERAL AGENCY THAT ADMINISTERS COMPLIANCE WITH THIS LAW CONCERNING THIS CREDITOR IS FEDERAL TRADE COMMISSION, DIVISION OF CREDIT PRACTICES, WASHINGTON, D.C. 20580.

| | |
|-----------------|----------|
| BORROWER | BORROWER |
|-----------------|----------|

| | |
|--------------------|-------------|
| CO-BORROWER | CO-BORROWER |
|--------------------|-------------|

REAL ESTATE SETTLEMENT PROCEDURES ACT (RESPA)

I/WE HEREBY ACKNOWLEDGE RECEIPT FROM THE MORTGAGE GUILD OF AN ESTIMATE OF BUYER'S CLOSING COSTS AND PREPAID EXPENSES RELATIVE TO CLOSING A HOME LOAN IN THE AMOUNT OF \$

| | |
|-----------------|----------|
| BORROWER | BORROWER |
|-----------------|----------|

| | |
|--------------------|-------------|
| CO-BORROWER | CO-BORROWER |
|--------------------|-------------|

FAIR CREDIT REPORTING ACT

I/WE UNDERSTAND THAT, AS PART OF ASSEMBLY MY / OUR LOAN APPLICATION , THE MORTGAGE GUILD WILL REQUEST A CONSUMER REPORT BEARING MY / OUR CREDIT WORTHINESS, CREDIT STANDING AND CREDIT CAPACITY. THIS NOTICE IS GIVEN TO ME / US PURSUANT TO THE FAIR CREDIT REPORTING ACT OF 1970, SECTION 601, INCLUSIVE. I / WE AM ENTITLED TO SUCH INFORMATION WITHIN 60 DAYS OF WRITTEN DEMAND THEREFORE MADE TO THE CREDIT REPORTING AGENCY PURSUANT TO SECTION 606(b) OF THE FAIR CREDIT REPORTING ACT.

| | |
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| BORROWER | BORROWER |
|-----------------|----------|

| | |
|--------------------|-------------|
| CO-BORROWER | CO-BORROWER |
|--------------------|-------------|

OCCUPANCY CERTIFICATION

I / WE DO INTEND DO NOT INTEND TO OCCUPY THIS PROPERTY AS MY / OUR PRINCIPAL RESIDENCE. I / WE FULLY UNDERSTAND THAT IT IS A FEDERAL CRIME PUNISHABLE BY FINE OR IMPRISONMENT OR BOTH TO MAKE ANY STATEMENTS KNOWN TO BE FALSE CONCERNING THE ABOVE RESPONSE AS APPLICABLE UNDER THE PROVISION OF TITLE 18, U.S. CODE 1014.

| | |
|-----------------|----------|
| BORROWER | BORROWER |
|-----------------|----------|

| | |
|--------------------|-------------|
| CO-BORROWER | CO-BORROWER |
|--------------------|-------------|

RIGHT TO FINANCIAL PRIVACY ACT

I / WE ACKNOWLEDGE THAT THIS IS NOTICE TO ME / US AS REQUIRED BY THE RIGHT TO FINANCIAL PRIVACY ACT OF 1978 THAT THE VETERANS ADMINISTRATION (IN THE CASE OF A VA LOAN) OR DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT (IN THE CASE OF A FHA LOAN) HAS A RIGHT OF ACCESS TO FINANCIAL RECORDS HELD BY FINANCIAL INSTITUTIONS IN CONNECTION WITH THE CONSIDERATION OR ADMINISTRATION OF ASSISTANCE TO ME / US. FINANCIAL RECORDS INVOLVING MY / OUR TRANSACTIONS WILL BE AVAILABLE TO THE VA (IN THE CASE OF A VA LOAN) OR TO HUD (IN THE CASE OF A FHA LOAN) WITHOUT FURTHER NOTICE OR AUTHORIZATION BUT WILL NOT BE DISCLOSED OR RELEASED TO ANOTHER GOVERNMENT AGENCY OR DEPARTMENT WITHOUT MY / OUR CONSENT, EXCEPT AS REQUIRED OR PERMITTED BY LAW.

| | |
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| BORROWER | BORROWER |
|-----------------|----------|

| | |
|--------------------|-------------|
| CO-BORROWER | CO-BORROWER |
|--------------------|-------------|

CONSUMER HANDBOOK ON ADJUSTABLE RATE MORTGAGES

I/WE HEREBY ACKNOWLEDGE RECEIPT FROM THE MORTGAGE GUILD OF A COPY OF THE BOOK TITLED "CONSUMER HANDBOOK ON ADJUSTABLE RATE MORTGAGES" PUBLISHED BY THE FEDERAL RESERVE BOARD AND THE FEDERAL HOME LOAN BANK BOARD, WHICH IS PROVIDED IN ADDITION TO OTHER REQUIRED ADJUSTABLE RATE MORTGAGE DISCLOSURES.

| | |
|-----------------|----------|
| BORROWER | BORROWER |
|-----------------|----------|

| | |
|--------------------|-------------|
| CO-BORROWER | CO-BORROWER |
|--------------------|-------------|

... FOR ALL YOUR REAL ESTATE FUNDING NEEDS...

THE HOUSING FINANCIAL DISCRIMINATING ACT OF 1977

RE: Application No. _____

IT IS ILLEGAL TO DISCRIMINATE IN THE PROVISIONS OF OR IN THE AVAILABILITY OF FINANCIAL ASSISTANCE BECAUSE OF THE CONSIDERATION OF:

1. TRENDS, CHARACTERISTICS OR CONDITIONS IN THE NEIGHBORHOOD OR GEOGRAPHICAL AREA SURROUNDING A HOUSING ACCOMMODATION, UNLESS THE FINANCIAL INSTITUTION CAN DEMONSTRATE IN THE PARTICULAR CASE THAT SUCH CONSIDERATION IS REQUIRED TO AVOID AN UNSAFE AND UNSOUND BUSINESS PRACTICE; OR
2. RACE, COLOR, RELIGION, SEX, MARITAL STATUS, NATIONAL ORIGIN OR ANCESTRY.

IT IS ILLEGAL TO CONSIDER THE RACIAL, ETHNIC, RELIGIOUS OR NATIONAL ORIGIN COMPOSITION OF A NEIGHBORHOOD OR GEOGRAPHIC AREA SURROUNDING A HOUSING ACCOMMODATION OR WHETHER OR NOT SUCH COMPOSITION IS UNDERGOING CHANGE, OR IS EXPECTED TO UNDERGO CHANGE, IN APPRAISING A HOUSING ACCOACCOMMODATION OR IN DETERMINING WHETHER OR NOT, OR UNDER WHAT TERMS AND CONDITIONS, TO PROVIDE FINANCIAL ASSISTANCE.

THESE PROVISIONS GOVERN FINANCIAL ASSISTANCE FOR THE PURPOSE OF THE PURCHASE, CONSTRUCTION, REHABILITATION OR REFINANCING OF ONE-TO-FOUR-UNIT FAMILY RESIDENCES OCCUPIED BY THE OWNER AND FOR THE PURPOSE OF THE HOME IMPROVEMENT OF ANY ONE-TO-FOUR-UNIT FAMILY RESIDENCE.

IF YOU HAVE QUESTIONS ABOUT YOUR RIGHTS, OR IF YOU WISH TO FILE A COMPLAINT, CONTACT THE MANAGEMENT OF THIS FINANCIAL INSTITUTIONS OR:

DEPARTMENT OF SAVINGS & LOAN
600 SOUTH COMMONWEALTH AVENUE
LOS ANGELES, CA 90005
TELEPHONE (310) 736-2798

DEPARTMENT OF SAVINGS & LOAN
350 SANSONE SREET
SAN FRANCISCO, CA 94104
TELEPHONE (415) 557-366

VOLUNTARY INFORMATION FOR GOVERNMENT MONITORING PURPOSES

IF THIS LOAN IS FOR HOUSING PURCHASE, CONSTRUCTION, REHABILITATION OR REFINANCING OF A HOUSING ACCOMMODATION, THE FOLLOWING INFORMATION IS REQUESTED BY THE STATE OF CALIFORNIA AND THE FEDERAL GOVERNMENT TO MONITOR THIS FINANCIAL INSTITUTION'S COMPLIANCE WITH THE HOUSING FINANCIAL DISCRIMINATION ACT, EQUAL CREDIT OPPORTUNITY LAW, AND FAIR HOUSING LAW. THE LAW PROVIDES THAT A FINANCIAL INSTITUTION MAY NEITHER DISCRIMINATE ON THE BASIS OF THIS INFORMATION NOR ON WHETHER OR NOT IT IS FURNISHED. FURNISHING THIS INFORMATION IS OPTIONAL. IF YOU DO NOT WISH TO FURNISH THIS INFORMATION, PLEASE INITIAL BELOW. THIS ASSOCIATION IS REQUIRED TO NOTE RACE AND GENDER, ON THE BASIS OF SIGHT AND/OR SURNAME IF THE APPLICANT(S) CHOOSE NOT TO DO SO.

I / WE CHOOSE NOT TO SUPPLY THIS INFORMATION

| |
|--------------------------|
| APPLICANT(S) INITIALS |
| CO-APPLICANT(S) INITIALS |

| | APPLICANT | CO-APPLICANT |
|-------------------------------|--------------------------|--------------------------|
| RACE / NATIONAL ORIGIN | | |
| AMERICAN INDIAN OR | <input type="checkbox"/> | <input type="checkbox"/> |
| ALASKAN NATIVE | <input type="checkbox"/> | <input type="checkbox"/> |
| ASIAN or PACIFIC ISLANDER | <input type="checkbox"/> | <input type="checkbox"/> |
| AFRICAN AMERICAN | <input type="checkbox"/> | <input type="checkbox"/> |
| HISPANIC | <input type="checkbox"/> | <input type="checkbox"/> |
| WHITE | <input type="checkbox"/> | <input type="checkbox"/> |
| OTHER - SPECIFY _____ | <input type="checkbox"/> | <input type="checkbox"/> |

| | APPLICANT | CO-APPLICANT |
|-----------------------|--------------------------|--------------------------|
| GENDER | | |
| MALE | <input type="checkbox"/> | <input type="checkbox"/> |
| FEMALE | <input type="checkbox"/> | <input type="checkbox"/> |
| AGE (Years) | _____ | _____ |
| MARITAL STATUS | | |
| MARRIED | <input type="checkbox"/> | <input type="checkbox"/> |
| UNMARRIED | <input type="checkbox"/> | <input type="checkbox"/> |
| SEPARATED | <input type="checkbox"/> | <input type="checkbox"/> |

ACKNOWLEDGMENT OF RECEIPT

I HAVE RECEIVED A COPY OF THIS NOTICE

| |
|---------------------|
| APPLICANT |
| CO-APPLICANT |

| |
|-------------|
| DATE |
| DATE |

... FOR ALL YOUR REAL ESTATE FUNDING NEEDS...

AUTHORIZATION

TO ALL CONSUMER REPORTING AGENCIES AND TO ALL CREDITORS,

Please be advised that the undersigned person(s) has made an application for a home loan to NFS Loans, Inc. Therefore, the undersigned authorizes you to make a consumer report and/or a disclosure to NFS Loans, Inc., or any agent or employee thereof, of indebtedness, deposit balance or employment.

A photographic or carbon copy of this authorization bearing a photographic or carbon copy of the signature(s) of the undersigned may be deemed to be the equivalent of the original hereof and may be used as a duplicate original.

The Right to Financial Privacy Act of 1978 that the Veterans Administration (in the case of a VA loan) or Department of Housing and Urban Development (in the case of a FHA loan) has a right of access to financial records held by financial institutions in connection with the consideration or administration of assistance to me/us. Financial records involving my/our transactions will be available to the VA (in the case of a VA loan) or to HUD (in the case of a FHA loan) without further notice or authorization but will not be disclosed or released to another government agency or department without my/our consent; except as required or permitted by law.

| |
|---------------------|
| APPLICANT |
| CO-APPLICANT |

| |
|-------------|
| DATE |
| DATE |

BANKING INFORMATION

DEPOSITORY

| ADDRESS | CITY | ST | ZIP |
|--|-------------|------------------|-----|
| Checking <input type="checkbox"/> Savings <input type="checkbox"/> Other _____ | Acc # _____ | Balance \$ _____ | |
| Checking <input type="checkbox"/> Savings <input type="checkbox"/> Other _____ | Acc # _____ | Balance \$ _____ | |
| Checking <input type="checkbox"/> Savings <input type="checkbox"/> Other _____ | Acc # _____ | Balance \$ _____ | |

BANKING INFORMATION

DEPOSITORY

| ADDRESS | CITY | ST | ZIP |
|--|-------------|------------------|-----|
| Checking <input type="checkbox"/> Savings <input type="checkbox"/> Other _____ | Acc # _____ | Balance \$ _____ | |
| Checking <input type="checkbox"/> Savings <input type="checkbox"/> Other _____ | Acc # _____ | Balance \$ _____ | |
| Checking <input type="checkbox"/> Savings <input type="checkbox"/> Other _____ | Acc # _____ | Balance \$ _____ | |

BANKING INFORMATION

DEPOSITORY

| ADDRESS | CITY | ST | ZIP |
|--|-------------|------------------|-----|
| Checking <input type="checkbox"/> Savings <input type="checkbox"/> Other _____ | Acc # _____ | Balance \$ _____ | |
| Checking <input type="checkbox"/> Savings <input type="checkbox"/> Other _____ | Acc # _____ | Balance \$ _____ | |
| Checking <input type="checkbox"/> Savings <input type="checkbox"/> Other _____ | Acc # _____ | Balance \$ _____ | |

MORTGAGE(S) INFORMATION

FIRST MORTGAGE

| ADDRESS | CITY | ST | ZIP |
|--------------|------------------|------------------|-----|
| Loan # _____ | Payment \$ _____ | Balance \$ _____ | |

SECOND MORTGAGE

| ADDRESS | CITY | ST | ZIP |
|--------------|------------------|------------------|-----|
| Loan # _____ | Payment \$ _____ | Balance \$ _____ | |

THIRD MORTGAGE

| ADDRESS | CITY | ST | ZIP |
|--------------|------------------|------------------|-----|
| Loan # _____ | Payment \$ _____ | Balance \$ _____ | |

MISCELLANEOUS LOAN INFORMATION

| LENDER | ADDRESS | CITY | ST | ZIP |
|--------------------|------------------|------------------|----|-----|
| Loan # _____ | Payment \$ _____ | Balance \$ _____ | | |
| Type of Loan _____ | | | | |

RJV Funding, Inc. 725 Town & Country Road, #100, Orange, CA 92868

| | | | | | |
|------------------|-------|---|---------------|-----------------------------------|-----------------------------------|
| Loan Rep: | | Est. Closing Date: | | Sales Price | |
| Referred by: | | Conv: <input type="checkbox"/> FHA <input type="checkbox"/> VA <input type="checkbox"/> | | Loan Amount | |
| Office | Phone | Rate | Caps / Points | Purchase <input type="checkbox"/> | Refi <input type="checkbox"/> |
| Borrowers Name | | Wk Phone | | Owner <input type="checkbox"/> | NonOwner <input type="checkbox"/> |
| Property Address | | Hm Phone | | Condo <input type="checkbox"/> | PUD <input type="checkbox"/> |
| | | | | SFR <input type="checkbox"/> | Units <input type="checkbox"/> |
| City | | | St | Zip | |
| Lot | Track | Project | Builder | | |

| BUYERS BROKER | |
|---------------|-----|
| Office Name | |
| Address | |
| RE Agent | |
| Bus Ph | Fax |

| LISTING BROKER | |
|----------------|-----|
| Office Name | |
| Address | |
| RE Agent | |
| Bus Ph | Fax |

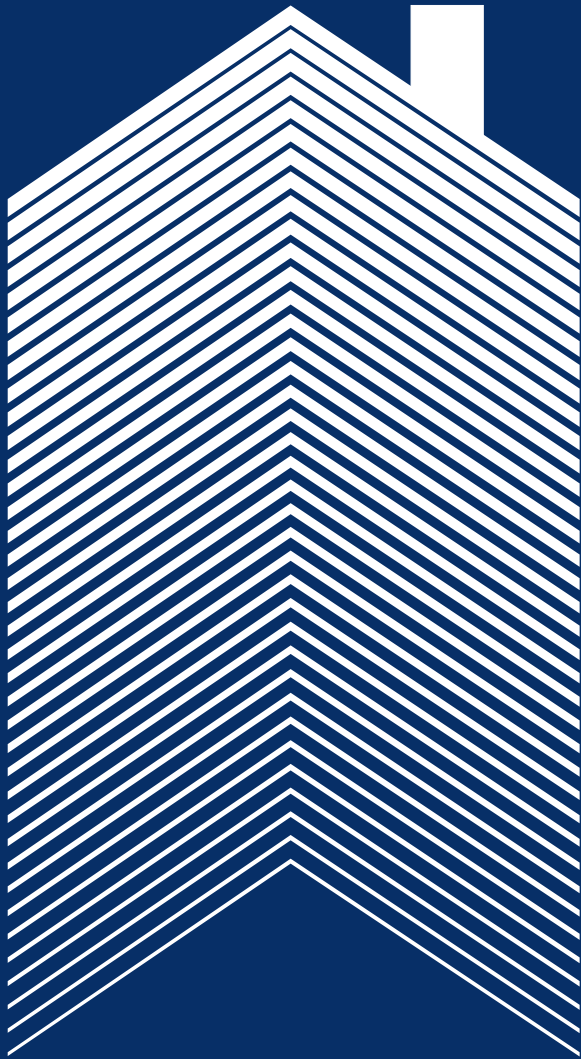
| ESCROW INFORMATION | |
|--------------------|---------------|
| Escrow Co. Name | |
| Address | |
| Escrow Officer | Escrow File # |
| Phone | Fax |

| TITLE INFORMATION | |
|-------------------|---------------|
| Title Co. Name | |
| Address | |
| Title Officer | Title Order # |
| Phone | Fax |

| PROCESSOR'S CHECKLIST | | | |
|-----------------------|-----------|----------|---|
| Ordered | Reordered | Received | Categories |
| | | | Appraisal Paid \$ Due \$ Co. Name |
| | | | Credit Rpt (Bo) Paid \$ Due \$ Co. Name |
| | | | Bus. Crt Rpt Paid \$ Due \$ Co. Name |
| | | | Employment Verification |
| | | | Employment Verification |
| | | | Employment Verification |
| | | | Employment Verification |
| | | | Deposit Verification |
| | | | Deposit Verification |
| | | | Deposit Verification |
| | | | Deposit Verification |
| | | | Credit Rating |
| | | | Credit Rating |
| | | | Tax Returns / W2's (2 Years) |
| | | | Corporate Tax Returns (2 Years) |
| | | | Profit & Loss Statement |
| | | | Purchase Contract |
| | | | Escrow Instructions |
| | | | Preliminary Title Report |
| | | | Current Paystubs (Borrower) |
| | | | Current Paystubs (Co-borrower) |
| | | | Gift Letter & All Related Documentation (Copy of Check, Donor's Bank Statement) |
| | | | Sales Escrow Instructions & Estimated Net Sheet |
| | | | Sales Escrow Company |
| | | | Landlord Rating Information |
| | | | Other: |
| | | | Other: |

| CONDOS | | | |
|----------|---------|-----------|---------------|
| HOA Name | Address | | |
| Contact | Phone | Fax | |
| CC&Rs | By Laws | HOA Cert. | Fidelity Bond |
| Articles | Budget | Insurance | |
| | | | Other |

CONSUMER
HANDBOOK ON
ADJUSTABLE RATE
MORTGAGES



Federal Reserve Board
Office of Thrift Supervision

This booklet was originally prepared in consultation with the following organizations:

American Bankers Association
America's Community Bankers
(formerly the National Council of Savings Institutions and the U.S. League of Savings Institutions)
Comptroller of the Currency
Consumer Federation of America
Credit Union National Association, Inc.
Federal Deposit Insurance Corporation
Federal Reserve Board's Consumer Advisory Council
Federal Trade Commission
Independent Bankers Association of America
Mortgage Bankers Association of America
Mortgage Insurance Companies of America
National Association of Federal Credit Unions
National Association of Home Builders
National Association of Realtors
National Credit Union Administration
Office of Special Advisor to the President for Consumer Affairs
The Consumer Bankers Association
U.S. Department of Housing and Urban Development

With special thanks to Fannie Mae (formerly the Federal National Mortgage Association) and Freddie Mac (formerly the Federal Home Loan Mortgage Corporation).

The Federal Reserve Board and the Office of Thrift Supervision prepared this booklet on adjustable-rate mortgages (ARMs) in response to a request from the House Committee on Banking, Finance and Urban Affairs and in consultation with many other agencies and trade and consumer groups. It is designed to help consumers understand an important and complex mortgage option available to home buyers.

We believe a fully informed consumer is in the best position to make a sound economic choice. If you are buying a home, and looking for a home loan, this booklet will provide useful basic information about ARMs. It cannot provide all the answers you will need, but we believe it is a good starting point.

PEOPLE ARE ASKING . . .

“Some newspaper ads for home loans show surprisingly low rates. Are these loans for real, or is there a catch?”

Some of the ads you see are for adjustable-rate mortgages (ARMs). These loans may have low rates for a short time—maybe only for the first year. After that, the rates can be adjusted on a regular basis. This means that the interest rate and the amount of the monthly payment can go up or down.

“Will I know in advance how much my payment may go up?”

With an adjustable-rate mortgage, your future monthly payment is uncertain. Some types of ARMs put a ceiling on your payment increase or rate increase from one period to the next. Virtually all must put a ceiling on interest-rate increases over the life of the loan.

“Is an ARM the right type of loan for me?”

That depends on your financial situation and the terms of the ARM. ARMs carry risks in periods of rising interest rates, but can be cheaper over a longer term if interest rates decline. You will be able to answer the question better once you understand more about ARMs. This booklet should help.

Mortgages have changed, and so have the questions that consumers need to ask and have answered.

Shopping for a mortgage used to be a relatively simple process. Most home mortgage loans had interest rates that did not change over the life of the loan. Choosing among these fixed-rate mortgage loans meant comparing interest rates, monthly payments, fees, prepayment penalties, and due-on-sale clauses.

Today, many loans have interest rates (and monthly payments) that can change from time to time. To compare one ARM with another or with a fixed-rate mortgage, you need to know about indexes, margins, discounts, caps, negative amortization, and convertibility. You need to consider the maximum amount your monthly payment could increase. Most important, you need to compare what might happen to your mortgage costs with your future ability to pay.

This booklet explains how ARMs work and some of the risks and advantages to borrowers that ARMs introduce. It discusses features that can help reduce the risks and gives some pointers about advertising and other ways you can get information from lenders. Important ARM terms are defined in a glossary on page 19. And a checklist at the end of the booklet should help you ask lenders the right questions and figure out whether an ARM is right for you. Asking lenders to fill out the checklist is a good way to get the information you need to compare mortgages.

WHAT IS AN ARM?

With a fixed-rate mortgage, the interest rate stays the same during the life of the loan. But with an ARM, the interest rate changes periodically, usually in relation to an index, and payments may go up or down accordingly.

Lenders generally charge lower initial interest rates for ARMs than for fixed-rate mortgages. This makes the ARM easier on your pocketbook at first than a fixed-rate mortgage for the same amount. It also means that you might qualify for a larger loan because lenders sometimes make this decision on the basis of your current income and the first year's payments. Moreover, your ARM could be less expensive over a long period than a fixed-rate mortgage—for example, if interest rates remain steady or move lower.

Against these advantages, you have to weigh the risk that an increase in interest rates would lead to higher monthly payments in the future. It's a trade-off—you get a lower rate with an ARM in exchange for assuming more risk.

Here are some questions you need to consider:

- Is my income likely to rise enough to cover higher mortgage payments if interest rates go up?
- Will I be taking on other sizable debts, such as a loan for a car or school tuition, in the near future?
- How long do I plan to own this home? (If you plan to sell soon, rising interest rates may not pose the problem they do if you plan to own the house for a long time.)
- Can my payments increase even if interest rates generally do not increase?

HOW ARMs WORK: THE BASIC FEATURES

The Adjustment Period

With most ARMs, the interest rate and monthly payment change every year, every three years, or every five years. However, some ARMs have more frequent interest and payment changes. The period between one rate change and the next is called the adjustment period. So, a loan with an adjustment period of one year is called a one-year ARM, and the interest rate can change once every year.

The Index

Most lenders tie ARM interest rate changes to changes in an “index rate.” These indexes usually go up and down with the general movement of interest rates. If the index rate moves up, so does your mortgage rate in most circumstances, and you will probably have to make higher monthly payments. On the other hand, if the index rate goes down your monthly payment may go down.

Lenders base ARM rates on a variety of indexes. Among the most common indexes are the rates on one-, three-, or five-year Treasury securities. Another common index is the national or regional average cost of funds to savings and loan associations. A few lenders use their own cost of funds as an index, which—unlike other indexes—they have some control. You should ask what index will be used and how often it changes. Also ask how it has fluctuated in the past and where it is published.

The Margin

To determine the interest rate on an ARM, lenders add to the index rate a few percentage points called the “margin.” The amount of the margin can differ from one lender to another, but it is usually constant over the life of the loan.

$$\text{Index rate} + \text{margin} = \text{ARM interest rate}$$

Let’s say, for example, that you are comparing ARMs offered by two different lenders. Both ARMs are for 30 years with a loan amount of \$65,000. (All the examples used in this booklet are based on this amount for a 30-year term. Note that the payment amounts shown here do not include items like taxes or insurance.)

Both lenders use the one-year Treasury index. But the first lender uses a 2% margin, and the second lender uses a 3% margin. Here is how that difference in the margin would affect your initial monthly payment.

Home sale price: \$ 85,000
Less down payment: – 20,000
Mortgage amount: \$ 65,000

Mortgage term: 30 years

FIRST LENDER

One-year index = 8%

Margin = 2%

ARM interest rate = 10%

Monthly payment @ 10% = \$570.42

SECOND LENDER

One-year index = 8%

Margin = 3%

ARM interest rate = 11%

Monthly payment @ 11% = \$619.01

In comparing ARMs, look at both the index and margin for each program. Some indexes have higher average values, but they are usually used with lower margins. Be sure to discuss the margin with your lender.

CONSUMER CAUTIONS

Discounts

Some lenders offer initial ARM rates that are lower than the sum of the index and the margin. Such rates, called discounted rates, are often combined with large initial loan fees (“points”) and with much higher interest rates after the discount expires.

Very large discounts are often arranged by the seller. The seller pays an amount to the lender so the lender can give you a lower rate and lower payments early in the mortgage term. This arrangement is referred to as a “seller buydown.” The seller may increase the sales price of the home to cover the cost of the buydown.

A lender may use a low initial rate to decide whether to approve your loan, based on your ability to afford it. You should be careful to consider whether you will be able to afford payments in later years when the discount expires and the rate is adjusted.

Here is how a discount might work. Let’s assume the one-year ARM rate (index rate plus margin) is at 10%. But your lender is offering an 8% rate for the first year. With the 8% rate, your first year monthly payment would be \$476.95.

But don’t forget that with a discounted ARM, your low initial payment will probably not remain low for long, and that any savings during the discount period may be made up during the life of the mortgage or be included in the price of the house. In fact, if you buy a home using this kind of loan, you run the risk of . . .

Payment Shock

Payment shock may occur if your mortgage payment rises very sharply at the first adjustment. Let's see what happens in the second year with your discounted 8% ARM.

| <u>ARM Interest Rate</u> | <u>Monthly Payment</u> |
|----------------------------|------------------------|
| First year (w/discount) 8% | \$476.95 |
| 2nd year @ 10% | \$568.82 |

As the example shows, even if the index rate stays the same, your monthly payment would go up from \$476.95 to \$568.82 in the second year.

Suppose that the index rate increases 2% in one year and the ARM rate rises to a level of 12%.

| <u>ARM Interest Rate</u> | <u>Monthly Payment</u> |
|----------------------------|------------------------|
| First year (w/discount) 8% | \$476.95 |
| 2nd year @ 12% | \$665.43 |

That's an increase of almost \$200 in your monthly payment. You can see what might happen if you choose an ARM because of a low initial rate. You can protect yourself from large increases by looking for a mortgage with features, described next, which may reduce this risk.

HOW CAN I REDUCE MY RISK?

Besides an overall rate ceiling, most ARMs also have “caps” that protect borrowers from extreme increases in monthly payments. Others allow borrowers to convert an ARM to a fixed-rate mortgage. While these may offer real benefits, they may also cost more, or add special features, such as negative amortization.

Interest-Rate Caps

An interest-rate cap places a limit on the amount your interest rate can increase.

Interest caps come in two versions:

- Periodic caps, which limit the interest-rate increase from one adjustment period to the next; and
- Overall caps, which limit the interest rate increase over the life of the loan.

By law, virtually all ARMs must have an overall cap. Many have a periodic interest rate cap.

Let’s suppose you have an ARM with a periodic interest rate cap of 2%. At the first adjustment, the index rate goes up 3%. The example shows what happens.

| <u>ARM Interest Rate</u> | <u>Monthly Payment</u> |
|---|------------------------|
| First year @10% | \$570.42 |
| 2nd year @ 13% (without cap) | \$717.12 |
| 2nd year @ 12% (with cap) | \$667.30 |
| Difference in 2nd year between payment with cap and payment without = \$49.82 | |

A drop in interest rates does not always lead to a drop in monthly payments. In fact, with some ARMs that have interest rate caps, your payment amount may *increase* even though the index rate has stayed the same or declined. This may happen when an interest rate cap has been holding your interest rate down below the sum of the index plus margin. If a rate cap holds down your interest rate, increases to the index that were not imposed due to the cap may carry over to future rate adjustments.

With some ARMs, payments may increase even if the index rate stays the same or declines.

To show how carryovers work, the index in the example below increased 3% during the first year. Because this ARM limits rate increases to 2% at any one time, the rate is adjusted by only 2%, to 12% for the second

| <u>ARM Interest Rate</u> | <u>Monthly Payment</u> |
|--|------------------------|
| First year @ 10% | \$570.42 |
| If index rises 3% . . . | |
| 2nd year @ 12% (with 2% rate cap) | \$667.30 |
| If index stays the same for the 3rd year @ 13% | |
| | \$716.56 |
| Even though the index stays the same in 3rd year, payment goes up \$49.26 | |

year. However, the remaining 1% increase in the index carries over to the next time the creditor can adjust rates. So when the creditor adjusts the interest rate for the third year, the rate increases 1%, to 13%, even though there is no change in the index during the second year.

In general, the rate on your loan can go up at any scheduled adjustment date when the index plus the margin is higher than the rate you are paying before that adjustment.

The next example shows how a 5% overall rate cap would affect your loan.

| <u>ARM Interest Rate</u> | <u>Monthly Payment</u> |
|-------------------------------|------------------------|
| First year @ 10% | \$570.42 |
| 10th year @ 15% (with cap) | \$813.00 |

Let's say that the index rate increases 1% in each of the first ten years. With a 5% overall cap, your payment would never exceed \$813.00—compared to the \$1,008.64 that it would have reached in the tenth year based on a 19% interest rate.

Payment Caps

Some ARMs include payment caps, which limit your monthly payment increase at the time of each adjustment, usually to a percentage of the previous payment. In other words, with a 7½% payment cap, a

payment of \$100 could increase to no more than \$107.50 in the first adjustment period, and to no more than \$115.56 in the second.

Let's assume that your rate changes in the first year by 2 percentage points, but your payments can increase by no more than 7½% in any one year. Here's what your payments would look like:

| <u>ARM Interest Rate</u> | <u>Monthly Payment</u> |
|--|------------------------|
| First year @10% | \$570.42 |
| 2nd year @ 12% (without payment cap) | \$667.30 |
| 2nd year @ 12% (with 7½% payment cap) | \$613.20 |
| Difference in monthly payment = \$54.10 | |

Many ARMs with payment caps do not have periodic interest rate caps.

Negative Amortization

If your ARM contains a payment cap, be sure to find out about “negative amortization.” Negative amortization means the mortgage balance increases. This occurs whenever your monthly mortgage payments are not large enough to pay all of the interest due on your mortgage.

Because payment caps limit only the amount of payment increases, and not interest-rate increases, payments some-

times do not cover all of the interest due on your loan. This means that the interest shortage in your payment is automatically added to your debt, and interest may be charged on that amount. You might therefore owe the lender more later in the loan term than you did at the start. However, an increase in the value of your home may make up for the increase in what you owe.

The next illustration uses the figures from the preceding example to show how negative amortization works during one year. Your first 12 payments of \$570.42, based on a 10% interest rate, paid the balance down to \$64,638.72 at the end of the first year. The rate goes up to 12% in the second year. But because of the 7 ½% payment cap, payments are not high enough to cover all the interest. The interest shortage is added to your debt (with interest on it), which produces negative amortization of \$420.90 during the second year.

Beginning loan amount = \$65,000

Loan amount @ end of first year =
\$64,638.72

Negative amortization during 2nd year =
\$420.90

Loan amount @ end of 2nd year =
\$65,059.62 (\$64,638.72 + \$420.90)

(If you sold your house at this point, you would owe almost \$60 more than the amount you originally borrowed.)

To sum up, the payment cap limits increases in your monthly payment by deferring some of the increase in interest. Eventually, you will have to repay the higher remaining loan balance at the ARM rate then in effect. When this happens, there may be a substantial increase in your monthly payment.

Some mortgages contain a cap on negative amortization. The cap typically limits the total amount you can owe to 125% of the original loan amount. When that point is reached, monthly payments may be set to fully repay the loan over the remaining term, and your payment cap may not apply. You may limit negative amortization by voluntarily increasing your monthly payment.

Be sure to discuss negative amortization with the lender to understand how it will apply to your loan.

Prepayment and Conversion

If you get an ARM and your financial circumstances change, you may decide that you don't want to risk any further changes in the interest rate and payment amount. When you are considering an ARM, ask for information about prepayment and conversion.

Prepayment. Some agreements may require you to pay special fees or penalties if you pay off the ARM early. Many ARMs allow you to pay the loan in full or in part without penalty whenever the rate is adjusted. Prepayment details are sometimes negotiable. If so, you may want to negotiate for no penalty, or for as low a penalty as possible.

Conversion. Your agreement with the lender can have a clause that lets you convert the ARM to a fixed-rate mortgage at designated times. When you convert, the new rate is generally set at the current market rate for fixed-rate mortgages.

The interest rate or up-front fees may be somewhat higher for a convertible ARM. Also, a convertible ARM may require a special fee at the time of conversion.

WHERE TO GET INFORMATION

Before you actually apply for a loan and pay a fee, ask for all the information the lender has on the loan you are considering. It is important that you understand index rates, margins, caps, and other ARM features like negative amortization. You can get helpful information from advertisements and disclosures, which are subject to certain federal standards.

Advertising

Your first information about mortgages probably will come from newspaper advertisements placed by builders, real estate brokers, and lenders. While this information can be helpful, keep in mind that the ads are designed to make the mortgage look as attractive as possible. These ads may play up low initial interest rates and monthly payments, without emphasizing that those rates and payments later could increase substantially. So, get all the facts.

A federal law, the Truth in Lending Act, requires mortgage advertisers, once they begin advertising specific terms, to give further information on the loan. For example, if they want to show the interest rate or payment amount on the loan, they must also tell you the annual percentage rate (APR) and whether that rate may go up. The APR, the cost of your credit as a yearly rate, reflects more than just a low initial rate. It takes into account interest, points paid on the loan, any loan origination fee, and any mortgage insurance premiums you may have to pay.

Ads may play up low initial rates. Get all the facts.

Disclosures From Lenders

Federal law requires the lender to give you information about ARMs, in most cases before you apply for a loan. The lender also is required to give you information when you apply for a mortgage. You should get a written summary of important terms and costs of the loan. Some of these are the finance charge, the APR, and the payment terms.

Read information from
lenders—and ask questions—
before committing yourself.

Selecting a mortgage may be the most important financial decision you will make, and you are entitled to all the information you need to make the right decision. Don't hesitate to ask questions about ARM features when you talk to lenders, real estate brokers, sellers, and your attorney, and keep asking until you get clear and complete answers. The checklist at the back of this pamphlet is intended to help you compare terms on different loans.

GLOSSARY

Adjustable-Rate Mortgage (ARM)

A mortgage where the interest rate is not fixed, but changes during the life of the loan in line with movements in an index rate. You may also see ARMs referred to as *AMLs (adjustable-mortgage loans)* or *VRMs (variable-rate mortgages)*.

Annual Percentage Rate (APR)

A measure of the cost of credit, expressed as a yearly rate. It includes interest as well as other charges. Because all lenders follow the same rules to ensure the accuracy of the APR, it provides consumers with a good basis for comparing the cost of loans, including mortgages.

Assumability

When a home is sold, the seller may be able to transfer the mortgage to the new buyer. This means the mortgage is assumable. Lenders generally require a credit review of the new borrower and may charge a fee for the assumption. Some mortgages contain a *due-on-sale* clause, which means that the mortgage may not be transferable to a new buyer. Instead, the lender may make you pay the entire balance that is due when you sell the home. Assumability can help you attract buyers if you sell your home.

Buydown

With a buydown, the seller pays an amount to the lender so that the lender can give you a lower rate and lower payments, usually for an early period in an ARM. The seller may increase the sales price to cover the cost of the buydown. Buydowns can occur in all types of mortgages, not just ARMs.

Cap

A limit on how much the interest rate or the monthly payment can change, either at each adjustment or during the life of the mortgage. Payment caps don't limit the amount of interest the lender is earning, so they may cause *negative amortization*.

Conversion Clause

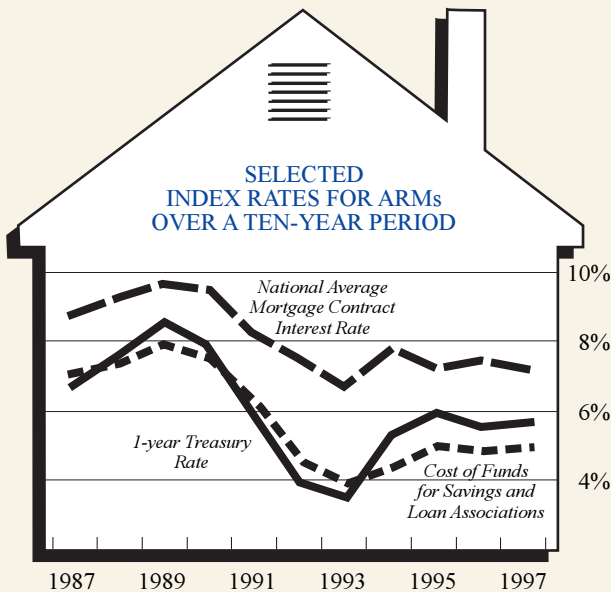
A provision in some ARMs that allows you to change the ARM to a fixed-rate loan at some point during the term. Usually conversion is allowed at the end of the first adjustment period. At the time of the conversion, the new fixed rate is generally set at one of the rates then prevailing for fixed-rate mortgages. The conversion feature may be available at extra cost.

Discount

In an ARM with an initial rate discount, the lender gives up a number of percentage points in interest to give you a lower rate and lower payments for part of the mortgage term (usually for one year or less). After the discount period, the ARM rate will probably go up depending on the index rate.

Index

The index is the measure of interest rate changes that the lender uses to decide how much the interest rate on an ARM will change over time. No one can be sure when an index rate will go up or down. To help you get an idea of how to compare different indexes, the following chart shows a few common indexes over a ten-year period (1987-97). As you can see, some index rates



tend to be higher than others, and some more volatile. (But if a lender bases interest rate adjustments on the average value of an index over time, your interest rate would not be as volatile.) You should ask your lender how the index for any ARM you are considering has changed in recent years, and where it is reported.

Margin

The number of percentage points the lender adds to the index rate to calculate the ARM interest rate at each adjustment.

Negative Amortization

Amortization means that monthly payments are large enough to pay the interest and reduce the principle on your mortgage. Negative amortization occurs when the monthly payments do not cover all the interest cost. The interest cost that isn't covered is added to the unpaid principal balance. This means that even after making many payments, you could owe more than you did at the beginning of the loan. Negative amortization can occur when an ARM has a payment cap that results in monthly payments not high enough to cover the interest due.

Points

A point is equal to one percent of the principal amount of your mortgage. For example, if you get a mortgage for \$65,000, one point means you pay \$650 to the lender. Lenders frequently charge points in both fixed-rate and adjustable-rate mortgages in order to increase the yield on the mortgage and to cover loan closing costs. These points usually are collected at closing and may be paid by the borrower or the home seller, or may be split between them.

MORTGAGE CHECKLIST

Ask your lender to help fill out this checklist.

Mortgage amount

Basic Features for Comparison

Fixed-rate annual percentage rate
(the cost of your credit as a yearly rate which includes both interest and other charges)

ARM annual percentage rate

Adjustment period

Index used and current rate

Margin

Initial payment without discount

Initial payment with discount (if any)

How long will discount last?

Interest rate caps: periodic
 overall

Payment caps

Negative amortization

Convertibility or prepayment privilege

Initial fees and charges

Monthly Payment Amounts

What will my monthly payment be
after twelve months if the index rate:

stays the same

goes up 2%

goes down 2%

What will my monthly payments be after
three years if the index rate:

stays the same

goes up 2% per year

goes down 2% per year

Take into account any caps on your mortgage and remember it may run 30 years.

