

Home Financing Strategies



Cash Flow Management Made Easy

Managing cash flow represents one of life's ultimate and never ending challenges. Among the countless daily expenses tapping one's take-home pay, the mortgage payment still remains the largest fixed monthly expense for most homeowners. Yet, after finally buying one's dream home, the on-going financial demands that come with maintaining these properties often creates a never-ending struggle between creating funds and living the American dream.

The Cashflow Option Solution

The Cashflow Option Loan is a unique, portfolio adjustable rate mortgage product that is designed to work within a homeowner's ever-changing lifestyle. The Cashflow Option Loan eliminates the need for tapping alternate credit sources in order to create spend-able cash.

Each month, Cashflow Option Loan borrowers receive a statement presenting four different payment options: Minimum Payment, Interest-Only Payment, and Fully Amortized Payments for 15 and 30 years. The borrower chooses the payment option that fits best within that month's budget. For example, the minimum payment option might help to stretch cash to fund a vacation, tuition expenses, or help pay for home improvements. Next month, a different payment option might be best based on cash requirements at that time.

Pay What You Want

Mastering the Cashflow Option Loan mechanics is the key to understanding the flexible monthly payment options.

A Minimum Payment is set at an initial start rate which is significantly lower than the fully indexed rate. This payment is fixed for 12 months. Subsequent minimum payment changes are a function of the unpaid balance plus any accrued interest, the remaining term of the loan, and the maximum payment change permitted (not to exceed 7.50% increase or decrease of the former Minimum Payment amount).

Because the Minimum Payment is generally lower than the fully indexed payment, deferred interest may result when this payment is less than the interest required based on the fully indexed rate. Any deferred interest accrues in a separate deferred interest account. The accrued deferred interest is itemized separately on the monthly statement,

and any portion of the deferred interest may be paid-off at any time. Should the borrower continue to defer interest, the total of the unpaid balance plus deferred interest may never exceed 110% of the original loan balance. Should the 110% balance cap be reached, the loan will require Fully Amortized Payments.

Interest-Only Payment is the monthly, simple interest payment based on the total of the unpaid balance plus any accrued interest, and the fully indexed rate (i.e., one-month LIBOR index plus margin). *This payment is not available when it is less than the minimum payment.*

15 and 30-Year Fully Amortized Payments are the monthly, amortized payments based on the unpaid balance plus any accrued interest, the fully indexed rate (i.e., one-month LIBOR index plus margin) and the remaining months of the loan based on the 15 or 30-year term.

A Solid Foundation

The 1-Month LIBOR index is the benchmark in the calculation of each payment option. LIBOR is the acronym for London InterBank Offered Rate. LIBOR is the base interest rate paid on deposits between banks in the Eurodollar market. The Eurodollar has been around for over 40 years and is a major component of the international financial market.

LIBOR is a widely monitored international interest rate indicator. Both Fannie Mae and Freddie Mac use LIBOR as an index on the loans they purchase. LIBOR is published daily in most financial publications and on numerous financial Internet sites. The LIBOR rate quoted in the Wall Street Journal is an average of rate quotes from five major banks; Bank of America, Barclays, Bank of Tokyo, Deutsche Bank and Swiss Bank. In the last 10 years (June 1993 - May 2003), the 1-Month LIBOR index has averaged 4.701%.



Picture This...

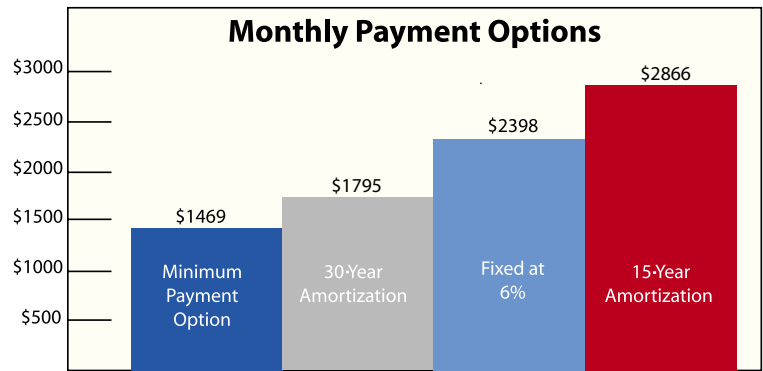
John and Mary Homeowner purchase a \$500,000 home and finance a \$400,000 Cashflow Option Loan. Based on the current low 1.95%* introductory rate, their first month's payment is only \$1,469. Prior to their second payment they receive a statement presenting the following payment options. The *Minimum Payment* option is \$1,469 and will remain available for the first year. The *Fully Amortized Payments* are \$1,795 for a 30-year amortization and \$2,866 for a 15-year amortization, based on a fully indexed rate of 3.50% as of May 31, 2003.

The Minimum Payment option reduces their monthly housing obligation by \$326 per month or \$3,586 during the first year compared to the 30-year Fully Amortizing Payment option.

After moving into their new home, John and Mary decide to re-landscape their yard. To stretch their operating cash during this period, the \$1,469 Minimum Payment could enable them to create \$1,956 in additional cash flow over six months. Should they decide to delay their project until next year, John and Mary can decide to pay the Fully Amortized Payment of \$1,795. The choice is completely theirs.

Based on their \$400,000 Cashflow Option Loan, the 110% balance cap would permit John and Mary to defer up to \$40,000 and still remain under a 90% LTV based on their original purchase price. Had they selected the *Interest-Only Payment* option, all interest for that payment period would be paid in full and no deferred interest would accrue.

Had John and Mary obtained a 6.00%, fixed rate mortgage instead, their monthly payment would be \$2,398—\$929 more than the Cashflow Option Loan's Minimum Payment amount. With a fixed rate mortgage they would need to fund their project using personal cash assets, a home equity line or unsecured credit card(s) charging higher interest rates. With their Cashflow Option Loan, they are able to create the additional cash they need, when they need it.



Cashflow Advantage

The Cashflow Option Loan is a creative mortgage that can be used to create cash when needed. The Cashflow Option Loan offers the solid reputation of the 1-Month LIBOR index. Each month it offers payment flexibility that allows homeowners the opportunity to stretch cash as needed without having to tap more expensive financing options. These flexible payment options present a built-in home equity line that can be tapped when needed. Deferred interest may be repaid when desired and the balance protection cap ensures that deferred interest is managed responsibly. For LTVs greater than 80%, the Cashflow Option Loan builds-in the cost of mortgage insurance and thereby creates potential interest deductibility for this expense. Together these benefits make the Cashflow Option Loan a wise financial choice.

Important Disclosures:

1 This example illustrates payment terms for a 30-year adjustable-rate Cashflow Option 1-Year Fixed Payment Loan, based on a \$400,000 home purchase with a 25% down payment, a \$300,000 mortgage and a discounted Interest Rate of 1.95% for the first month, in effect as of 5/31/03. The Interest Rate adjusts monthly based on the 1-month LIBOR index plus a Margin, set at 2.20% in this example. With a 1.319% LIBOR rate, this would make the fully indexed Rate 3.50%, which is a 3.537% annual percentage rate. (The APR may vary.) The following payment examples assume that the fully indexed rate, the Index plus the Margin, remains constant throughout the life of the loan; rates can increase during the life of the loan. Rates used in this example are not guaranteed and are subject to change without notice.

Using the assumptions above and a fully indexed rate that remains constant throughout the life of the loan, here are examples of the payment choices:

- The Minimum Payment for the first year would be \$1101 based upon the discounted 1.95% Interest Rate. After the first year, the Minimum Payment could increase or decrease, but any payment change would be limited to 7.5% each year until the end of the 5th year, and

every 5th year thereafter, when the Minimum Payment is recalculated using the current fully indexed rate without regard to the 7.5% payment cap.

- The Interest-Only Payment option is not available for the first month. For the remainder of the term, the interest-only payment would be \$873 at the fully indexed rate. However, the Interest-Only Payment option is not available when it is less than the Minimum Payment.
- There is also the option of making amortizing payments based upon a 30- or 15-year term beginning in the second month. For the 30-year term, such a payment would be \$1347 at the fully indexed rate. For the 15-year term, the payment would be \$2149 at the fully indexed rate.

Payments may revert to fully amortizing over the remainder of the loan term if the outstanding loan amount reaches 110% of the initial loan amount due to deferred interest.

2 Consult your tax advisor regarding the deductibility of interest paid on your mortgage and the effect of deferred interest for your specific tax situation.