HOME LOANS
bay equity®

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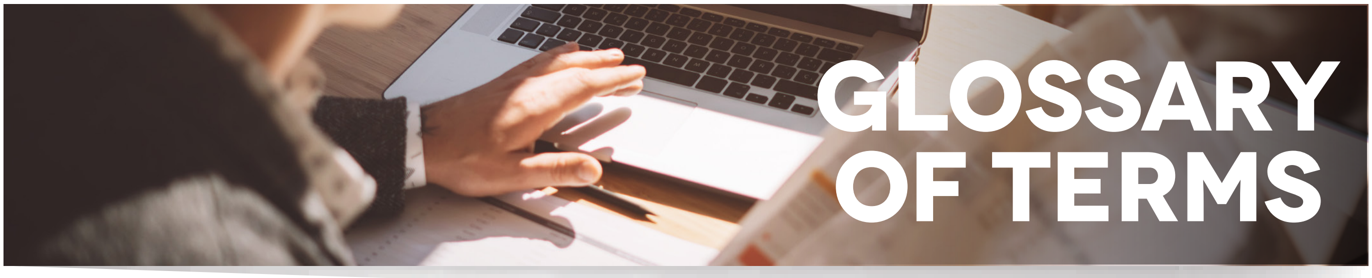


GLOSSARY OF TERMS

Adjustable Rate Mortgage (ARM)
A mortgage in which the interest rate is adjusted periodically based on a pre-selected index and margin, also referred to as the renegotiable rate mortgage.

Amortization
Means of loan payment by equal periodic payments calculated to pay o the debt at the end of taxed period, including accrued interest on the outstanding balance.

Annual Percentage Rate (APR)
The interest rate that reflects the cost of a mortgage as a yearly rate. This rate is likely to be higher than the stated note rate or advertised rate on the mortgage because it takes into account points and other credit costs. The APR allows home buyers to compare different types of mortgages based on the annual cost for each loan, however not all lenders calculate APR the same way.

Broker
This person assists in arranging funding or negotiating contracts for a client. Brokers usually charge a fee or receive a commission for their services.

Buydown
This is when the lender and/or home builder subsidizes the mortgage by lowering the interest rate during the first few years of the loan. While the payments are initially low, they increase when the subsidy expires.

Construction Loan
This is a short-term interim loan for financing the cost of construction. The lender advances funds to the builder at periodic intervals as the work progresses.

Discount Points
Prepaid interest assessed at closing by the lender. Each point is equal to 1% of the loan amount. i.e. two points on a $100,000 mortgage would equal $2,000. Discount points are charged to reduce the interest rate.

Down Payment Assistance Program (DPA)
Down Payment Assistance Programs are funds given to buyers to assist with the purchase of a home. Buyers do not have to repay these funds. There are two types of DPAs: those involving seller contributions and those provided by the government which are usually local programs.

Earnest Money
Money given by a buyer to a seller as part of the purchase price to bind a transaction or assure payment.

FHA Loan
A loan insured by the Federal Housing Administration open to all qualified home purchasers. While there are limits to the size of FHA loans, they are generous enough to handle moderately priced homes almost anywhere in the country.

FHA Mortgage Insurance
All types of Mortgage Insurance protect the lender in the event of default. There are two types of FHA Mortgage Insurance — **Up-front Mortgage Insurance (MIP)**, paid at closing and **Monthly Mortgage Insurance**, paid monthly with the mortgage payment. Upfront premiums range from 1.25% to 2.25% of the loan amount and monthly premiums range from 0.50% to 0.55%, depending on the borrower's credit score and the loan-to-value ratio.

GLOSSARY OF TERMS

First-Time Homebuyer Program
Mortgage loans with special qualifying terms for those who have never owned real estate or have not in the previous three years. Although the programs and terms vary by state, they often offer down payment and closing cost assistance.

Impound/Escrow Account
That portion of a borrower's monthly payments held by the lender or servicer to pay for taxes, hazard insurance, mortgage insurance, lease payments, and other items as they become due. Also known as reserves.

Index
A published interest rate against which lenders measure the difference between the current interest rate on an adjustable rate mortgage and that earned by other investments (such as one-year, three-year, and five-year US Treasury Security yields, the monthly average interest rate on loans closed by savings and loan institutions, and the monthly average Costs-of-Funds incurred by savings and loans) which is then used to adjust the interest rate on an adjustable mortgage up or down.

Loan Level Price Adjustments (LLPAs)
Loan-Level Price Adjustments are automatic, cumulative fees based on credit scores and the amount of your down payment. Fannie Mae (FNMA) and Freddie Mac (FHLMC) levy these fees on borrowers with credit scores below 720. They have nothing to do with the mortgage company or its various products and cannot be negotiated away.

Margin
The amount a lender adds to the index on an adjustable rate mortgage to establish the adjusted interest rate.

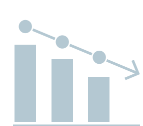
Mortgage Insurance (MI)
Money paid to insure the mortgage when the down payment is less than 20%. See Private Mortgage Insurance or FHA Mortgage Insurance.

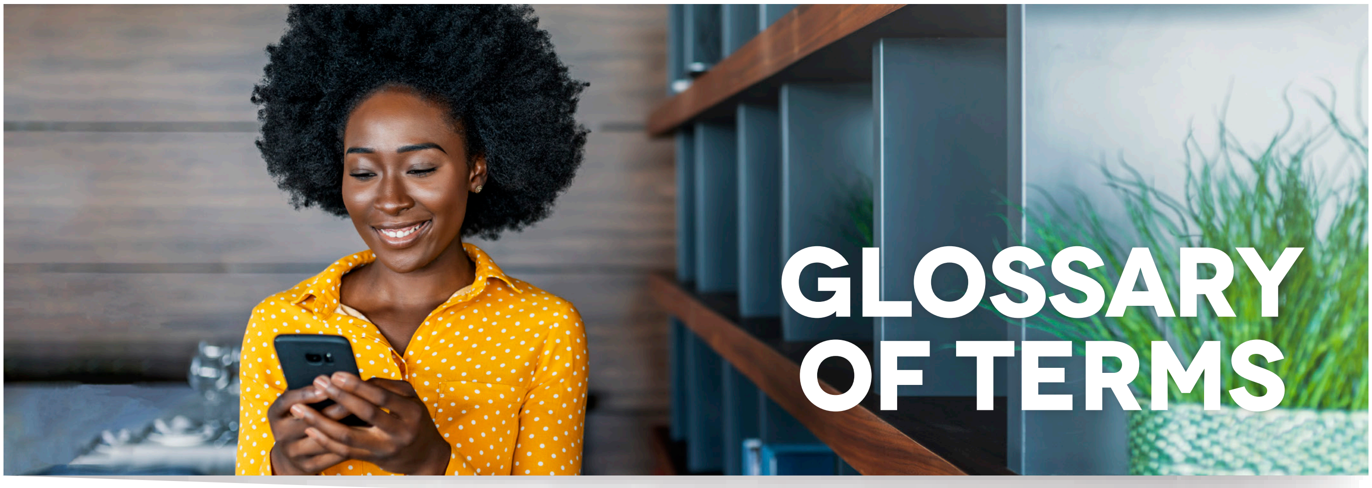
Negative Amortization
Negative amortization occurs when the monthly payments are not large enough to pay all of the unpaid balance of the loan, therefore increasing the loan balance and going in a "negative" direction. In this particular scenario, a borrower can literally end up owing more money than they originally borrowed. The reason that this occurs is because on a negatively amortized loan, the borrower is given several different payment options.

OPTION 1: To pay what is known as the fully indexed payment. This is the margin plus index on the adjustable. This payment, which is typically the highest of the options, will prevent you from going negative.

OPTION 2: An interest only payment. You would not be going negative by making this payment either, but you would not be decreasing the principal balance on your loan. This is because you are paying only the interest portion and no additional principal to your loan.

OPTION 3: The negatively amortized payment. This option most often gets people into trouble. This is a payment does not cover the principal and does not cover all of the interest owed on the monthly payment, therefore accruing negative equity as a result.





Origination Fee
Fee charged by a lender to cover the cost of processing a loan.

PITI
Also known as total monthly housing expense, this is an acronym for the principal, interest, taxes and insurance.

Piggy Back Loan
"Piggy Back Loan" is a slang term, which really is another way of describing 1st and 2nd mortgages that close concurrently. In today's mortgage lending environment, obtaining a piggy back loan can be very difficult if a borrower has less than 20% for a down payment. In such instances, obtaining one mortgage with Private Mortgage insurance may be the only option. See Private Mortgage Insurance below.

Private Mortgage Insurance
In the event that you do not have a 20% down payment, the lender may allow a smaller down payment, sometimes as low as 3%. However, with a smaller down payment, borrowers are usually required to carry private mortgage insurance on the loan. Private mortgage insurance comes in two forms - upfront, paid at closing; and monthly. A lender may require some combination of both upfront and monthly mortgage insurance. The amount required is determined based on program type, property type, credit score and loan-to-value ratio.

Title Insurance
Title Insurance protects a real estate owner or lender against any loss or damage they might experience because of liens, encumbrances, or defects in the title to the property, or the incorrectness of the related search. It protects against claims from various defects such as another person claiming an ownership interest, improperly recorded documents, fraud, forgery, liens, encroachments, easements and other items that are specified in the actual policy.

Underwriting
Approves (or declines) funding to potential home buyers, based upon factors such as credit, employment, assets, etc., and matches approved risks with appropriate rates, terms and loan amounts.

VA Loan
Mortgage loans available to eligible U.S. Veterans. VA guaranteed loans are made by private lenders, such as banks or mortgage companies, for the purchase of a home for a buyer's own personal occupancy. These loans offer competitive rates and require little or no down payment.

EQUAL HOUSING LENDER

Equal Housing Lender. This is not a commitment to lend or extend credit. Restrictions may apply. Rates may not be available at time of application. Information and/or data are subject to change without notice. All loans are subject to credit approval. Not all loans or products are available in all states. Bay Equity LLC, 770 Tamalpais Drive, Suite 207, Corte Madera, CA 94925; NMLS ID#76988. Massachusetts Mortgage Lender License #MC76988, Mortgage Broker License #MC76988. NMLS consumer access: www.nmlsconsumeraccess.org BEKG-200514-2.0