Whether you are buying a house or refinancing an existing mortgage, this information can help you decide what type of mortgage is right for you. You can choose between a traditional Fixed Rate mortgage, an Adjustable Rate mortgage, Conventional, FHA, VA or Rural Housing, or a Nontraditional mortgage.

Conventional Loans

A conventional mortgage loan is a home loan that is not insured or guaranteed by a government agency. Conventional loans are usually based on an 80% loan-to-value ratio, meaning that the borrower has made a down payment of 20%. With such a down payment, the borrower can avoid paying Private Mortgage Insurance (PMI), which protects the lender in case of default. Where PMI is needed, borrowers are required to pay the PMI premiums as part of their regular monthly mortgage until sufficient equity in the property (78% loan-to-value [LTV] ratio) is reached. Conventional mortgages that have a loan limit set by Fannie Mae and Freddie Mac are referred to as Conforming loans. Loans that exceed the Conforming loan limits are known as Jumbo mortgage loans. Rates on Jumbo loans are usually higher than those on Conforming loans.

FHA Loans

The Federal Housing Administration assists homebuyers by offering products that require lower down payments than traditional conventional loans (as low as 3.5%). For this benefit the borrower pays an upfront mortgage insurance premium, plus a monthly premium that is included with the payment.

The Section 203(b) mortgage is the most common FHA program and can be used to purchase new or existing 1-4 family homes, including manufactured homes. The FHA 203(k) mortgage allows a borrower to purchase or refinance and rehabilitate a home at least 1 year old. Part of the loan proceeds are used to purchase the home or pay off the existing mortgage, and the remaining funds are placed in an escrow account and released as the rehab work is completed.

The biggest disadvantage of FHA financing is the mortgage insurance premium (MIP). For most FHA loans, there is an upfront payment of 1.75% of the loan amount payable at closing, and a .55% per year renewal premium that is paid monthly. Like Private Mortgage Insurance (discussed above under Conventional Loans), the MIP is automatically canceled when the homeowner’s equity reaches 78%. MIP is required for at least 60 payments, even if the 78% LTV level has already been reached.

FHA also offers refinance mortgage programs. Streamline refinances do not have any credit qualifying standards and can be done with or without an appraisal. They can only be used to refinance existing FHA insured mortgages where the 12 previous mortgage payments and the current payment have not been late 30 days or more. Additionally, the refinance must result in a benefit to the borrower in the form of a lower interest rate, lower monthly payments, a shorter loan term, or a conversion from a variable-rate to a fixed-rate mortgage. On a streamline refinance without an appraisal, the new loan amount can never exceed the previous original principal balance and therefore cannot result in cash to the borrower. Loan amounts on Streamline refinances where an appraisal is obtained can include closing costs as long as the final loan amount is less than 97.75% of the appraised value.

VA Loans

VA loans are guaranteed by the U.S. Department of Veterans Affairs and allow veterans and service personnel to obtain home loans with favorable loan terms and minimal down payment. This guarantee is paid for by the veteran through a Funding Fee. Funding fees range from .5% to 3.3% of the loan amount and are determined by the loan to value, the veteran’s status and the loan purpose. Eligibility for a VA loan is determined by the Veterans
Administration and is evidenced by a Certificate of Eligibility that needs to be provided when applying for a VA loan.

The VA also offers refinance mortgage programs. Streamline refinances do not have any credit qualifying standards and do not require an appraisal. They can only be used to refinance existing VA mortgages where the mortgage is current and where no more than one payment has been late in the prior 12-month period. Additionally, the refinance must result in a benefit to the borrower in the form of a lower interest rate, lower monthly payments, a shorter loan term, or a conversion from a variable-rate to a fixed-rate mortgage. Closing costs can be included in the new loan amount, but the borrower cannot receive cash back.

VA also offers a full refinance loan that requires credit qualifying and an appraisal, but allows the borrower to receive cash from the transaction, subject to a maximum loan to value of 90%.

**Rural Housing Service (RHS) Loans**

The Rural Housing Service (RHS), which is part of the U.S. Department of Agriculture, guarantees loans to rural residents with no down payment. Only low- and moderate-income rural residents are eligible for these loans. The guarantee is paid for by the borrower through a Guarantee Fee of 2% of the loan amount. These loans require full credit, income and property qualifying.

**State and Local Housing Programs**

Many states, counties and cities offer housing finance and down payment assistance programs for low- to moderate-income persons, many of which are designed to assist first-time home buyers. Some are grant programs; others involve loans. Most of the loan programs are fixed rate, have very favorable interest rates, and usually have lower upfront fees. On some of the loan programs, repayment is forgiven after a set period of time and/or when certain other conditions are met.

**Fixed-Rate Mortgages**

Traditional fixed-rate mortgages require that each month you pay back some of the money borrowed (the principal) plus interest on the money. The interest rate will not change throughout the life of the loan. The principal you owe on your mortgage decreases over the term of the loan. Payments are based on set loan terms, such as a 15-, 30-, or 40-year payment schedule. Generally, the shorter the term of a loan, the lower the interest rate that would apply. The most popular mortgage terms are 30 and 15 years. With the traditional 30-year fixed-rate mortgage, your monthly payments are lower than they would be on a shorter-term loan. If you can afford higher payments, a 15-year fixed-rate loan accelerates principal repayment. Plus, you will save considerably on interest expense as compared to a 30-year loan.

**Advantages:**

- Principal and interest payments are steady and predictable, regardless of how interest rates change in the marketplace.
- As the principal and interest portion of your payment does not change, budgeting and financial planning are made easier.

**Disadvantages:**

- Initial principal and interest payments are higher than those of adjustable-rate mortgages.
- To benefit from an interest rate decrease, you would have to refinance and incur the costs of that refinance. This could be problematic if property values are falling.

**Borrowers Likely to Choose This Product:**

- Persons more comfortable with the safety and security of steady and predictable principal and interest payments that remain the same if interest rates rise. (Note that if the monthly payment for any mortgage
loan includes escrow amounts for taxes and insurance, your payment could change over time due to
changes in property taxes, insurance, community association, or condo fees.)

- Persons planning to keep their home (and mortgage) for longer terms.
- Persons who believe that future interest rates are likely to be higher than the current rate.

Adjustable-Rate Mortgages

An Adjustable-Rate Mortgage is generally referred to as an ARM loan. The interest rate and monthly payment on
an ARM is subject to change over the term of the loan. These changes are often set to occur annually, but could be
as seldom as every 3-5 years depending on the terms of your loan. Some ARM products combine features of a
fixed-rate loan with those of an ARM loan. The interest rate is fixed for a set initial period. For example in a 5/1
ARM, the rate is fixed for 5 years and then can vary each year thereafter based on a specific interest rate index, plus
an additional amount (margin) until the loan is paid off.

The rate changes during the life of the loan are tied to an index rate that is established at the time of application,
such as the rate for Treasury securities. Interest rates can go up on these mortgages, and depending on the terms of
the loan, may also go down. There are usually limits (caps) placed on the amount that rates can change. There are
2 types of caps. Periodic caps that limit the interest rate increase/decrease from one adjustment period to the next,
and lifetime caps that limit the interest rate increase/decrease over the life of the loan. All dwelling-secured
consumer ARM loans have a lifetime cap. Some loans also have a rate floor, being the lowest rate that can apply at
any time. More information concerning ARM loans can be found in the booklet titled “Consumer Handbook on
Adjustable Rate Mortgages”. This booklet is provided at the time you apply for an ARM loan; however, if
interested, you may request a copy at any time.

Advantages:

- Lower initial principal and interest payments.
- If rates drop, principal and interest payments may become lower without refinancing.

Disadvantage:

- Exposure to the risk of possibly significant payment increases if interest rates increase.

Borrowers Likely to Choose This Product:

- Persons who are confident that they can continue to make payments even if principal and interest amounts
  increase significantly.
- Persons who believe that rates will remain low or even decrease and wish to easily take advantage of lower
  principal and interest payments.

Nontraditional Mortgages

While nontraditional mortgage loans provide flexibility for consumers, consumers may enter into these transactions
without fully understanding the product terms. In addition to apprising consumers of the benefits of nontraditional
mortgage products, it is our policy to take appropriate steps to alert consumers to the risks of these products,
including the likelihood of increased future payment obligations.

Interest-Only Mortgages - An interest-only mortgage allows you to pay only the interest on the money you
borrowed for a predetermined initial period. This is known as the “interest-only period” (for example, the first
5 years of the loan). If you only pay the amount of interest that is due, once the interest-only periods ends:

- You will still owe the original amount you borrowed.
- Your monthly payment will increase – even if interest rates stay the same – because you must pay back
  the principal as well as interest over a reduced term.
For a fixed-rate interest-only mortgage, ask what the payments on your loan will be after the end of the interest-only period. If you are considering an adjustable mortgage, ask about what your payments can be if interest rates increase.

**Advantage:**

- Relatively low payments for a specified period of time.

**Disadvantages:**

- During the interest-only period, payments that are made do not reduce the principal amount owed on the loan.
- After the interest-only period, your monthly payment will increase, even if interest rates stay the same.
- Payment shock – your monthly payment may increase by a large amount once the interest-only period expires.
- Home equity will be built at a slower pace than with traditional fully amortizing mortgage loans.

**Borrowers Likely to Choose This Product:**

- Buyers who intend to own a home for a short time or who can handle high payments in the future (including, for instance, those whose incomes are expected to increase considerably by the time the monthly payments increase).
- Persons with sizable equity in their home and who will use the money that would go toward principal payments for other investments.

**Additional Information**

**Home Equity** – Equity is created when the value of your home increases and/or when you reduce the amount you owe on your home through your loan payments. If your home does not increase in value and you make interest-only payments, you are not building equity. This may make it harder to refinance your mortgage. If the amount you owe on your home, along with the costs associated with selling it (such as the real estate sales commissions and closing costs) exceeds the sales price, you will not receive any cash when you sell, and will have to pay additional funds to your lender or to other parties when you pay off your mortgage.

**Prepayment Penalties** – These are fees that the borrower will incur if the mortgage is fully paid during a “prepayment penalty period”. 1st Mariner mortgage products do not include provisions for such penalty. Most mortgages let you make additional principal payments with your monthly payment - - this is not “prepayment” of the entire loan, and there usually is no penalty for these extra principal payments.

**No Doc/Low Doc Loans** – Lenders often charge more for “reduced documentation” loans due to increased risk. These loans typically have higher interest rates or other costs compared to “full documentation” loans that require full verification of income and assets. By verifying income and assets, the lender ensures affordable loan payments. 1st Mariner currently does not offer No Doc/Low Doc loans.

**Payment Shock** – Your payments may increase greatly - - perhaps even double – after an interest-only period or when payments adjust. We will advise consumers of potential increases in payment obligations, including circumstances in which interest rates or negative amortization reach a contractual limit. For example, our product descriptions may state the maximum monthly payment a consumer would be required to pay under a hypothetical loan example once amortizing payments are required and the interest rate cap has been reached. Such information may also describe when structural payment changes will occur (e.g., when introductory rates expire, or when amortizing payments are required) and what the new payment amount would be or how it would be calculated. Finally, these descriptions could indicate that a higher payment may be required at other points in time due to factors such as negative amortization or increases in the interest rate index.

**Negative Amortization** – On negative amortization loans, your monthly payments may not cover all of the interest due. When that happens, the unpaid interest is added to your mortgage balance, so that you would owe more on
your mortgage than you originally borrowed. 1st Mariner currently does not offer loans that have a negative amortization feature.

Balloon Payment Feature – Some mortgages offer lower interest rates and payments for a specified period of time, generally 3 to 10 years. After that period, the full balance of the loan is due. Very few people are able to pay off their mortgage balance all at once. For this reason, borrowers usually refinance at or before the date the balloon payment is due. If you qualify, sometimes the loan can be converted into a fully amortizing loan at that time. This type of loan may be appropriate for someone who plans to sell his or her home before the date the balloon payment is due. Falling real estate prices and increasing rates can affect a borrower’s ability to refinance or otherwise pay off the balance.

Escrow Payments – The following amounts may be included in your monthly payment for the future disbursement of items such as, but not limited to, homeowner’s insurance, flood insurance, mortgage insurance and property taxes. On loans where monthly escrows are not collected, please be aware that the borrower is responsible for all tax and insurance payments. These costs can be substantive and need to be planned for in your budgeting process. When considering a mortgage loan, please ask about the escrow requirements.