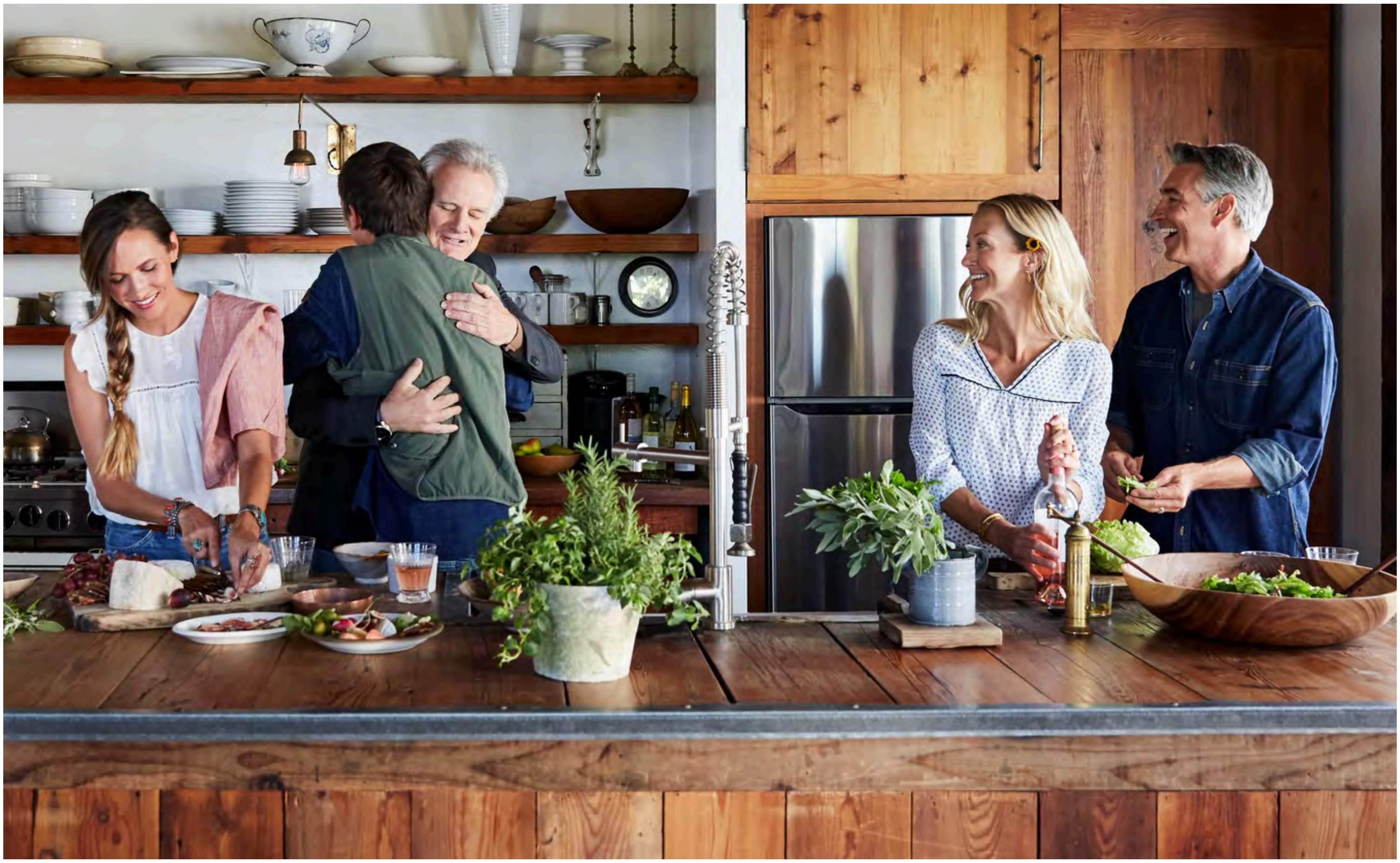


IMPORTANT INFORMATION

A Guide to
Family Mortgages

The smart way to manage mortgage loans between family members.

This guide is all about how an intra-family mortgage loan can help someone:

Buy a Home

Buy a Relative's Home

Reverse Mortgage

If you would like to learn more about how our products and services can assist with the two other scenarios featured above, please go back to our website and download the appropriate free guide.

We support intra-family Seller Finance loans in the following US states:

Alabama, Arizona, California, Colorado, Connecticut, Delaware, District of Columbia, Florida, Georgia, Illinois*, Indiana, Kentucky, Louisiana, Massachusetts, Maine, Maryland, Michigan, Minnesota, Missouri, New Hampshire, New Jersey, New Mexico, New York, North Carolina, Oregon, Pennsylvania, South Carolina, Tennessee, Texas, Utah, Vermont, Virginia, Washington, Wisconsin.

(This means the property being sold is located in one of the US states listed directly above.)

* If you wish to structure a loan and the Borrower's subject property is located in Cook County, Kane County, Peoria County, or Will County, unfortunately, we cannot help you.

If you wish to structure a loan and the property being sold is not located in one of the US states listed directly above, unfortunately, we cannot help you.

Please read our company "Standards" on Page 5 for complete restrictions and limitations.

Table of Contents

THE LEGAL FINE PRINT

About Us

At a Glance

Loans funded to date: Over $1,000,000,000

Total interest kept in families: Over $500,000,000

Smallest loan to date: $11,100

Largest loan to date: $3,225,000

We are not a bank. We are not your attorney, financial advisor, or accountant. (Although, we'd love to meet them.) We are a niche online company that serves families who are thinking about borrowing, lending, or gifting money with relatives to help purchase a home, stay in a home, or buy a relative's home. Our customers directly invest in and borrow from their own family, avoiding the high cost and red-tape of a broken mortgage system.

Since launching in late 2010, National Family Mortgage ® solutions have helped thousands of families across the US lend over **$1 Billion** in home loans between relatives, while keeping over **$500 Million** of interest within families. We've been featured on the front page of USA Today, we've won some pretty big awards, and we've saved (and made) our customers a lot of money.

Real estate loans and financial gifts with relatives can be a win-win for both sides, but should always be documented. A National Family Mortgage ® helps minimize the legal, tax, and personal consequences that can occur when family real estate loans and financial gifts are handled informally — or not documented at all.

Mortgage Loans That Fit You

Loans and mortgages between family members reflect an age-old impulse to lend a helping hand. Family loans are typically used for big life events: to buy a home, to start a business, or to finance an education. But, mixing money and relationships can be awkward, and sometimes, even cause legal problems. We're here to help.

A National Family Mortgage ® helps families setup their own mortgage with their own relatives. We help Lenders make loans they feel good about, that help prevent legal and tax problems, that protect relationships, and get repaid. We help Borrowers realize their home ownership dreams and stay on track with mortgage payments.

Lenders generate a solid investment return at stronger rates than they would earn in a bond, money market, or a savings account, knowing their money is secured by a registered mortgage lien. Borrowers get a lower interest rate and lower fees than they would with an institutional mortgage loan. We call it a Win-Win Mortgage ®!

Some families use National Family Mortgage ® to simply prevent IRS scrutiny of federal gift tax returns. Other families use National Family Mortgage ® to protect family wealth in the event of a Borrower's death or divorce.

A National Family Mortgage ® can provide the legal structure and tax benefits of a bank mortgage with an unmatched flexibility that fosters a true win-win transaction for the entire family.

Best of all, a National Family Mortgage ® helps families build wealth and keep money where it belongs — with their own family.

Our goal is to make Family Mortgage lending and borrowing safe, easy, secure, and successful.

Hopefully, this guide will give you a clear understanding about what we do and how we do it!

Seller Finance Company Standards

In order to provide the greatest number of clients efficient, exceptional service, we target specific, common Family Mortgage transactions that allow us to offer a strong value. We sincerely believe that we're the best at what we do, but sometimes, we're simply not the right solution. We're okay with this. Sometimes, complex real estate transactions require the exclusive expertise of a local attorney or other applicable service providers.

Please review our Standards below to help determine if your transaction falls within our service model.

If we're the right fit, everything you need to know is in this guide. Thank you for your time and we look forward to helping you!

THE LOAN PARTIES

A National Family Mortgage ® only supports loans between immediate family members as defined below.
We cannot support the creation of backdated Loan Documents or the creation of Loan Documents after-the-fact.

All Borrowers and Lenders/Sellers must be US residents and have either a US Social Security Number or Tax ID Number. The Lender and at least one Borrower must share one of the following relationship dynamics, including adoptive and step relationships:

Grandparent <> Grandchild **Sibling <> Sibling**
Parent <> Child **Aunt/Uncle <> Nephew/Niece**

If the Lender/Seller is legally married and lending personally, then their spouse must also appear on the loan as Lender #2. Likewise, if the Borrower is legally married, then their spouse must also appear on the loan as Borrower #2 and also appear on the deed / title of the subject property.

Loans may also be made from or to a Trust, (Family, Irrevocable/Revocable, Living, Realty), provided the Grantor/Trustee of the Trust and at least one counter-party (Borrower/Lender) share one of the family relationship dynamics listed directly above.

We do not support loans between Spouses, Ex-Spouses, Cousins, Godparents/Godchildren, Friends, Colleagues, or loans to or from family-owned FPs, FLPs, LLCs, LPs, LLPs, PLLCs, S-Corps, Land Trusts, Life Estates, or Self-Directed IRAs.

The Lender/Seller may not co-own the subject property with the Borrower.

Borrower signature via Power of Attorney is not supported.

International notarization of Loan Documents is not supported.

THE LOAN PURPOSE: TO SELLER FINANCE RESIDENTIAL REAL ESTATE

We support Intra-Family Seller Finance Loans in the following US states:

Alabama, Arizona, California, Colorado, Connecticut, Delaware, District of Columbia, Florida, Georgia, Illinois*, Indiana, Kentucky, Louisiana, Massachusetts, Maine, Maryland, Michigan, Minnesota, Missouri, New Hampshire, New Jersey, New Mexico, New York, North Carolina, Oregon, Pennsylvania, South Carolina, Tennessee, Texas, Utah, Vermont, Virginia, Washington, Wisconsin.

This means the property being sold is located in one of these states listed directly above.

* If the subject property is located in Cook, Kane, Peoria, or Will County, unfortunately, we cannot help you.

Standards continued >

Standards continued >

Company Standards

Buying a home from a relative isn't too different from buying a home from anyone else. All Seller Finance transactions are considered "Private Financing" and the Loan Documents must be included in the Buyer's / Seller's settlement with the local closing attorney, title company, or escrow company, that will otherwise conduct the Buyer's / Seller's real estate settlement. The type of settlement agent is determined by state regulations and customs.* It is the settlement agent's responsibility conduct a title search on the property, generate and register a new warranty deed, and to oversee and confirm the execution of the Loan Documents and the government registration of the real estate lien.

* If the property being sold is in Texas, we require the real estate closing must be conducted by either a Texas law firm or a Fee Attorney. A Fee Attorney refers to a lawyer who has entered into a contractual relationship with a title insurance company, or who serves as an agent of a title insurance company, to close real estate transactions on its behalf in exchange for a portion of the title insurance premium.

THE PROPERTY DETAILS

All intra-family Loans will be secured by a residential single-family home, condominium, or townhouse located in the US. Single-family homes may include a properly permitted Accessory Dwelling Unit (ADU).

The property may be the Borrower's primary residence, secondary residence (vacation home), or an investment (rental) property.

All intra-family loans will be secured by a Promissory Note and the proper state and county specific real estate lien as either a primary lien or a secondary lien, including any Riders and Addenda as appropriate.

Mortgage | Deed of Trust | Security Deed (One of these three lien types will be used, as required by state law.)

We **do not** support Loans secured by the following types of properties, especially when zoned as such by local authorities:

Agricultural / Farm Land	Co-Operatives	Commercial / Retail Property
Duplex / Multi-Family Property	Foreclosure Properties and/or Short-Sales	Leasehold Properties
Forest, Mountain, Rural Property	Intentional Communities	Vacant Land
Manufactured Homes	Mobile Homes / Tiny Homes	
Tenant in Common Property	Relocation Properties (Corporate Relocation Package)	

We **do not** support transactions documented under the following circumstances or agreements:

Construction Loans	Contract for Deed	Wrap-Around Mortgages
Lease to Purchase Agreements	Leasehold Agreements	

THE LOAN TEMPLATES

We currently offer two intra-family home purchase loan products with three available Loan Templates:

The Win-Win Mortgage ® : Amortized Template (Fixed payment of Principal & Interest) or Amortized Template with Balloon

The Gift Mortgage ® : Interest-Only Template

All intra-family loans must meet or exceed the proper IRS Applicable Federal Rate at the time the Loan is made.

All intra-family loan repayment periods and/or amortization period must be between 1 – 30 years.

All intra-family loan late payment fees charged to the Borrower shall be a minimum of 1.00% and a maximum of 3.00% of the Borrower's standard monthly payment amount.

Standards continued >

Company Standards

Standards continued >

All intra-family loans include a payment grace period of 15 days.

All intra-family loans have no pre-payment penalty.

We do not allow backdated Loan Documents or permit the creation of Loan Documents after-the-fact.

LOAN SERVICING POWERED BY FCI LENDER SERVICES, INC.

We highlight optional Loan Servicing powered by FCI Lender Services, Inc. for Loan Documents generated through our software platform. If you've already documented your intra-family loan some other way, and are only interested in the Loan Servicing, we can't help you.

LOAN SETUP FORM SUBMISSION

The Loan Setup Form should be submitted no more than three weeks before the projected real estate closing date / settlement date, and no less than two weeks before the projected real estate closing / settlement date.

Either the Borrower or the Lender/Seller may submit our online Setup Form and submit our one-time setup fee, with the following exceptions:

(1) If the subject property is in Kentucky, Maryland, Texas, or Virginia, then the Borrower must submit the online Setup Form and submit our one-time setup fee.

Each individual Borrower and Lender/Seller must have their own, unique email address.

THESE STANDARDS ARE NOT ALL INCLUSIVE AND YOUR UNIQUE OR UNUSUAL CIRCUMSTANCE MAY NOT BE SUPPORTED BY OUR PLATFORM. WE DON'T MAKE ANY EXCEPTIONS TO THESE STANDARDS. IF YOUR SPECIFIC, UNIQUE TRANSACTION IS NOT SUPPORTED BY OUR PLATFORM, PLEASE CONSULT A LOCAL ATTORNEY OR OTHER APPLICABLE SERVICE PROVIDER FOR HELP.

NATIONAL FAMILY MORTGAGE AS FEATURED BY:

The Documents

What Does This Cost?

Setup Fee	$2100	$1725	$1425	$1075	$875	$725
Loan Size	$1,000,000+	$500K+ - $1M	$300K+ - $500K	$200K+ - $300K	$100K+ - $200K	$1 - $100K

What Does This One-Time Setup Fee Include?

- ☑ **Dedicated Family Mortgage Team Member.** Your family will be assigned a dedicated Family Mortgage Team Member to guide you throughout the entire process. We help families take the simple, often overlooked steps that make sense when borrowing or lending money with a family member. Mortgage loans can be especially tricky. What's the secret to our success? Experienced, friendly, and reliable support from our team — every step of the way! We are also happy to connect with your financial planner, tax consultant, or estate attorney to ensure an easy and efficient Family Mortgage experience.

- ☑ **Promissory Note.** The Promissory Note is the core document that establishes the legal debt between the Borrower and Lender, and defines how that debt is going to be repaid. This document also helps the Lender demonstrate to the IRS that the family exchange of money (real estate value) is a legitimate loan and not a potentially reportable gift. The Promissory Note also includes the Borrower's projected payment schedule.

- ☑ **Mortgage / Deed of Trust / Security Deed.** This important additional document is the real estate lien security instrument through which the Borrower offers their property as collateral to the Lender in exchange for the loan. Generically, nearly all folks will refer to a real estate lien as a "Mortgage." However, while roughly 1/2 of the US uses a real estate lien document literally called the Mortgage, the other 1/2 of the US technically uses a real estate lien document called the Deed of Trust. Georgia, uses a real estate lien document called the Security Deed. The proper government registration of the real estate lien allows a Borrower to claim the popular IRS interest deduction on primary residence purchase money debt.

- ☑ **Coordination with Borrower's Settlement Agent.** National Family Mortgage ® will coordinate scheduling details and expectations with Borrower's/Seller's closing attorney, title company, or escrow company that will otherwise conduct the Borrower's real estate settlement. Please note, there is generally only one settlement agent, be it an attorney, title company, or an escrow company. The type of settlement agent is determined by state regulations and customs.* As with an institutional lender, the settlement agent is responsible for ensuring the execution of the Loan Documents and for the recording of the real estate lien with the local government authority (Register of Deeds, County Clerk Recorder, Town Hall, etc.) Of course, the "Family Bank" deserves to be equally protected as a commercial lending institution!

  * If the property being sold is in Texas, we require the real estate closing must be conducted by either a Texas law firm or a Fee Attorney. A Fee Attorney refers to a lawyer who has entered into a contractual relationship with a title insurance company, or who serves as an agent of a title insurance company, to close real estate transactions on its behalf in exchange for a portion of the title insurance premium.

NFM offers a 90 day refund of your purchase, valid at any time prior to either the execution of or the government registration of the Mortgage Loan Documents. All refunds are subject to a $75 processing fee. Therefore, the refund will equal the one-time setup fee paid, less the $75 processing fee.

Optional Loan Servicing **What Does This Cost?**

Powered By FCI Lender Services, Inc. > One-Time Account Setup Fee of $65

- ☑ Email payment reminders & monthly statements
- ☑ Annual IRS tax forms: Borrower 1098 | Lender INT-1099
- ☑ Electronic payment processing & no pre-payment penalties
- ☑ Online account access / Customer support
- ☑ All loan accounting
- ☑ Payoff statement preparation
- ☑ Lien Release preparation and filing*

The monthly servicing fee for loans up to $400K is $20, paid by either the Borrower or Lender.

The monthly servicing fee for loans over $400K up to $1M is an additional $10/month per $100K.

Examples: $500K = $30 | $600K = $40 | $700K = $50 | $800K = $60 | $900K = $70 | $1M = $80

Loans over $1M, add $20/month, per million. **Examples: $1.5M = $100 | $2.5M = $120 | $3.5M = $140**

The one-time Setup Fee of $65 is withheld from the Lender's first deposit. If the Borrower elects to pay the monthly Loan Servicing fee, it is collected electronically along with the Borrower's monthly loan payment. If the Lender elects to pay the monthly Loan Servicing fee, it is withheld from the monthly loan payment credited to the Lender's designated bank account.

FCI Lender Services can also collect and hold the Borrower's monthly property tax / insurance proceeds in a trust account and disburse the scheduled payments to the respective authorities when due. There is a one-time escrow analysis fee of $175 for this account upgrade and a $17.50 monthly fee above and beyond the standard monthly Loans Servicing fees as outlined above.

*Once a loan has been satisfied, FCI Lender Services, can prepare and file the lien release as part of closing out your family's Loan Servicing account (with the exception of properties located in Colorado.)

About FCI Lender Services, Inc.

Since launching in 2010, our exclusive Loan Servicing partner has been FCI Lender Services, based in Anaheim Hills, California. When requested, your National Family Mortgage ® document package will also include Setup Forms for our optional Loan Servicing platform powered by FCI Lender Services.

As a leading, Dodd-Frank Act compliant, US mortgage loan servicing company, FCI Lender Services has been in business since 1982, with over $5 Billion in loan volume currently under management. In addition to supporting National Family Mortgage ® clients, FCI Lender Services also manages mortgage loan servicing for dozens of Banks, Credit Unions, Investment Firms, Hedge Funds, Pension Funds, and Insurance Funds. FCI is a top rated “Special Servicer”, with the highest industry rating available from Fitch Ratings, Inc., the mortgage servicing rating company located in New York City.

FCI Lender Services is fully compliant with all state mortgage loan servicing regulations and all national loan servicing rules impacting both lenders and servicers under the Dodd-Frank Act, as enforced by the Consumer Financial Protection Bureau (CFPB). FCI's comprehensive licensing information can be verified on the National Mortgage Licensing System’s (NMLS) consumer access website: https://www.nmlsconsumeraccess.org

Once your loan has been activated for servicing, if necessary, FCI can assist with allonge preparation, assignment preparation and recording, deferment agreements, loan modification agreements, payoff statements, and lien releases.

If for any reason you decide to cancel your Loan Servicing account and manage your loan on your own, there is a $90 Loan Servicing cancellation fee.

State Recording Taxes

In addition to our one-time setup fee, the following states require various Deed of Trust / Mortgage / Security Deed taxes be paid at the time of document recording with the proper government authority. It is the client's responsibility to pay all required local government document recording taxes. These taxes only apply when the Borrower's home is in one of the states listed below. National Family Mortgage ® will coordinate scheduling details and expectations with the Borrower's closing attorney, title company, or escrow company, who will collect the required taxes at settlement. **While we strive to keep the following estimated recording taxes up to date, please confirm current tax rates with the Borrower's closing attorney, title company, or escrow company.**

Alabama
$0.15/$100

Florida
Intangible Tax: $0.70/$100*
Documentary Stamp Tax: $0.35/$100
*Miami-Dade County: $0.60/$100 plus surtax of $0.45/$100

Georgia
$0.30/$100

Minnesota
$0.23/$100
Hennepin and Ramsey Counties: $0.24/$100

Maryland (By County)
Purchase Money Deed of Trust is not subject to recordation tax to the extent of the amount of "consideration payable" on which recordation tax is paid on the Purchase Deed.

Baltimore, Howard:	$0.50/$100
Prince George's:	$0.55/$100
Hartford, Kent, Somerset, Worecester:	$0.66/$100
Allegheny, Anne Arundel, Garrett, Wilcomico:	$0.70/$100
Washington:	$0.76/$100
St. Mary's:	$0.80/$100
Cecil:	$0.82/$100
Queen Anne's:	$0.99/$100
Baltimore City, Calvert, Caroline, Carroll, Charles, Dorchester:	$1.00/$100
Talbot:	$1.20/$100
Frederick:	$1.40/$100
Montgomery:	$0.89/$100 on first $500K $1.35/$100 above $500K

New York (By County)

Chemung, Chenango, Jefferson, Montgomery, Otsego, St. Lawrence, Tioga, Ulster:	$0.75/$100
Allegany, Broome, Cayuga, Clinton, Cortland, Delaware, Erie, Franklin, Fulton, Hamilton, Herkimer, Lewis, Madison, Monroe, Niagara, Oneida, Onondaga, Ontario, Orleans, Oswego, Sarasota, Schoharie, Schuyler, Seneca, Sullivan, Tompkins, Yates:	$1.00/$100
Dutchess, Nassau, Orange, Putnam, Suffolk:	$1.05/$100
Albany, Cattaraugus, Chautauqua, Columbia, Essex, Genesee, Greene, Livingston, Rensselaer, Schenectady, Steuben, Warren, Washington, Wayne, Wyoming:	$1.25/$100

Rockland, Westchester: $1.30/$100

Yonkers: $1.80/$100

New York City Counties of New York, Bronx, Kings, Queens, Richmond:

All mortgages securing less than $500K:	$2.05/$100
Mortgages of single family houses and individual residential condominium units, securing $500K or more:	$2.175/$100

When the loan is from an individual, NY state grants a discount of $0.25/$100 on the taxes referenced above, provided a 253 (A) Natural Person Affidavit is submitted for recording with the Mortgage. National Family Mortgage ® will confirm the generation of this document with the Borrower's closing attorney or title company.

Tennessee
$0.115/$100

Virginia
State Tax: $0.25/$100 | City/County Tax: 1/3 of state tax amount

What is Seller Financing?

Seller Financing (also called Owner Financing, or Carry-Back Financing) is a mortgage transaction where the home Seller agrees to receive regular payments from the Buyer — instead of one lump sum payment — until the agreed upon purchase price is paid. Seller financing is not a cash loan, but an installment sale of value.

Seller Financing works best for Sellers who own their property outright, or can pay off their existing mortgage balance either with a down payment from the Buyer, or some other source.

The Seller transfers the deed or title (the ownership instrument) of the property to the Buyer, but in return receives a Deed of Trust / Mortgage / Security Deed, entitling him or her to scheduled monthly payments with a lien on the property until the loan is repaid.

Seller Financing opens up a range of creative financing possibilities that can benefit both the Seller and the Buyer. Relatives can use Seller Financing to pass ownership in a property from one family member to another, often with low interest rates and payment schedules favorable to the Buyer. At the same time, proper Seller Financing can help the Seller spread out Capital Gains Tax and prevent IRS Gift Tax.

Buying a home from a relative isn't too different from buying a home from anyone else. As with any transfer of real estate, the Seller and Buyer will want to have a real estate closing with a local attorney, title company, or escrow company, that will perform a title search on the property and generate a new warranty deed.

State laws in over half of the country legally require the integration of private mortgage documentation into the Buyer's real estate closing / settlement. As an ever increasing number of states move towards this legal standard, we follow this protocol with every National Family Mortgage ® transaction.

Once a family has reviewed and approved their Loan Agreements, the documents must be emailed to the local closing attorney, title company, or escrow company, for integration into the real estate closing / settlement.

Please note, we don't make referrals to local closing attorneys, title companies, or escrow companies. You select your own real estate settlement agent. We can work with anyone!*

*** If the property being sold is in Texas, we require the real estate closing must be conducted by either a Texas law firm or a Fee Attorney.**

What is Seller Financing?

Why do we Need an Attorney, Title Company, or Escrow Company?

For a variety of legal reasons and to help minimize liabilities for everyone, we only work with families on purchase transactions, including Seller Finance transactions, when there is a formal real estate closing on the property with a local attorney, title company or escrow company. Many states require this process, and we require this approach to ensure the Buyer / Borrower obtains marketable title of the property.

When a Seller conveys real estate title with a "general warranty deed" through an attorney, title company, or an escrow company, the Seller is making a promise that they hold clear title to convey the property, and that no third parties have any claims to the property. To guarantee the promise of clear title, the Seller usually purchases a title insurance policy for the Buyer's benefit. Should a third party later prove they have a legitimate claim to the property, the policy pays the Buyer/Owner damages. Before issuing a title insurance policy, the closing attorney, title company, or escrow company that conducts the real estate settlement will performs a title search on the property to confirm the Seller’s guarantee.

Sometimes, in an effort to save money, intra-family home Sellers will use a document called a "quitclaim deed" to transfer title to the property. Through this document, the Seller “quits” their claim to the property and transfers it to the Buyer. When using a quitclaim deed, the Seller makes no promises that they even hold title of the property. As a result, if a Seller uses a quitclaim deed to transfer title, the property is not insurable under a title warranty policy.

Properties "sold" via quitclaim deed are generally considered unmarketable — meaning, the owner of a property obtained with a quitclaim deed may have a difficult time selling the home one day. Most home buyers want a warranty deed, including title insurance, to protect their interest the property. Title companies are generally apprehensive to insure properties obtained via quitclaim deed. This often limits a home seller's buyer pool to other family members, or requires waiting until the state statute of limitations on the insurability of such properties has expired.

A local real estate attorney, title company, or escrow company will assist with generating a sales contract, perform a title search on the property, prepare and file the deed, and issue the Buyer's title insurance policy. As most states and counties levy a real estate transfer tax, total closing costs on the real estate portion of the transaction can be as much as 3.00% of the value of the property.

Lender Benefits

Relationship Protection

Proper documentation sets clear expectations and prevents future misunderstandings with your loved ones. If anything happens to you, your registered mortgage documentation also protects the interests of your other children or family members who could be affected by the proper accounting of the loan. **Optional, Dodd-Frank Act compliant, loan servicing platform reduces awkward conversations, processes monthly payments, provides year-end tax statements for the IRS, and keeps everything business-like.**

A Strong Investment Vehicle

What are bonds, CDs, or savings accounts paying these days? Invest in a loved one; loaning money to a trusted family member can earn solid returns. Spread out the capital gains tax from the sale of your home. The emotional returns are strong, too!

Monthly Income Stream

Your National Family Mortgage ® will generate a recurring monthly cash revenue stream from payments by your Borrower. This is an attractive feature relative to many other conservative investments. Reinvest the money or spend it however you choose.

Asset Protection

People get divorced. Sometimes, loved ones die unexpectedly. It's no fun to think about, but it happens. Protect your family wealth from disagreements with your loved one's ex-spouse or surviving spouse. With a National Family Mortgage ® the Borrower's shared responsibilities are clear and your investment is protected, just like a bank, by a registered mortgage lien secured by the Borrower's new home.

Tax Protection

Prevent IRS scrutiny. **The current IRS annual gift tax exclusion is $17K per person. If you simply transfer the deed to your home to a relative, the IRS may treat the fair-market value of the property as a reportable gift. In order to prove the exchange of value is a legitimate loan and not a potentially gift, you must both properly document the transaction as "Seller Financing" and also report earning interest at a rate equal to or above the minimum rate required by the federal government, called the Applicable Federal Rate (AFR).** Even if you document the loan, but report earning less than the appropriate AFR, the IRS may impute the interest as income and also view the forgone interest as a financial gift.

National Family Mortgage ® will coordinate scheduling details and expectations with the settlement agent. The government recording of the mortgage will allow your Borrower to legally deduct their mortgage interest payments from their federal tax return — just like with a bank mortgage.

See IRS Publication 936 or IRC 1.163-10T(o)

Borrower Benefits

A Low Interest Rate

Usually, interest rates charged through intra-family loans are lower than rates charged by banks. **On average, National Family Mortgage ® interest rates are 1.25% lower than prime lending rates offered by most banks; this can add up to tens of thousands of dollars in interest savings over the life of the loan!**

Low Fees

Traditional lenders often require private mortgage insurance (PMI), require Lender's title insurance, appraisals, and lots of hidden fees. Borrowers can save thousands of dollars in closing costs with a National Family Mortgage ®.

Flexibility

A traditional bank loan application can take weeks of work and waiting with no guarantee of approval. **With a National Family Mortgage ®, Borrowers qualify so long as their Lender agrees to make the loan.** Each family sets their own loan terms.

Tax Deductible Interest

The current IRS annual gift tax exclusion is $17K per person. **If your relative simply transfers the deed to their home to you, the IRS may treat the fair-market value of the property as a reportable gift. In order to prove the exchange of value is not a financial gift, but a legitimate loan, you must properly document the transaction in writing that your Lender has extended "Seller Financing".**

When a home financing from a relative is properly formalized and registered with the proper government authority, you can also deduct the mortgage interest paid, just as with a traditional bank mortgage.

See IRS Publication 936 or IRC 1.163-10T(o)

You can deduct your home mortgage interest on acquisition debt only if your loan is a secured debt. A secured debt is one in which you sign a Mortgage, Deed of Trust, or Security Deed that:

(1) Makes your ownership in a qualified home security for payment of the debt;
(2) Provides, in case of default, that your home could satisfy the debt;
(3) Is properly recorded or is otherwise perfected under any state or local law that applies

The interest deduction is limited to no more than $375K of acquisition debt for married individual filers, and $750K of debt for married couples filing jointly, secured by your primary or secondary residence.

Know The IRS Applicable Federal Rates

Each month, the IRS publishes an interest rate index called the Applicable Federal Rates (AFRs). These interest rates are determined by a variety of economic factors, including the prior thirty day average market yields of corresponding US treasury obligations, such as T-bills. The Applicable Federal Rates are used for various purposes under the Internal Revenue Code — including the calculation of imputed interest on below market loans between family members.

(We'll explain what "imputed interest on below market loans" means in a moment.)

When it comes to family loans — especially loans above $10,000 — the IRS Applicable Federal Rates represent the absolute minimum market rate of interest a Lender should consider charging a Borrower in order to prevent unnecessary tax complications.

There are three AFR tiers based on the repayment term of a family loan:

(1) Short-term rates, for loans with a repayment term up to three years.
(2) Mid-term rates, for loans with a repayment term between three and nine years.
(3) Long-term rates, for loans with a repayment term greater than nine years.

A Lender should assess two main factors when selecting the appropriate IRS Applicable Federal Rate for a family loan:

(1) The length of the agreed upon repayment term of the loan.
(2) The IRS Applicable Federal Rate for that repayment term during the month in which the loan is made.

The IRS Applicable Federal Rates change monthly. Typically, the IRS will announce the minimum required rates for transactions occurring in an upcoming month, around the twentieth day of the preceding month. When structuring a term loan, so long as the parties meet or exceed the appropriate AFR in effect at the time the loan is made, the rate is essentially "locked in" for the life of the loan. Generally speaking, these rates are significantly lower than market rates offered by a bank. See IRC Sec. 1274(d)

If a Lender chooses to simply not charge a family member a rate of interest at least equal to or above the appropriate Applicable Federal Rate in effect at the time a family loan is made, the IRS may impute the interest by taxing the Lender on the difference between the Applicable Federal Rate and the interest rate the Lender actually charged.

In other words, you lend a loved one over $10,000, and never charge or collect a penny of interest income on the family loan, the IRS requires you to pay income taxes on the earned interest income the IRS believes you should have received, based on the AFR at the time the loan was made. See IRC Sec. 7872(a) & 7872(e) & 7872(f)(2)

In addition to holding the Lender responsible for the taxable imputed interest, the IRS also assumes that since the Borrower did not make the required interest payments, the Lender is considered to have gifted the Borrower the money to pay the interest that was due. See IRC Sec. 7872(f)(3)

The IRS doesn't want us making substantial, interest free loans to our family members. The IRS wants to tax us on required interest income on legitimate loans.

By engaging in a loan with a family member below the appropriate AFR, the Lender is effectively penalized twice — once through taxation of imputed interest, and again by applying the borrower's unpaid interest towards the lender's annual $17,000 per person tax-free gift limit.

The IRS' annual gift exclusion permits a taxpayer to gift up to $17,000 annually to each and every family member without penalty. Effectively, an individual could gift $17,000 to everyone they know, but once any one gift recipient receives a penny more than $17,000 from an individual donor in the calendar year, that donor must file a gift tax return. See IRS Publication 559

As always, we strongly encourage all families to discuss their individual financial strategies and potential estate planning and tax considerations with their trusted attorney, financial advisor, or tax advisor.

How it Works — In 10 Steps

How it Works (In 10 Steps

1. Read this guide.
(Especially our Standards on Page 5)

2. Submit your Online Setup Form and one-time setup fee to create you documents

3. We will call you to confirm receipt of your Online Setup Form and to answer your questions

4. We will call your settlement agent to introduce ourselves, explain our business model, and to answer any of their questions.

5. Within 7 business days of submitting your Online Setup Form, we will email your comprehensive Loan Documents for your review and approval, including your Optional Loan Servicing Setup Forms.

6. After you have reviewed and approved your Loan Documents, the documents are emailed your settlement agent. The settlement agent will oversee the execution and government recording of your Family Mortgage.

7. Borrower / Buyer disburses their down payment, if required, to the settlement agent's client escrow account.

8. Borrower / Buyer signs Family Mortgage documents at your real estate closing with the settlement agent and becomes a home owner!

9. *Everyone celebrates!!!*

10. Optional Loan Servicing keeps things business-like, protects relationships, and prevents tax problems.

NATIONAL Family Mortgage®

How it Works — Structuring Your Loan

Budget, Budget, Budget!!!

Before committing to an intra-family sale of real estate, it's absolutely critical for the Borrower to know exactly how much house they can afford — especially if there's a Family Mortgage involved.

We suggest the Borrower starts by calculating their monthly post-tax take-home pay, and then start deducting monthly life expenses:

Student Loans or Tuition | Car Payments | Car Insurance | Gasoline | Groceries | Eating Out | Clothing

Cell Phone / Data Plan | Credit Card Debt | Child Support | Child Care | Medical Co-Pays | Pet Costs

Personal Care | Health Club Membership | Charitable Gifts | Gifts for Others | (you get the point . . .)

The Borrower should also consider many of the new costs that can accompany homeownership:

Property Taxes | Home Owner's Insurance | Water / Sewage | Electricity | Gas/Oil | Cable / Internet

Trash Service | Lawn Care | Pool Care | Alarm Service | Household Maintenance | Home Furnishings

Once the Borrower has determined their budget, the family should discuss Family Mortgage loan structures. Most National Family Mortgage ® customers go with our Win-Win Mortgage ® — it's the classic amortized loan with a fixed interest rate and a fixed monthly payment. Some families opt for the Win-Win Mortgage ® with a Balloon provision, usually to leverage a lower interest rate. Other families elect to use our Gift Mortgage ®, which is simply an interest-only loan. Each of these products offers unique advantages; we want you to choose the best option for your family situation and goals!

How it Works — Structuring Your Loan

The Win-Win Mortgage ® (Fixed Payment of Principal & Interest

Our Win-Win Mortgage ® grants Borrowers access to loan funds at a lower interest rate than they would generally receive from a bank, while providing Lenders with a higher return than most conservative investments such as CDs, money-market accounts, bonds or savings accounts.

Our Win-Win Mortgage ® is a traditional, amortized loan with a fixed interest rate over the agreed upon loan term. The Borrower's monthly payment is also fixed and consists of both principal and interest. The payment calculation on an amortized loan is similar to an annuity, using a time value of money formula. Although the Borrower's monthly payment is fixed, the portion of the payment that is applied towards outstanding loan principal and the portion of the payment that is applied towards interest changes each month according to the amortization schedule. As long as the Borrower makes their fixed payment each month, should the loan reach its final payment date, the debt will be paid in full.

National Family Mortgage ® allows our clients to amortize their loan anywhere from 1 - 30 years. All loans must meet or exceed the IRS Applicable Federal Rate in effect at the time the Borrower closes on their new home. As with all of our solutions, there is no pre-payment penalty.

The Win-Win Mortgage ® with Balloon (Fixed Payment of Principal & Interest

Our Win-Win Mortgage ® with Balloon gives the Borrower the affordability of a longer, amortized payment schedule, while requiring the Borrower to payoff the loan upon a shorter, agreed upon Balloon date. For example, one could amortize their loan for 30 years, but implement a Balloon provision at year 5. This means the Borrower's monthly payments are based on a 30 year schedule, but when they reach year 5 of the payment schedule, they are expected to pay off the outstanding loan balance in full. Generally, this means the Borrower is expected to sell the home by the Balloon date or refinance out of their National Family Mortgage ® and into an institutional mortgage product with a bank.

There are a few reasons why some families select the Win-Win Mortgage ® with Balloon:

Some Lenders are concerned about committing their money to a long-term mortgage arrangement. The Balloon provision can provide the Borrower with the cash-flow flexibility of a long-term loan, but sets clear expectations with the Borrower as to when the loan is actually over.

Some families use the Balloon structure to help a Borrower who's having difficulty qualifying for an institutional loan. It may be there's a blemish on the Borrower's credit report or a bank has concerns about insufficient time at a new job. The Win-Win Mortgage ® with Balloon can help a Borrower through a difficult stretch and provide incentive for them to improve their situation and refinance with a bank by the Balloon date.

Finally, some families will use the Balloon provision to help the Borrower obtain a lower interest rate by leveraging a lower tiered IRS Applicable Federal Rate. Imagine your son or daughter is buying their first home. Assume that you're reasonably confident that they're not going to be there more than 9 - 10 years. You can amortize their loan for 30 years, giving them the benefit of a 30 year payment, but implement a Balloon provision at year 9 of the loan; with this structure, you can use the mid-term IRS Applicable Federal Rate for loans over 3 years and up to 9. So, the loan is amortized for 30 years but with the lower mid-term Applicable Federal Rate, instead of a traditional 30 year loan amortized at the IRS long-term rate for loans over 9 years.

While every family their own goals and needs, this strategy can save the Borrower thousands of dollars in interest payments over the life of the loan.

How it Works — Structuring Your Loan

The Gift Mortgage ® (Interest-Only Payment

Our Gift Mortgage ® is an interest-only loan — it's that simple. The Borrower is only required to pay the accrued interest on the loan each month for an agreed upon term of between 1 - 30 years. If the Borrower never chips away at the outstanding loan principal over the term of the loan, then they will owe the entire loan amount in lump-sum upon the maturity date.

There are a few reasons why some families select the Gift Mortgage ®:

The main benefit of an interest-only loan is the lower monthly payment, which can provide the Borrower with significant cash-flow flexibility. This loan structure is popular with business owners, students, artists, medical residents, and young growing families. Since there are no pre-payment penalties, the Borrower has the freedom to make principal pre-payments whenever they like. Of course, by doing so, the Borrower can reduce their minimum required interest-only payments moving forward.

If the Borrower's home is in a popular, stable real estate market — and the Borrower intends to be there for some time — some families consider these loans low risk. While there are no guarantees in real estate, if the property appreciates over time, the loan balance should be satisfied through the eventual sale of the home.

Finally, some families use the interest-only loan structure as an easy framework to transfer wealth and manage annual gifting — in fact, so many families have pursued this strategy with us, that we decided to call our interest-only loan structure, the Gift Mortgage ®.

In short, the Lender may elect to use their annual IRS Gift Exclusion in the form of a principal reduction on the loan. Anytime a gift is made, the Borrower's monthly interest-only payment will be reduced, until ultimately the entire loan balance may be gifted away! Please note, the IRS generally frowns upon premeditated gifts of outstanding debts. If you're considering such a strategy, please be sure to consult your trusted attorney, or financial/tax professional.

Remember, the Gift Mortgage ® is simply an interest-only loan. No gifting of loan principal is ever required.

How it Works — Secondary Financing / Working with the Bank

Secondary Financing (The Piggyback Mortgage)

Sometimes, someone may want to sell their home to a relative, but (A) they don't own their home "free and clear", or (B) they simply can't afford to be paid over time. However, some sellers may have significant enough equity in their property to consider holding Secondary Seller Financing. The buyer obtains a primary, institutional mortgage, that is combined with a subordinate, secondary Family Mortgage, held by the seller. This can make for a win-win soution!

If a home buyer needs to borrow more than 80% of a home's value or purchase price, most government and institutional lenders charge significantly higher interest rates on such loans. Additionally, these lenders usually require an insurance policy (often referred to as "private mortgage insurance", or "PMI,") to protect their investment.

Historical banking data shows that Borrowers who cannot afford a 20% down payment on their home have a greater statistical likelihood of being foreclosed upon due to an inability to keep up with their monthly mortgage payment. PMI protects the lender in the event proceeds from a foreclosure sale don't cover the Borrower's loan balance. The lender receives the benefit from the insurance coverage, but the monthly policy premium is paid by the Borrower.

The cost of PMI varies widely — annual premiums typically cost between 0.20% - 1.50% of the Borrower's outstanding loan balance. Borrowers with high credit scores and larger down payments will typically pay lower PMI premiums. Borrowers with lower credit scores and smaller down payments will typically pay higher insurance premiums.

It's not uncommon for PMI premiums in high-priced areas of the country to cost $200 or more each month. And again, the interest rates on these loans can also be quite high.

A popular way for home buyers who don't have a 20% down payment, but wish to eliminate the high cost of PMI, is to take out two mortgage loans at the same time: a primary mortgage, typically from a lending institution — up to 80% of a home's value, and a secondary mortgage (also known as a Piggyback Mortgage, or subordinate financing) to cover the 20% down payment gap. In this case, the seller makes a loan of equity, and agrees to be paid over time.

Typical Piggyback loan structures include the "80-10-10 loan" (80% primary mortgage, 10% Piggyback Mortgage, 10% down payment) or an "80-15-5 loan" (80% primary mortgage, 15% Piggyback Mortgage, 5% down payment.)

Many National Family Mortgage ® clients use our Win-Win Mortgage ® or Gift Mortgage ® as their secondary Piggyback Mortgage that complements primary financing from a lending institution.

The secondary Family Mortgage eliminates the cost of PMI on the primary loan. The home buyer combines their Family Mortgage with their down payment to reach the 20% threshold needed to eliminate the PMI on conventional primary financing. The Family Mortgage can also significantly lower the interest rate on the primary loan.

The primary lender will need to include the family funded Piggyback Mortgage, and the Borrower's monthly payment to their family, when calculating the Borrower's debt to income ratio for qualifying purposes on the primary mortgage loan.

Once a family has reviewed and approved our Family Mortgage documentation, the Borrower's primary lender will want to review it, too. Once approved by the primary lender, we send the Family Mortgage documentation to the Borrower's local closing attorney, title company, or escrow company, for integration into the standard real estate closing / settlement.

Please remember, the Borrower will have to make two mortgage loan payments each month — one for their institutional primary mortgage and one for the secondary Family Mortgage.

Fortunately, even with our Family Mortgage setup fees, the Borrower's total savings through the elimination of PMI and an overall reduction in monthly loan interest, generally makes the monthly payments on both loans significantly less than if the Borrower were paying higher interest on one institutional loan with PMI.

The Family Mortgage Setup Form

Once the Borrower and Lender/Seller have agreed upon their loan terms, it's time to submit the online Family Mortgage Setup Form! A complete Sample Setup Form can be found on the next few pages, but there are some important details to remember before starting the online Form:

1. You have read this guide, including our Standards, and our online Terms of Use.

2. A You have selected a local attorney, title company, or escrow company that will generate the new property deed and conduct your real estate closing / settlement

3. The Setup Form should be submitted **no more than three weeks** before your anticipated closing / settlement date, and **no less than two weeks** before your anticipated closing / settlement date.

4. Either the Buyer / Borrower or the Seller / Lender may submit our online Setup Form and submit our one-time setup fee, with the following exceptions:

   (1) If the subject property is in Kentucky, Maryland, Texas, or Virginia, then the Buyer /Borrower must submit our online Setup Form and submit our one-time setup fee.

5. As an added security measure, the Setup Form cannot be saved or accessed at a later date. **You must complete the Setup Form and submit it to us in one sitting.** Please review the Sample Setup Form found in the following pages of this guide to ensure you are able to complete the Setup Form in one sitting.

6. Within one business day of submitting your online Setup Form, a Family Mortgage Team Member will call you to confirm the details of your loan. **Any necessary changes or amendments to your Setup Form can be processed directly through the Family Mortgage Team Member assigned to your loan.**

7. Your Family Mortgage documents will be emailed for your review and approval within seven business days from the date of submitting the online Setup Form.

The Family Mortgage Setup Form

*This preview Setup Form, as printed below, is designed to serve as a reference and to help you gather information. Kindly complete and submit the final Setup Form as it appears on our website.

Purchase Details

Family Mortgage Program:
○ The Win-Win Mortgage (Amortized Loan)
○ The Gift Mortgage (Interest-Only Loan)

Purpose:
○ Purchase
○ Seller Finance

Lien Position:
○ 1st Position Mortgage
○ 2nd Position Mortgage

Loan Size:
○ $1 - $100,000 ($725)
○ $100,001 - $200,000 ($875)
○ $200,001 - $300,000 ($1,075)
○ $300,001 - $500,000 ($1,425)
○ $500,001 - $1,000,000 ($1,725)
○ $1,000,001+ ($2,100)

○ Please send us the setup forms for the optional Loan Servicing program starting at $20 per month.

○ Please DO NOT send us the setup forms for the optional Loan Servicing program

Who will pay for the Loan Servicing fees?
○ The Lender will pay monthly Loan Servicing fees
○ The Borrower will pay monthly Loan Servicing fees

Next

Lender Contact Information

Each individual Lender and Borrower must have a unique email address.

Lender #1

First Name:

Middle Name / Initial:

Last Name:

Address:

State: City:

Zip Code:

Email:

Phone:

Relationship to Borrower:

Lender #2

First Name:

Middle Name / Initial:

Last Name:

Address:

State: City:

Zip Code:

Email:

Phone:

Relationship to Borrower:

Will the loan come through a Trust?

○ No
○ Yes

If yes, what is the full legal name of the Trust?

Has the Lender made any other mortgage loans in the previous 12 months?

○ No
○ Yes

If yes, how many other mortgage loans has the Lender made in the previous 12 months?

Next

Borrower Contact Information

Each individual Lender and Borrower must have a unique email address.

Borrower #1	Borrower #2
First Name:	First Name:
Middle Name / Initial:	Middle Name / Initial:
Last Name:	Last Name:
Address:	Address:
State: City:	State: City:
Zip Code:	Zip Code:
Email:	Email:
Phone:	Phone:

Does the Borrower have their own Trust?

○ No
○ Yes

If yes, what is the full legal name of the Trust?

Subject Property Details

Current Owner's Name(s):

(We need the name of the individual(s) who are selling the home.)

Subject Property Address:

City:

Next

Subject Property Details (continued . . .)

State:

Zip Code:

County:

Property Type:

○ Single Family Residence ○ Condominium
○ Townhouse ○ PUD (Planned Unit Development)

If Condominium, Townhouse, or PUD, what is the name of the development?

Family Mortgage Loan Details

Property Use:

○ Primary Residence ○ Vacation Home ○ Investment Property (Rental)

Loan Amount: $

Loan Term and/or Amortization Period: 1 Year - 30 Years

Loan Interest Rate: %

(% Must be between the appropriate IRS Applicable Federal Rate and maximum of 6.00%)

Optional Balloon Payment: None or 1 - 30 Years

Loan Issue Date / Closing Date: Month | Day | Year

Payment Grace Period: 15 Days

Late Payment: %

(Must be between 1.00% and 3.00% of Borrower's standard monthly payment.)

Name of the Borrower's closing attorney, title company,or escrow company:

Phone # of the Borrower's closing attorney, title company,or escrow company:

SUBMIT

National Family Mortgage®

Document The Loan

If you're going to allow a relative to buy your home, and pay you in monthly installments over time, creating legally binding documents is one of the most important things you can do.

Many people mistakenly assume that it is offensive or inappropriate to ask for formal documentation when doing business with family members. In truth, structuring formal documentation is one of the most appropriate things that can be done! Not only does it protect both parties financially, but it also helps preserve their personal relationship. Proper documentation can also prevent confusion over repayment start dates, interest rates, repayment schedules, and other terms of the loan.

If your Borrower is reluctant to formalize the loan with a legally binding document, emphasize that it's important to you. Consider a couple of the following explanations:

Your Accountant / Financial Advisor: Explain to your relative that your accountant or financial advisor mandates a fully legally binding agreement before you create a Family Mortgage transaction.

The IRS: Explain to your relative that if you are ever audited by the IRS, you need to have documentation in order to prove that the exchange of funds is a legitimate loan, and not a reportable gift.

The Media: Explain that you have heard several stories recently about undocumented family loan transactions causing legal and tax problems and straining family relationships; this is especially true following unexpected family deaths or divorce. You don't want to take this kind of risk!

Past Experiences: If appropriate, reference past experiences with an informal loan ending poorly for you and the other party.

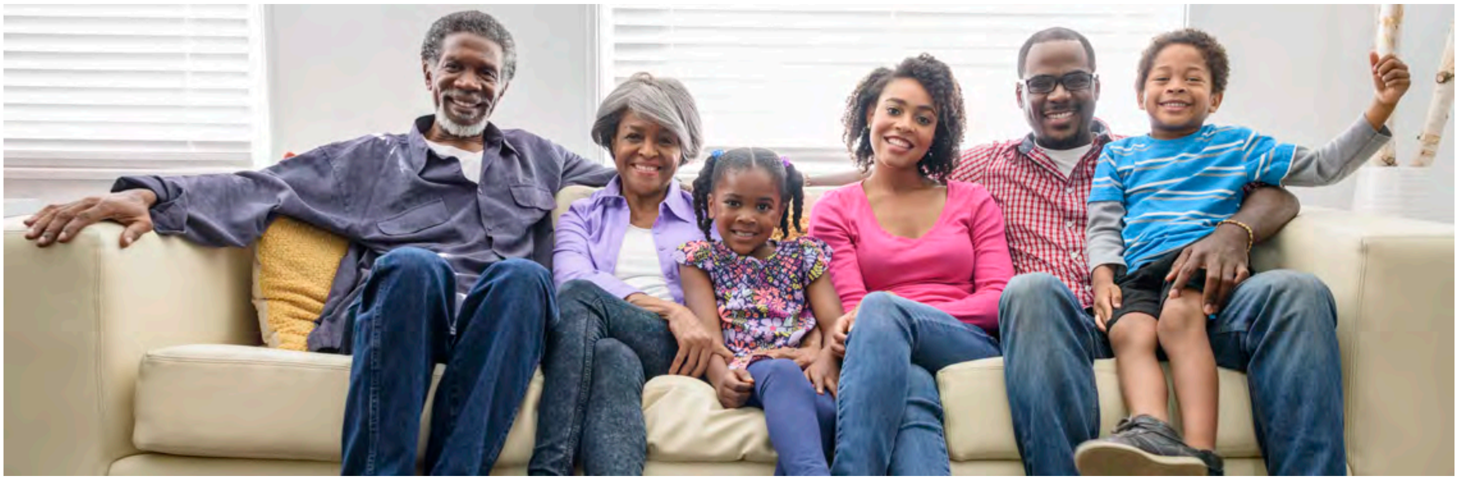
National Family Mortgage ® in the news . . .

How much trust do I have in my children's good financial habits?

This year, I lent my daughter $381,000 so she could buy her first home. It was a good deal for her: She was able to behave like a cash buyer when bidding on properties, she didn't have the hassle of dealing with a bank and her closing costs were far lower.

It was also a good deal for me. We settled on the current average rate for a 30-year fixed-rate mortgage, which was 3.97%. That's more than I could earn by buying high-quality bonds. To keep everything on the level, we used National Family Mortgage to handle the paperwork and service the loan.

- Jonathan Clements, Financial Planning Magazine
"My 7 Smartest Financial Moves", November 30, 2015



Understand The Tax Implications

While not legally required, we strongly recommend the Seller / Lender has a formal appraisal conducted on their property. An appraisal may provide both parties with additional piece-of-mind by confirming the fair-market-value of the home. Additionally, a formal appraisal will help protect the Seller / Lender in the event the IRS ever questions if the home was sold at a discount beyond the annual IRS Annual Gift limit.

Seller Financing allows you to spread out the capital gain received from the sale of the property, instead of reporting a lump-sum gain all in the year of the sale. By reporting the capital gain over time, during the taxable years in which the Buyer makes installment payments, you're able to defer payment of income taxes that are assessed on the overall capital gain. Each installment payment on a Seller Financed home generally consists of three parts:

1. A partial return of your adjusted basis in the property, which is not considered taxable income
2. A partial realized gain from the sale of the property, which is taxable as a capital gain
3. Accrued interest on the loan, which is taxable as ordinary interest income

Each year, you must calculate how much of the year’s total loan payments are taxable as capital gains and how much are a nontaxable recovery of your cost basis in the property. Any interest you earn on a private loan is considered income by the IRS, and therefore is considered taxable as ordinary income.

The IRS Annual Gift limit is currently $17K per person. However, this does not mean if the annual earned interest on the loan is $17K or less that you can forgo the collection of the interest, treat it as a gift, and reduce your taxable income. A loan is a loan, and a gift is a gift!

National Family Mortgage ® requires that your interest rate must meet or exceed the appropriate IRS Applicable Federal Rate in effect, including the two months prior to the date of the closing.

Please also remember there may be significant deed transfer taxes due to your state / county as a result of the sale of the property. The payment of these taxes is typically the Seller's responsibility.

Be sure to consult with an accountant, an attorney, an estate planner, or financial advisor, to ensure a Seller Finance transaction is appropriate for your situation.

What do we do if the Borrower Can't Make Payments?

Remember, your loan will be secured by a registered mortgage lien on the Borrower's property. The registration of this lien is the key requirement under the IRS tax code that allows your Borrower to claim the popular home loan interest deduction on their annual tax return. As a Lender, this lien provides you with the same lien holder rights as a bank; you will have the option to foreclose on the property if the loan falls hopelessly off-track. This means you will legally seize the property, and presumably sell it, in order to get your investment back. In truth, we have found that Family Mortgage Lenders and Borrowers generally prefer to restructure their loans rather than experience the trauma of a family foreclosure!

If your Borrower needs help, there are various options to restructure your Family Mortgage to help your Borrower succeed:

Make a Cash Gift. You could elect to gift your Borrower the cash that will allow them to make their monthly payment. Please remember that the annual IRS Gift Tax Exclusion is currently $17K per person. So, if two parents have made a loan to their child and their child's spouse, up to $68K cash can be gifted within the IRS Gift Exclusion.

You should not simply gift the missed payments, even if the total missed payments amount falls within the $17K IRS Gift Exclusion. By simply forgiving the missed payments, the IRS may argue that your non-enforcement of the debt implies that your transaction is not a true loan, but a gift in disguise. Additionally, the IRS still expects you to pay taxes on the interest income you should have received from the missed payments!

Defer Payments. There are a few different ways a Lender may agree to defer payments.

Agree that the Borrower will skip a payment one month and then double up in a later month.

Postpone the entire payment schedule for an agreed upon period, and defer the missed payments until the end of the loan. Should the loan run its full term, the final loan payment will be higher and include the deferred payments.

Postpone the entire payment schedule for an agreed upon period, and defer the missed payments until the end of the loan, *but capitalize the missed interest payments*. This means the unpaid interest portion of the monthly payment is added to the outstanding loan principal each month, thereby increasing the total interest owed.

The payment schedule changes listed above generally do not require new loan paperwork.

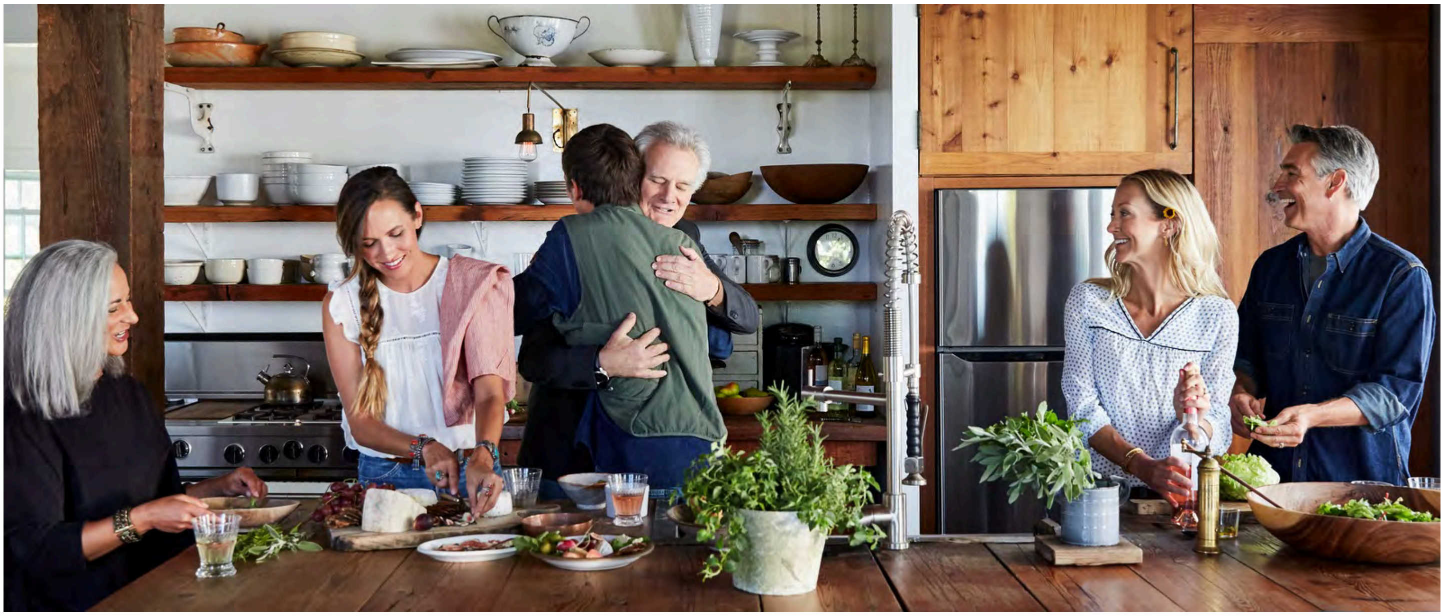
Other payment relief solutions can be accomplished with a simple amendment to the Promissory Note.

Such common amendments include:

Reduce the interest rate on the loan. (If allowable under the tax code.)

Convert your loan structure from fixed amortized payments (principal and interest) to interest-only payments.

Please note, our platform does not support a deferral of the Borrower's first payment date. If managing your loan with FCI Lender Services, once the Borrower has made their initial, standard payment, you may implement a deferral of payments directly through FCI Lender Services.



Know How a National Family Mortgage ® Can be a Win-Win

Being on the borrowing side of a Family Mortgage can bring as many questions as being on the lending side. To help you prepare for a conversation with your Lender, here are some tips for your consideration.

Your request for money might begin as an informal conversation, maybe even over the kitchen table. It might also be a phone call, where you bring up the idea and get an encouraging response. While the first contact for a private loan should be informal, soon after, you need to demonstrate to your Lender that you have what it takes to be a good investment. The best way to do this is to make a plan with your Lender to formalize the loan.

Be ready to show your potential Lender how a National Family Mortgage ® can be as easy as possible for everyone. Your potential Lender is more likely to seriously consider your request if you can alleviate two great concerns:

(1) The loan will jeopardize your relationship.
(2) The money might be lost.

Refer to this guide to show how a Family Mortgage can be a win-win for your family.

Know How a National Family Mortgage ® Can Benefit Your Lender

In previous pages of this guide, we have described several ways that a National Family Mortgage ® can benefit Lenders. Make sure you explain these benefits to your Lender. In summary, these are:

- Tax protection
- Higher yields than other investments
- Relationship protection
- Money remains in the family
- A steady stream of income from an investment that is secured by real estate

Be Prepared to Respond to Lender Questions and Concerns

Your potential Lender may understandably have several questions and concerns about structuring a Family Mortgage. Some concerns may be personal, other concerns may be financial. We hope this guide will serve as a valuable resource to help families evaluate the pros and cons of a Family Mortgage and empower families to make an informed decision about our solutions.

Many Lenders are concerned about committing their money to a long-term mortgage arrangement. This concern can frequently be addressed when structuring your loan. Historically, most US home buyers move within 10 years, but families should establish clear loan terms from the beginning.

One potential loan structure is to amortize the loan over a long-term period, like 30 years, but establish a "Balloon" provision that requires the Borrower to pay-off the loan within a shorter time frame. Meaning, the Borrower's monthly payment is based on a 30 year payment schedule, but when the Balloon marker on the schedule is reached, the Borrower must pay-off the outstanding loan balance in full.

Some families will implement the Balloon at year 3 of the loan, or year 5 of the loan, or at year 10; it's entirely up to you. This loan structure gives the Borrower the flexibility of a long-term payment schedule, while setting a clear expectation that when the Balloon date is reached, the loan is over. Generally, this means the Borrower is expected to sell the home by the Balloon date or refinance the mortgage out of the family loan and into an institutional product with a bank.

The following pages of this guide provide many more tips and considerations on possible loan structures.

Know How a Family Mortgage Can Benefit You

In previous pages of this guide, we also described several ways that a Family Mortgage can benefit Borrowers. Since your Lender is most likely interested in helping you, too, make sure you explain how a Family Mortgage will help you. In summary, these benefits include:

- A better interest rate
- Better deals on homes
- Low fees
- Less red-tape
- Tax deductible interest

If you're interested in claiming the home loan interest deduction on your annual tax return, we can't emphasize enough how important it is to secure your loan with a Mortgage / Deed of Trust / Security Deed that has been properly recorded with your local government authority!

Q: I’m selling my home to my relative. Can’t I just download a free promissory note from the internet?

A: Sure you can! But, this is a risky choice. If you use a simple promissory note, you and your relative will need to do several things on your own to ensure that you minimize financial risk, maximize tax benefits, and avoid the emotional pitfalls of lending money to family members.

Buying a home from a relative isn't too different from buying a home from anyone else. As with any transfer of real estate, the Seller and Buyer will want to have a real estate closing with a local attorney, title company, or escrow company, that will perform a title search on the property and generate a new warranty deed.

State laws in over half of the country legally require the integration of private mortgage documentation into the Buyer’s real estate closing / settlement. As an ever increasing number of states move towards this legal standard, we follow this protocol with every Family Mortgage purchase transaction in every state across the US.

If a Lender wants to write off a defaulted loan or mortgage as bad debt, they must demonstrate to the IRS that the loan was properly documented, that the loan was legitimate, and enforcement of the loan terms was real.

Professional documentation and loan management with monthly statements, electronic payment processing, online account access, and annual IRS tax forms reduces the risk and stress of managing a complex transaction on your own.

Professional, third-party involvement helps demonstrate to the IRS that your transaction is a legitimate loan transaction. At the very least, third-party loan management provides a buffer between relatives, protects relationships, and keeps the transaction business-like.

Q: Do we really have to keep track of and report the Lender's interest income?

A: Yes — if the loan is over $10K, Lenders are legally required to report earning interest on their loan at an interest rate that meets or exceeds the proper IRS Applicable Federal Rate in effect at the time the loan is made.

Q: We're concerned that the IRS Applicable Federal Rate is rising. Is there a way for us to lock in the current IRS Applicable Federal Rate now?

A: National Family Mortgage ® requires the loan parties meet or exceed the proper IRS Applicable Federal Rate in effect at the time the loan occurs. Since most state laws require the integration of the Family Loan documents into the Borrower's real estate closing / settlement, families should use whatever AFR is in effect on the home/loan closing date.

Q: Why does it matter that we record the mortgage with public authorities?

A: If the Lender wants meaningful collateral, via a legally enforceable lien on the Borrower's home, then the lien absolutely must be recorded with the proper government authority. If the Borrower wants to claim the popular home loan interest deduction from their annual IRS tax return, the mortgage must also be recorded with the proper local government authority. Individual Borrowers are not legally entitled to claim an interest deduction on unsecured, simple Promissory Notes — even if the loan was used to purchase real estate.

Q: What if the Lender or Borrower dies during the course of the Loan?

A: If the Lender dies during the course of the loan, the statutory default will require the Borrower to repay the Lender's estate according to the original agreed upon terms of the loan. Lenders should consider updating their estate planning documents to include any explicit wishes or expectations for the debt following their death.

If the Borrower dies during the course of the loan, the statutory default still requires their estate to repay the loan at the agreed upon terms.

Q: Can a Lender forgive an outstanding loan balance upon their death?

A: Some families, under the guidance of their attorney, financial advisor, or trusted tax professional, will add an Addendum to our Promissory Note, which forgives the Borrower's debt following the Lender's death. This type of loan provision is generally referred to as a "self-cancellation clause." In practice, the self-cancellation clause removes the Family Mortgage asset from the deceased Lender's estate for estate tax purposes and is not subject to gift tax. However, the IRS has a history of scrutinizing self-canceling debts on a case by case basis, including, the age and general health of the Lender at the time of the loan. Please proceed with caution when considering the implementation of a self-cancellation provision with a Family Mortgage. As always, we strongly encourage all clients to discuss their individual, unique situation with their attorney, financial advisor, or trusted tax professional.

Q: What about a real estate appraisal, Lender's title insurance, or monthly escrow of taxes and insurance?

A: We will never discourage our Lenders from taking any additional precautions that may help safeguard their investment

Please see Page 27 of this guide for considerations about an appraisal.

If the Borrower plans to purchase a Buyer's title insurance policy at the real estate closing / settlement, many Lenders will forgo a separate Lender's title insurance policy. We suggest that our families contact the attorney / title company / escrow company that will conduct their real estate closing / settlement and verify the cost of both a stand-alone Buyer's title insurance policy and the cost of a "simultaneous policy," which includes both Buyer's and Lender's coverage. Simultaneous title insurance policies often provide significant discounts for the Lender's coverage and having such coverage can protect the Lender's lien position.

Assuming the Borrower is responsible enough to make their mortgage payment each month, presumably, they are also responsible enough to budget for their annual property taxes and home owner's insurance. However, if an escrow component of taxes and insurance is important to you, our Loan Servicing partner, FCI Lender Services, can add monthly collection and payment of these fees to the Borrower's account.

FCI Lender Services will collect and hold monthly tax / insurance proceeds in a trust account and disburse the scheduled payments to the respective authority as required. There is a one-time escrow analysis fee of $175 and a $17.50 monthly fee above and beyond the standard monthly Loans Servicing fees as outlined on Page 9 of this guide.

Q: How does the Loan Servicing work?

A: Our Loan Servicing partner, FCI Lender Services, will send monthly email statements to both the Borrower and Lender. On the first of each month, FCI will collect the Borrower's payment through an ACH pull from whatever bank account the Borrower chooses. The standard ACH clearing period of the payment is 3 - 4 business days and an ACH deposit is made to the bank account of the Lender's choice. FCI Lender Services will handle all of the accounting on the loan. Both parties have online account access, there are no prepayment penalties, and both parties will receive formal, annual IRS tax documents. The Borrower receives a 1098 tax form, used to claim the popular home loan interest deduction. The Lender receives an INT-1099, used to report the earned interest income on the loan.

The Loan Servicing is "all or nothing." Meaning, you can't just sign up for the annual tax forms. The whole platform is an automated software process which includes managing the monthly payment. Pricing for this optional Loan Servicing can be found on Page 9 of this guide.

Q: Will the Borrower's payment history be reported to the credit agencies?

A: Unfortunately, right now, the credit agencies will not honor reporting data on intra-family loan payments. In short, as the majority of National Family Mortgages ® are between parents and their adult children, the credit agencies are concerned that such loans are inherently biased. Presumably, if a Borrower loses their job, gets sick, or is dealing with another hardship, a family Lender will extend some kind of courtesy. The credit agencies are concerned National Family Mortgage clients could exploit a one-way credit building opportunity, with no penalties for late or missed payments.

FAQs

Q: Is it possible to blend a traditional bank mortgage with a Family Mortgage?

A: Absolutely! We help families with this all the time. However, it can be tricky. Please see Pages 20 of this guide for more detailed information on how to facilitate primary home financing with a bank, and secondary financing with a Family Mortgage.

Q: What are the mechanics should the Lender wish to extend the Borrower an annual financial gift?

A: If working with FCI Lender Services, there are two ways Lenders may choose to manage annual gifting to their Borrower:

Make a cash gift. The Lender makes a cash gift of up to $17K per person, with the informal expectation that the gift will be used as a principal pre-payment on the loan. The Borrower can then either mail our Loan Servicing partner, FCI Lender Services, a check for the amount of the gift, or log into their online account with FCI and authorize a larger one-time draft from their bank account on the Borrower's next standard payment date. Since there are no prepayments penalties on the loan, it doesn't cost anything to manage the gifting this way. The principal pre-payment will be credited to the Lender and all of the accounting on the loan will be updated appropriately.

Authorize a principal reduction. In lieu of giving the Borrower a cash gift, the Lender may simply elect to use their annual IRS $17K per person gift exclusion in the form of a principal reduction on the loan. This will require the Lender to send our Loan Servicing partner, FCI Lender Services, written authorization to reduce the loan balance by whatever amount the Lender wishes choose. While this approach ultimately has the same net-effect of a Borrower making a principal prepayment, technically speaking, it's considered a Lender approved reduction. Therefore, FCI will charge the Lender $65 to implement the principal reduction and update the account. Lenders should also memorialize their decision to exercise their annual gift in this way with a gift letter to the Borrower.

Conservative advisors always suggest families memorialize financial gifts in writing and maintain records of such transactions as with other important legal and tax documents. We encourage all families to discuss their individual gift strategy and potential estate planning and tax considerations with their trusted estate planner or tax advisor.

Q: How do we release the Mortgage / Deed of Trust / Security Deed on the property once the loan is over?

A: Most of our clients payoff their loan through the sale of their property. Typically, the closing attorney, title company, or escrow company that conducts the settlement on the sale of the property, will also prepare and file the lien release for the Family Mortgage.

Additionally, our Loan Servicing partner, FCI Lender Services, can prepare and file the lien release as part of closing out the family's Loan Servicing account (with the exception of properties located in Colorado.)

National Family Mortgage ® does not generate or file lien releases, assignments, or loan modifications.

National Family Mortgage ® Awards:

Conclusions

	National Family Mortgage ®	Zirtue	Pigeon Loans	Namma	Exilend	Lenme	ZimpleMoney	"Free" Legal Doc Website
State & county specific Mortgage Lien, Deed of Trust, or Security Deed Documentation	✓	✗	✗	✗	✗	✗	✗	?
Team Member coordination w/ Borrower's closing agent. Lien recording at RE closing	✓	✗	✗	✗	✗	✗	✗	✗
Tax-deductible home mortgage loan products	✓	✗	✗	✗	✗	✗	✗	?
Licensed, 3rd-party, federal & state Dodd-Frank Act compliant mortgage loan servicing solution	✓	✗	✗	✗	✗	✗	✗	✗
Licensed, year-end 1098 & INT-1099 IRS Tax Forms & IRS Reporting	✓	✗	✗	✗	✗	✗	✗	✗
Payoff Statements & National Lien Release Solution*	✓	✗	✗	✗	✗	✗	✗	✗

The Smart Way to Manage Mortgage Loans Between Family Members

The content within this guide is substantial because we believe that all families considering an intra-family mortgage loan deserve access to thorough information to help them select the best solution for their individual needs.

Since 2010, National Family Mortgage ® has successfully helped thousands of families across the US lend over $1 Billion in home loans between relatives.

We work with you, your trusted advisors, and both the Borrower's real estate agent and settlement agent to ensure a smooth and rewarding National Family Mortgage ® experience.

Lots of companies out there claim to facilitate "home loans" between relatives. Please remember, an unsecured promissory note does not equal a registered, tax deductible mortgage loan. The legal and tax ramifications of a poorly documented intra-family mortgage loan can be a nightmare for both Lenders and Borrowers alike.

Many money transfer companies also claim to "manage" loans between relatives. Please remember, the business of mortgage loan servicing is tightly regulated by federal and state laws — even when servicing mortgage loans between relatives. Don't risk having your bank account frozen by law enforcement!

Our Loan Servicing partner, FCI Lender Services, is fully compliant with all state and federal mortgage loan servicing laws under the Dodd-Frank Act, as enforced by the Consumer Financial Protection Bureau.

We help Lenders make loans they feel good about, that prevent tax problems, that protect family relationships, and get repaid.

We help Borrowers fund their home ownership dreams, build wealth, and stay on track with their mortgage payments.

We strive to make Family Mortgage lending and borrowing safe, easy, secure, and successful.

Most importantly, we would absolutely love to help you!

*Once a loan has been satisfied, our Loan Servicing partner, FCI Lender Services, can prepare and file the lien release as part of closing out your family's Loan Servicing account (with the exception of properties located in Colorado.)

NationalFamilyMortgage.com | 1.888.636.1990 | 9AM - 5PM ET, M-F

Physical Address: 300 Baker Avenue, Suite 300, Concord, MA 01742

Secure Mailing Address: 35 Beharrell Street #1451, Concord, MA 01742