

Conventional Borrower Disclosures

Please read the following disclosures carefully. You must be certain that you understand this transaction. Sign this document only after you have read all the pages. Seek professional advice if you are uncertain.

Fair Credit Reporting Act

In connection with your application for a loan, please be advised that we will order a credit report or a consumer report regarding your credit experience. This report may contain information on your character, general reputation, personal characteristics or mode of living in addition to your actual credit experience from persons or firms with which you have done business, your credit worthiness, credit standing and credit capacity. You have the right given by Federal Law to know the nature and scope of the information given in this report if you make a written request for that information. In the event we deny your application or raise the charge for extending your credit based on any information, you have the right within 60 days, pursuant to provisions of section 615(b) of the Fair Credit Reporting Act to make a written request that we disclose the nature of the information to you. We shall also advise you of the information in the consumer report and the name and address of the reporting agency. By my (our) signature below, I (we) acknowledge receipt of a copy of this information letter.

Real Estate Settlement Procedures Act (RESPA)

By my (our) signature below, I (we) hereby acknowledge receipt of a copy of the special information booklet entitled, "*Settlement Costs, a HUD Guide*".

- The loan applied for is an adjustable rate mortgage (ARM). I (we) hereby acknowledge the receipt of the special information booklet entitled "*Consumer Handbook on Adjustable Rate Mortgages*".

Equal Credit Opportunity Notice

The Federal Equal Credit Opportunity Act prohibits discrimination against credit applicants on the basis of sex or marital status. The Federal Agency which administers compliance with this law concerning this private mortgage company is the Federal Trade Commission, Washington, DC 20580. Additionally, the Federal Fair Housing Act also prohibits discrimination on the basis of race, color, religion, sex, physical disability, familial status, or national origin.

Occupancy Statement

Primary Residence

I/We hereby certify that my/our intent in seeking this loan is to obtain financing for the purchase of a home to be used as my/our principal residence, with occupancy to begin within 30 days after closing and extend for an indefinite period of time in the future.

I/We recognize that any loan made pursuant to this application is contingent upon owner occupancy, and agree that (1) failure to occupy the property as provided in this certification shall constitute a DEFAULT under the terms of the loan; and (2) in case of such default, I/we must, upon recall of the loan by MegaStar Financial Corp., its successors and/or assigns, immediately pay the full balance of the loan and any other amounts to which the company is entitled, upon default.

Second Home

I/We hereby certify that my/our intent in seeking this loan is to obtain financing for the purchase of a home to be used as my/our vacation home.

I/We recognize that any loan made pursuant to this application is contingent upon occupancy as a vacation home, and agree that (1) failure to occupy the property as provided in this certification shall constitute DEFAULT under the terms of the loan; and (2) in case of such default, I/we must, upon recall of the loan by MegaStar Financial Corp., its successors and/or assigns, immediately pay the full balance of the loan and any other amounts to which the company is entitled, upon default.

It is further understood that I/we may be required to sign a document at closing indicating that the home being financed must be available for my/our use 100% of the time.

Servicing Transfer Disclosure Statement

Notice to mortgage loan applicants: the right to collect your mortgage loan payments may be transferred. Federal law gives you certain rights. Read this statement and sign it only if you understand its contents.

Because you are applying for a mortgage loan covered by the Real Estate Settlement Procedures Act (RESPA) (12 U.S.C. Section 2601 et seq.) you have certain rights under that Federal law. This statement tells you about those rights. It also tells you what the chances are that the servicing for this loan may be transferred to a different loan servicer. "Servicing" refers to collecting your principal, interest and escrow account payments. If your loan servicer changes, there are certain procedures that must be followed. This statement generally explains those procedures.

Transfer practices and requirements

If the servicing of your loan is assigned, sold or transferred to a new servicer, you must be given written notice of that transfer. The

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present loan servicer must send you notice in writing of the assignment, sale or transfer of the servicing not less than 15 days before the date of the transfer. The new loan servicer must also send you notice within 15 days after the date of the transfer. Also, a notice of prospective transfer may be provided to you at settlement (when title to your new property is transferred to you) to satisfy these requirements. The law allows a delay in the time (not more than 30 days after a transfer) for servicers to notify you under certain limited circumstances, when your servicer is changed abruptly. This exception applies only if your servicer is fired for cause, is in bankruptcy proceedings or is involved in a conservatorship or receivership initiated by a Federal agency.

Notices must contain certain information. They must contain the effective date of the transfer of the servicing of your loan to the new servicer, the name, address and toll-free or collect call telephone number of the new servicer and toll-free or collect call telephone number of a person or department for both your present servicer and your new servicer to answer your questions about the transfer of servicing. During the 60-day period following the effective date of the transfer of the loan servicing, a loan payment received by your old servicer before its due date may not be treated by the new loan servicer as late and a late fee may not be imposed on you.

Complaint Resolution

Section 6 of RESPA (12 U.S.C. Section 2605) gives you certain consumer rights, whether or not your loan is transferred. If you send a "qualified written request" to your loan servicer concerning the servicing of your loan, your servicer must provide you with a written acknowledgment within 20 business days of receipt of your request. A "qualified written request" is a written correspondence, other than notice on a payment coupon or other payment medium supplied by the servicer, which includes your name and account number and your reasons for the request.

Not later than 60 business days after receiving your request, your servicer must make any appropriate corrections to your account and must provide you with a written clarification regarding any dispute. During this 60-day period, your servicer may not provide information to a consumer reporting agency concerning any overdue payment related to such period or qualified written request.

Damages and Costs

Section 6 of RESPA also provides for damages and costs for individuals or classes of individuals in circumstances where servicers are shown to have violated the requirements of that Section.

Servicing Transfer Estimates by Original Lender

The following is the best estimate of what will happen to the servicing of your mortgage loan:

- X 1. We do not service mortgage loans. We intend to assign, sell or transfer the servicing of your loan to another party. You will be notified at settlement regarding the servicer.
1. We are able to service this loan and presently intend to do so. However, that may change in the future. For all the loans that we make in the 12 month period after your loan is funded, we estimate that the chances that we will transfer the servicing of those loans is between: ___ 0 to 25% ___ 26 to 50% ___ 51 to 75% X 76 to 100%.
 2. This is our record of transferring the servicing of the loans we have made in the past: 1999 - 100% transferred, 1998 - 100% transferred, 1997 -100% transferred.

The estimates in 2. and 3. above do not include transfers to affiliates or subsidiaries. If the servicing of your loan is transferred to an affiliate or subsidiary in the future, you will be notified in accordance with RESPA.

Acknowledgment of Mortgage Loan Applicant

I/We have read this Disclosure form and understand its contents, as evidenced by my/our signature(s) below.

Flood Disaster Act

I/We hereby acknowledge that we have been advised of the Flood Disaster Protection Act of 1973 and the requirements for insurance if the property is determined to be located in a Flood Hazard Area as designated by the Act. I/We authorize MegaStar Financial Corp., Corp., its successors and/or assigns to purchase such insurance and agree to pay for the insurance promptly.

Private Mortgage Insurance (PMI)

If you have applied for a loan that requires Private Mortgage Insurance (PMI), federal law may give you the right to cancel Mortgage Insurance or requires automatic cancellation depending on the loan type. PMI is not property/casualty insurance that protects you against damage to the property. PMI protects lenders and/or their assigns against financial loss if a mortgage default occurs.

The "Homeowner's Protection Act" legislation outlines the regulations and categorizes the loans that are subject to the act and those that are exempt. The Act applies to conventional loans that require Private Mortgage Insurance, are owner occupied and primary residences. This includes fixed rate loans as well as adjustable rate loans regardless of the loan amount. Investor loans, vacation/second homes and 2-4 unit residences are not covered by the Act.

- You are obtaining a mortgage loans that requires Private Mortgage Insurance that is being paid by the Borrower.
- You are obtaining a mortgage loan that does not require Private Mortgage Insurance.
- You are obtaining a Mortgage loan that requires Private Mortgage Insurance but the Lender is paying it.

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Cancellation Policy for Borrower Paid Private Mortgage Insurance (BPMI):

Borrower Requested Cancellation of PMI

You have the right to request that PMI be canceled on or after the following dates:

- The date will be disclosed to you at closing at closing for fixed rate loans. For balloon loans, if applicable, this date will not be reached before the loan matures.
- The date the principal balance of your loan is first scheduled to reach 80% of the original value of the property. The date the principal balance actually reaches 80% of the original value of the property.

“Original value” means the lesser of the contract sales price of the property or the appraised value of the property at the time the loan is closed. *If your loan is a fixed rate, you will be provided an actual date and amortization schedule at closing. If you select an adjustable rate loan, you will be notified when these dates are reached.*

PMI will only be cancelled if all the following conditions are satisfied:

- You submit a written request for cancellation
- You have a good payment history, and
- We receive, if requested and at your expense, evidence that the value of the property has not declined below its original value, and certification that there are no subordinate liens on the property.

A “Good Payment” history means no payments 60 or more days past due within two years and no payments 30 days or more past due within one year of the cancellation date.

Automatic Termination of PMI

If you are current on your loan payments, PMI will automatically terminate on the date the principal balance of your loan is first scheduled to reach 78% of the original value of the property. *For balloon loans, if applicable, this date will not be reached before the loan matures.* The date is called the “termination date”. If you are not current on your loan payments as of the termination date, PMI will automatically terminate when you thereafter become current on your payments.

Exception to Cancellation and Automatic Termination

The cancellation and automatic termination requirements described above do not apply to certain loans that may represent a higher risk of default, only loans subject to the Homebuyer’s Protection Act described above.

Cancellation/Termination Policy for Lender Paid Mortgage Insurance (LPMI)

If your loan requires PMI and the lender paid option is selected, the insurance differs from “Borrower Paid Mortgage Insurance” (BPMI). LPMI has advantages and disadvantages.

First, you, the borrower, may not cancel LPMI. By contrast, borrowers may be able to cancel BPMI on either (1) the date the principal balance of the mortgage loan is first scheduled to reach 80% of the original value of the property, or (2) the date the principal balance actually reaches 80% of the original value of the property.

Second, LPMI usually (1) results in a mortgage loan with a higher interest rate than one with BPMI, and (2) terminates only when the loan is refinanced, paid off or otherwise terminated.

Third, LPMI may be tax deductible for purposes of federal income taxes if you itemize deductions on your return. Consult your tax advisor for details.

You may have the right to cancel MI when the LTV reaches 80% of the original value of the property at the time the loan was closed. It will only be cancelled if you submit a written request, have a good payment history and provide satisfactory evidence at your expense, that the value of the property has not declined.

Automatic termination will occur on the date the principal balance reaches a 78% LTV based on the original value of the property. The original value is defined as the lesser of the sales price or appraised value of the property at the time of origination.

Loans with Balloon Features do not permit the cancellation or automatic termination before the loan matures.

Certain loans that represent a higher risk of default will not be eligible for cancellation and automatic termination, nor will loans with lender paid Mortgage Insurance (LPMI). LPMI loans usually result in a higher interest rate and will only terminate when the loan is refinanced or paid off. LPMI loans may be tax deductible if you itemize your taxes. Consult your tax advisor for details.

An amortization schedule showing the principal and interest due on your mortgage, along with the balance remaining after each scheduled payment is attached for your reference. Please note the dates that your loan will reach a LTV of 80% and a LTV of 78%.

The Cancellation and Termination provisions described above do not apply to your loan.

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Rate And Discount Commitments

Without a written Rate and Discount Commitment executed by the Lender, any verbally discussed interest rate and or discount points are not binding upon the Lender. If a loan is locked and you receive written confirmation of the rate, the loan must close and disburse on or before the date of expiration under the exact terms, loan amount and product outlined in your written commitment. The rate cannot be guaranteed if there are any changes made.

Brokered Loans

From time to time MegaStar Financial Corp., Corp., will use a source of funding for mortgage loans other than our own. We have entered into independent contractor agreements with various lenders in an effort to assist you in meeting your financial needs. We do not distribute the products of all lenders in the market and cannot guarantee the lowest price or best terms available in the market.

If we choose to use a source of funding other than our own, we will be acting as an independent contractor and not as your agent. The price we offer you – your interest rate, total points and fees – will include our compensation. In some cases, either you or the lender may pay us all of our compensation. Alternatively, both you and the lender may pay us a portion of our compensation. For example, in some cases, if you would rather pay a lower interest rate, you may pay higher up-front points and fees. Also, in some cases if you would rather pay less up-front, you may be able to pay some or all of our compensation indirectly through a higher interest rate in which case we will be paid directly by the lender. We also may be paid by the lender based on (i) the value of the mortgage loan or related servicing rights in the market place or (ii) other services, goods or facilities performed or provided by us to the lender.

The amount of fees and charges that you pay in connection with loans that fall within this category will be estimated on your Good Faith Estimate. The final amounts will be disclosed on you HUD-1 or HUD 1A Settlement Statement.

Right to Receive Appraisal

If an appraisal report was required as part of the loan program you chose, you have the right to a copy of the appraisal report used in connection with your application for credit. If you wish a copy, please write to us at the mailing address we have provided below. We must hear from you no later than 90 days after we notify you about the action taken on your credit application or you withdraw your application. In order to obtain a copy of the appraisal report and if you have not already paid for the cost of the appraisal, you must do so at the time you make your request. In your letter, please provide 1) your name, 2) your loan number, and 3) the property address. Send request to MegaStar Financial Corp., 55 Madison Ave., # 500, Denver, CO 80206, Attention: Compliance Coordinator.

Notice to Mortgage Loan Applicant – Appraisal Alternatives

As part of the review of your mortgage loan application, Megastar may obtain an alternative type of property valuation rather than an appraisal. This means that the acceptability of your property as collateral for your loan may be confirmed by a property valuation model and/or an exterior only inspection or by some other means that is not an appraisal of the property. This appraisal alternative we obtain is for lending purposes only and should not be relied upon to protect your interests in the transaction (for example, to confirm the purchase price of the property). If you prefer, you may request an appraisal in lieu of an appraisal alternative.

Authorization To Release Information

I/We hereby authorize MegaStar Financial Corp., hereinafter referred to as "Lender", any investor to whom Lender may sell my mortgage, and the mortgage guaranty insurer (if applicable), to verify my/our past and present employment earnings records, bank accounts, stock holdings, and any other asset balances needed to process my/our mortgage loan application. I/We further authorize Lender and the mortgage guaranty insurer (if applicable), to order a consumer credit report and verify other credit information including past and present mortgage and landlord references. It is understood that a photocopy of this form will also serve as authorization.

The information obtained is only to be used in the processing of my/our application for a mortgage loan or as part of the Lender's and mortgage guaranty insurer's quality control program.

Privacy Act Notice: The information to be obtained will be used by the Lender and any federal agency insuring, guaranteeing or purchasing the mortgage to determine whether you qualify as a prospective borrower under the Lender's and the agency's underwriting standards. The information will not be disclosed outside the Lender and the federal agency without your consent except to the person or company verifying the information including, but not limited to, your employer, bank, lender and any other credit reference as needed to verify other credit information and as permitted by law. You do not have to give us this information, but if you do not, your mortgage loan application may be delayed or rejected. The information we obtain is authorized by Title 38, U.S.C. Chapter 37 (if VA); and 12 U.S.C. Section 1701 et seq. (if HUD/FHA).

Borrower: _____ Date: _____ Social Security # _____

Borrower: _____ Date: _____ Social Security # _____

I HEREBY CERTIFY THAT the borrower has been counseled regarding the information and disclosures set forth above.

MegaStar Financial Corp., _____ Date: _____ By my signature below I HEREBY CERTIFY THAT the lender has counseled me, and that I have read and fully understand the information and disclosures set forth above.

Applicant Date Applicant Date

