STATE OF COLORADO ATTORNEY GENERAL'S OFFICE CONSUMER PROTECTION SECTION ______________________________ In re: ARBOR FINANCIAL, INC. Respondents: ARBOR FINANCIAL, INC., a Colorado corporation; JOHN R. VAN BUREN, individually and as Chief Executive Officer thereof; and ZESHAN S. RAJPUT, individually.	
JOHN W. SUTHERS, Attorney General JAN MICHAEL ZAVISLAN, Deputy Attorney General ANDREW P. McCALLIN, First Assistant Attorney General JENNIFER MINER DETHMERS, Assistant Attorney General 1525 Sherman Street, 7th Floor Denver, CO 80203 (303) 866-2296 Fax: (303) 866-4916 Email: jennifer.dethmers@state.co.us	
ASSURANCE OF VOLUNTARY COMPLIANCE AND DISCONTINUANCE WITH ARBOR FINANCIAL, INC., JOHN R. VAN BUREN, AND ZESHAN S. RAJPUT	

This Assurance of Voluntary Compliance and Discontinuance ("Assurance") is entered into between the State of Colorado, ex rel. John W. Suthers, Attorney General, and Respondents Arbor Financial, Inc., John R. Van Buren, and Zeshan S. Rajput (collectively, "Respondents"). This Assurance is entered into pursuant to the Attorney General's powers under § 6-1-110(2), C.R.S. (2007), and is being agreed to by the parties in lieu of the Attorney General filing a complaint against Respondents for the conduct described below.

I. PARTIES

1. John W. Suthers is the duly elected Attorney General for the State of Colorado and has express jurisdiction to investigate and prosecute violations of the Colorado Consumer Protection Act (“CCPA”), § 6-1-101, *et seq*., C.R.S. (2007).

2. Respondent Arbor Financial, Inc. (“Arbor Financial”) is a Colorado corporation with its principal place of business located at 7900 East Union Avenue, 11th Floor, Denver, Colorado 80237. Arbor Financial is a mortgage brokerage firm or mortgage originator. Arbor Financial advertises, markets, and brokers mortgages for residential properties in Colorado. Upon information and belief, Arbor Financial is in the process of dissolving the corporation and declaring bankruptcy. Arbor Financial understands and agrees that this Assurance shall apply to Arbor Financial, as well as any principals, officers, directors, agents, employees, representatives, loan officers, successors, affiliates, subsidiaries, assigns and any person acting on behalf of Arbor Financial.

3. Respondent John R. (“Johnny”) Van Buren is a licensed mortgage broker with the State of Colorado and the current Chief Executive Officer and registered agent of Arbor Financial. This Assurance also applies to him personally, so long as he is affiliated with Arbor Financial or any other mortgage brokerage firm in which he owns an interest or over which he has control.

4. Respondent Zeshan (“Zee”) S. Rajput is a licensed mortgage broker with the State of Colorado and a former owner of Arbor Financial. In the past, Rajput served as the President and registered agent of Arbor Financial. This Assurance also applies to him

personally, so long as he is affiliated with Arbor Financial or any other mortgage brokerage firm in which he owns an interest or over which he has control.

II. FACTUAL BACKGROUND

5. Pursuant to the CCPA, Colorado Attorney General John W. Suthers has conducted an investigation into the advertising activities of Arbor Financial.

6. Arbor Financial advertised, marketed, and brokered option adjustable rate mortgages ("option ARMs") and other non-traditional or hybrid loan products. Arbor Financial calls its option ARM loans the "40YR SmartChoice Mortgage" and the "SecureChoice Mortgage." These option ARM loans allowed a borrower to choose from four payment options each month: (a) a minimum payment based on the "Start Rate," also described as the "max cash flow" loan; (b) an interest-only payment based on the "Effective Rate"; (c) a 15-year amortizing payment of principal and interest based on the "Effective Rate"; or (d) a 30-year amortizing payment of principal and interest based on the "Effective Rate." The "Start Rate" was a very low introductory or "teaser" rate while the "Effective Rate" was the fully indexed rate, comprised of the index rate plus a margin.

7. Arbor Financial ran newspaper and website advertisements in the *Rocky Mountain News* and *The Denver Post* from 2004 through 2007 that advertised its option ARM loan products.[1] The State contends that these option ARM advertisements only disclosed low introductory rates and the resulting low monthly minimum payments associated with those

rates. By using such terms as "fixed," the State contends that the advertisements were designed to suggest that the consumer could expect to pay those rates throughout the life of the loan. Van Buren and/or Rajput approved the advertising content and design of the newspaper advertisements.

8. The State contends that these newspaper advertisements did not disclose many of the key features of the advertised loans. Specifically, the State contends that these advertisements did not disclose any potential for negative amortization or deferred interest, the negative amortization life cap and resulting payment shock from recasting, the limited time period during which the low teaser rates applied, and applicable prepayment penalties.

9. Arbor Financial's advertisements also claimed that some of its loans had zero or no closing costs. In some loans, Arbor Financial actually charged closing costs to the borrower but wrapped the closing costs into the total loan amount so that the borrower did not pay the closing costs as separate costs up front. In other loans, Arbor Financial paid the closing costs, but the borrower paid a higher interest rate for not having to pay closing costs.

10. While Arbor Financial encouraged prospective customers to contact the company for a free appraisal and consultation, customers had to pay for the appraisal at the time of the appraisal. Arbor Financial automatically credited the cost of the appraisal to the customer *only if* the customer closed a loan with Arbor Financial. If the prospective customer decided not to close a loan with Arbor Financial, however, then Arbor Financial used its discretion in

[1] Arbor Financial also purchased leads from such organizations as "LowerMyBills.com," and individual loan officers at Arbor Financial may have sent out direct mail pieces to

determining whether or not to refund the appraisal fee. Even though some of the advertisements contained a disclaimer stating that Arbor Financial would refund appraisal fees upon loan funding, consumers still complained to Arbor Financial about its "free" appraisal offer.

11. Finally, the State contends that Arbor Financial's advertisements did not comply with the Colorado Uniform Commercial Credit Code ("UCCC"), the federal Truth in Lending Act ("TILA"), or Regulation Z. While Arbor Financial included an Annual Percentage Rate ("APR") in many of its advertisements, it did not necessarily use the proper method to calculate the APR. For instance, Arbor Financial advertised a 1.75%, 5-year fixed loan with an APR of 1.77%. Arbor Financial calculated this 1.77% APR by adding the finance costs of the loan to the teaser rate of 1.75%. This method of calculating APR is incorrect and does not comply with TILA or Regulation Z.[2]

12. The State contends that, due to the extremely low introductory rates in its newspaper advertisements, Arbor Financial would receive an average of five to seven telephone calls per day from prospective consumers in 2006.

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prospective customers.

[2] In response to a Cease and Desist Advisory Notice issued by the State of Colorado Department of Law in November 2004, Arbor Financial agreed to correct its advertisements and ensure compliance with TILA, the UCCC, and all other applicable laws. The Cease and Desist Advisory Notice specifically stated that Arbor Financial's advertising did not contain accurate APRs and directed Arbor Financial to relevant statutes and regulations that detailed how to correctly compute APRs.

13. As such, the State contends that these misrepresentations and omissions of material facts may have caused significant financial harm to Colorado consumers and have the potential to continue despite Arbor Financial's pending bankruptcy and corporate dissolution. Van Buren, the current owner of Arbor Financial, has an active mortgage broker license that does not expire until December 7, 2009. Rajput, one of the part-owners of Arbor Financial during the time when Arbor Financial advertised option ARM loans, also has an active mortgage broker license that will not expire until December 7, 2009. While Van Buren and Rajput have represented that they plan to stop working as mortgage brokers, both Van Buren and Rajput live and work in Colorado.

14. The State contends that these advertising and sales practices violate the CCPA, including § 6-1-105(1), C.R.S. (2007) and § 38-40-105, C.R.S. (2007).

III. DEFINITIONS

15. "CHARM Booklet" means the Consumer Handbook on Adjustable-Rate Mortgages published by the Federal Reserve Board.

16. "Clear and Conspicuous" or "Clearly and Conspicuously" as used herein shall have the same meaning as these terms are used in the Federal Reserve Board's proposed revisions to the advertising standards found in Regulation Z (12 CFR § 226.24) (proposed revisions attached hereto as exhibit "E", 73 Fed. Reg. 1672, 1722 – 1724 (January 9, 2008)).

17. "Credit score" means a numerical value that ranks a borrower's credit risk based upon a statistical evaluation of the borrower's credit history as determined by the Fair Isaac Corporation.

18. “Loan to value ratio” means the relationship between the loan amount and the value of the property (the lower of the appraised value or sales price), expressed as a percentage of the property’s value.

19. “Nontraditional Mortgage” means any residential mortgage loan product that allows the borrower to defer repayment of principal or interest. This includes all interest only products, payment option ARMs and negative amortization mortgages, with the exception of reverse mortgages and home equity lines of credit, other than a simultaneous second-lien loan.

20. “Reference rate” means an interest rate benchmark upon which an adjustable rate mortgage is based, such as the U.S. Treasury Index or the London Interbank Offered Rate (“LIBOR”).

IV. UNDERTAKINGS

21. Respondents enter this Assurance as a compromise and settlement of the State’s allegations herein. This Assurance shall not be considered an admission of violation for any purpose. Respondents expressly deny liability under the CCPA and are entering into this Assurance to avoid further costs and litigation. Respondents assure the State that Van Buren and Rajput and any future loan officers employed by Arbor Financial, as well as any principals, officers, directors, agents, employees, representatives, successors, affiliates, subsidiaries, assigns, contractors, and any person acting on Arbor Financial’s behalf shall comply with the CCPA as now constituted or as may hereafter be amended in conducting business in the State of Colorado.

A. Disclosures Provided to Borrowers Applying for Variable Rate or Non-Traditional Loan Products.

22. In discussing any loan product with a consumer, Respondents shall not represent that the introductory rate is the applicable interest rate for longer than the introductory period. Respondents shall affirmatively disclose the following:

a) The precise term of any introductory rate;

b) The interest rate the consumer will likely pay after the expiration of that interest rate;

c) The consumer's estimated monthly payment for each payment option upon the expiration of that introductory rate; and

d) The maximum monthly payment the consumer may have to pay under the loan.

Additionally, Respondents shall not represent the introductory rate as the "interest rate" for purposes of the Good Faith Estimate.

23. Respondents shall not provide any consumer with a TILA disclosure based solely on the introductory rate without simultaneously providing the consumer with a TILA disclosure based upon the composite of the rate in effect during the introductory period and the rate that is the basis of the loan for the remainder of the term. Copies of both TILA disclosures shall be part of the consumer's loan file.

24. Twenty-four (24) hours before closing on an ARM loan, Respondents shall provide the borrower with a completed copy of the ARM Illustration & Loan Comparison Worksheet, which is attached hereto as **Exhibit A.**

25. Twenty-four (24) hours before closing an interest-only, option ARM, or other nontraditional mortgage, Respondents shall provide the borrower a completed copy of the Nontraditional ARM Illustration & Loan Comparison Worksheet, which is attached hereto as **Exhibit B**.

26. Respondents must fill in all information accurately in the ARM and/or Nontraditional ARM Illustration & Loan Comparison Worksheets. A copy of the executed ARM and/or Nontraditional ARM Illustration & Loan Comparison Worksheets shall be the borrower's to keep.

27. The borrower must keep the ARM and/or Nontraditional ARM Illustration & Loan Comparison Worksheets for twenty-four (24) hours before the borrower's loan is closed.

28. The completed and signed ARM and/or Nontraditional ARM Illustration & Loan Comparison Worksheets must be part of the borrower's loan file maintained by Respondents. Twenty-four (24) hours before closing, Respondents must verify that the borrower has been provided a current copy of the CHARM Booklet. If one has not been provided, Respondents shall give a copy of a current CHARM Booklet to the borrower twenty-four (24) hours before closing on an ARM loan product. A current copy of the CHARM Booklet is attached

hereto as **Exhibit C.** Respondents shall go to www.FederalReserve.gov to obtain the most current copy of the CHARM Booklet. The CHARM Booklet will be the borrower's to keep.

29. When the borrower has received the ARM and/or Nontraditional ARM Illustration & Loan Comparison Worksheets and Respondents have verified that the borrower has received the CHARM booklet and has kept them for at least 24 hours, the borrower and Respondents shall sign and date a Confirmation of Receipt Form, attached hereto as **Exhibit D**.

30. Respondents shall adhere to the duty of good faith and fair dealing found at § 12-61-904.5, C.R.S. (2007), follow the reasonable inquiry standards set forth at § 12-61-904.5(1)(b), C.R.S., the reasonable, tangible net benefit standards set forth at § 12-61-904.5(1)(a), C.R.S. and any rules adopted by the Division of Real Estate pertaining to these standards.

B. Advertising of Mortgage Loan Products.

31. When creating any advertisement, marketing or promotional material for any mortgage loan products, Respondents shall follow the advertising standards set forth in Regulation Z, 12 CFR § 226.24, including the revisions to this Regulation as proposed by the Federal Reserve Board and published in the Federal Register on January 9, 2008. 73 Fed. Reg. at 1722 -1724, attached hereto as **Exhibit E.**

32. Respondents shall also follow the Official Staff Interpretations for the proposed revisions to Regulation Z's advertising standards (12 CFR § 226.24) found at 73 Fed. Reg. at 1729 – 1731.

33. In the event the Federal Reserve Board adopts provisions to Regulation Z's advertising standards that are different than those proposed, then Respondents must follow the advertising standards as adopted.

34. Any advertisements Respondents run that include an interest rate, including an annual percentage rate shall, in addition to complying with the above requirements as well as TILA and the UCCC, include Clear and Conspicuous disclosures regarding any qualifications a borrower must have to obtain the advertised interest rate, including, but not limited to, credit score, minimum down payment, and loan-to-value ratio and the period during which the advertised interest rate will be in effect (*i.e.*, if advertising an interest rate that is fixed for the first two years of the loan, the advertisement shall state this fact.)

35. Advertisements for loans featuring no closing costs, no payments for a set time period, no document loans or reduced documentation or that income need not be verified shall also contain Clear and Conspicuous disclosures that such features will cause the borrower to finance a greater amount or pay a higher interest rate.

36. Any advertisements that Respondents run which offer free appraisals or no appraisal fees must Clearly and Conspicuously state the conditions for receiving the free appraisal. For example, if the borrower must pay for the appraisal at the time of appraisal and the Respondents reimburse or credit the appraisal fee to the borrower at a later time, and only if the loan closes, then the advertisement must state as such.

37. The advertising standards set forth in this subsection IV(B) shall apply to all advertisements, marketing or promotional materials issued by Respondents, including but not

limited to, newspaper and magazine advertisements, direct mail, flyers, brochures, emails, faxes, websites, telemarketing, billboards and banner or pop-up advertising that is disseminated electronically. In this regard proposed subparagraph 12 CFR § 226.24(f)(4) (excluding envelopes, banner advertising and pop-up advertising) shall not apply to exclude this form of advertising from the requirements found in this subsection IV(B).

V. ENFORCEMENT

38. Violation of any of the terms of this Assurance shall constitute a prima facie violation of the CCPA in accordance with § 6-1-110(2), C.R.S. (2007). Upon any violation of this Assurance by a Respondent, the Attorney General shall be entitled to file a civil action under the CCPA in any court of competent jurisdiction and to seek an injunction or other appropriate order from such court to enforce the provisions of this Assurance.

39. In addition to any remedies provided under the CCPA, the Attorney General will also be entitled to apply for and seek from a court of competent jurisdiction an order converting this Assurance into a permanent injunction against a Respondent as if the parties had fully litigated all issues contained herein, upon a showing by the Attorney General's Office of a violation by a Respondent of this Assurance. In such event, Respondents agree to waive any and all defenses and counterclaims they may have had to such an action, except as to claims or defenses related to the alleged violation of this Assurance or as to the need for injunctive relief.

40. This Assurance shall not be construed to affect the rights of any private party to pursue remedies pursuant to § 6-1-113, C.R.S. (2007), or under any other statutes through claims or actions in common law.

41. Nothing in this Assurance shall be construed to release claims held by any other government authority.

42. Pursuant to § 6-1-110(2), C.R.S. (2007), this Assurance shall be a matter of public record.

43. The person who signs this Assurance in a representative capacity for Arbor Financial warrants that he or she is duly authorized to do so. Respondents each acknowledge that they have had a full opportunity to review this Assurance and consult with legal counsel regarding same. Respondents agree and represent that they have read and understand this Assurance, that they accept the legal consequences involved in signing it and that there are no other representations, agreements or understandings between Respondents and the State that are not stated in writing herein.

44. Respondents and his principals, officers, directors, agents, employees, representatives, successors, affiliates, subsidiaries, assigns, loan officers, contractors and any person acting on behalf of Respondents agree to cooperate with all investigations and other proceedings that the State may bring to enforce the terms of this Assurance or to enforce the CCPA against any other entity. Included within this cooperation agreement is the obligation to:

a) Appear for hearings, depositions or provide testimony in any form (including affidavits). All such testimony shall be truthful;

b) Produce documents, records, electronic records or any other tangible things in response to a subpoena or other written request issued by the State; or

c) Accept a subpoena from the State without the need for service of process.

45. Any notices, complaints or other documents required by this Assurance (including any request or subpoena) shall be sent to the following individuals at the address, email or fax set forth below:

To Respondents Arbor Financial and John R. Van Buren at:

____
____
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Email: ____________________________
Fax: ____________________________
Phone: ____________________________

To Respondent Zeshan S. Rajput at:

____
____
____
Email: ____________________________
Fax: ____________________________
Phone: ____________________________

To The State at:

Jennifer Miner Dethmers
Assistant Attorney General
Antitrust, Tobacco, and Consumer Protection Unit
Consumer Protection Section
1525 Sherman Street – 7th Floor
Denver, CO 80203
Email: jennifer.dethmers@state.co.us
Fax: (303) 866-2296
Phone: (303) 866-5079

Dated: __________________

RESPONDENTS ARBOR FINANCIAL, INC. and
JOHN R. VAN BUREN

By: __________________________________
(Signature)

____
John R. Van Buren, individually and
as Chief Executive Officer of Arbor Financial, Inc.

RESPONDENT ZESHAN S. RAJPUT

By: __________________________________
(Signature)

____
Zeshan S. Rajput

Dated: _____________________

JOHN W. SUTHERS
Attorney General

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JENNIFER MINER DETHMERS
Assistant Attorney General
Consumer Protection Section

ARM ILLUSTRATION & LOAN COMPARISON WORKSHEET

Important Facts About Your Adjustable Rate Mortgage

Whether you are buying a house or refinancing your mortgage, this information can help you decide if an adjustable rate mortgage (ARM) is right for you. ARMs can be complicated. If you do not understand how they work, you should not sign any loan contracts, and you might want to consider other loans.

With an ARM, the interest rate on your loan is not fixed. Instead, it changes over time according to a formula, typically a base interest rate (index) plus a certain percent (margin) (for example, the Prime Rate plus 3 percent). So, if the base interest rate increases, your interest rate and monthly payment will also increase.

Important Information:

- ► **Your broker must check each term that applies to the loan you are considering**
- ► **After reading each term, please initial the box next to the term**
- ► **You must have this ARM Illustration and Loan Comparison Worksheet for at least 24 hours before applying for a loan**
- ► **After you have read and completed both pages, please sign and date it on the last page and return it to your mortgage broker**

Check if this term applies ☐	**Your Initials** ______	**Your loan will have a reduced initial interest rate.** Some ARMs have a reduced interest rate (start rate) for a short period of time, for example, the first two years of the loan. The reduced interest rate is less than the index plus margin rate. This means that your interest rate and monthly payments will be lower than normal for the first two years. However, your interest rate and monthly payment may increase significantly when that period is over – even if market rates stay the same. And your interest rate and monthly payment will increase even more if market rates rise.
Check if this term applies ☐	**Your Initials** ______	**Your monthly payment will not include an amount to cover taxes and insurance.** In some mortgages, your monthly payment includes both principal and interest and an amount to cover real estate taxes and home insurance and your lender pays your taxes and insurance out of these funds. In other mortgages, your monthly payment covers only principal and interest and you are responsible for paying real estate taxes and insurance premiums when the bills arise. When you are comparing mortgages, or deciding whether you can afford a mortgage, you need to consider whether the monthly payment includes an amount to cover estimated taxes and insurance.
Check if this term applies ☐	**Your Initials** ______	**You will be required to pay a prepayment penalty if you pay off your loan within _____ months. [Insert term of prepayment period.] The amount of the penalty will be _________________. [Insert amount or formula for calculating prepayment penalty.]** Some ARMs require you to pay a large prepayment penalty if you sell your home or refinance during the first few years of the loan. A prepayment penalty can make it difficult, or very expensive, to sell your home or refinance, which you may need to do if your interest rate, and therefore your payment, is about to increase significantly. Under Colorado law, a mortgage broker cannot recommend or induce a borrower to enter into a mortgage that contains a prepayment penalty that extends past the adjustment date for any type of ARM.
Check if this term applies ☐	**Your Initials** ______	**Your loan will have a balloon payment.** Most mortgages are set up so that you pay off the loan gradually by the monthly payments that you make over the loan term (for example, 30 years). Some ARMs, however, are set up with "balloon payments" where you make the same monthly payments that you would for a 30-year loan, but after a shorter period of time (for example, 10 years) the entire remaining balance of the loan is due. When the balloon payment is due you will usually need to refinance your loan to pay it, or sell your home if you cannot refinance the loan.
Check if this term applies ☐	**Your Initials** ______	**Your loan will have a higher price because of reduced documentation.** "Reduced documentation" or "stated income" loans usually have higher interest rates or other costs compared to "full documentation" loans where you document your income, assets, and liabilities. These higher costs can be substantial.

LOAN COMPARISON WORKSHEET
READ CAREFULLY

How to compare loan terms: The Loan Amount, Loan Type, Rate, and Note Payment should be compared to the Note you sign at closing. You should scrutinize the costs on the Good Faith Estimate in light of this disclosure, or a revised version of this disclosure, and compare with the HUD Settlement Statement at closing. **You are not obligated to take this loan. Consider your options carefully.**

Comparing Monthly Payments for Refinances: If you are refinancing your existing loan your monthly payments will change as follows by taking out a Loan Amount of $_________: [Circle or Insert term of ARM]:
1
3

Current Loan Type: ☐ Fixed ☐ ARM
Current principal and interest: $ _______________
Current monthly reserves: _______________
Current total: $ _______________

Proposed Loan Type: ☐ Fixed ☐ 5 yr ARM
Proposed principal and interest: $ _________________
Proposed monthly reserves: _________________
Proposed total: $ _________________

Qualifying Monthly Income: The loan being offered to you is based on your gross monthly income of $ _________. The starting payment on this loan, including taxes, insurance and other items will be ____% of your gross monthly income.

Monthly Payments and Amortization (loan balance reduction): Your loan does ☐ does not ☐ contain payment features or options that may result in no reduction in your principal balance owed over time or possibly an increase in the amount you must repay over time. In certain cases the payment choice you make early in the life of the loan may result in an effect known as "payment shock." Payment shock results when you choose to make a payment that is insufficient to retire or "amortize" the loan balance over the life of the loan. In such situations, the loan will "reprice" or "recast" to a new payment amount, which may be substantially higher than you are accustomed to paying. This effect is also referred to as "negative amortization" or "deferred interest." Your loan representative should explain these features to you, including realistic examples of how the choices you make can affect the amount of money you owe.

Prepayment Penalty: Applicable to your loan ☐ Not applicable to your loan ☐
A prepayment penalty means that if you attempt to pay off or refinance the loan early, you will pay a penalty in **ADDITION** to the interest and principal due under the loan.

If you refinance or sell your house prior to ______________ you will pay a prepayment penalty of $______________, or ________% of the principal loan balance.

The adjustment date for your ARM is ________________________, 20____.
The prepayment penalty does ☐ does not ☐ extend past the adjustment date for your ARM.

Balloon Payment: Applicable to your loan ☐ Not applicable to your loan ☐
A balloon payment is a final lump sum payment due at the end of your loan. If you do not have the funds to pay off the balloon payment when due, you may have to obtain a new loan to make the balloon payment. If you do not have the money to make the balloon payment, you may lose your property and all of your equity in your home through foreclosure. Before deciding to take this loan, consider your ability to pay the balloon payment. The balloon payment on this loan is due______years from the date your loan begins. The final balloon payment due is $_______.

Demand Payment: Applicable to your loan ☐ Not applicable to your loan ☐
A demand payment provision means that the holder of your loan can demand payment in full if certain conditions are met. Before deciding on this loan, ask your broker or lender what circumstances allow the holder of the loan to demand payment in full.

Reduced Documentation: Applicable to your loan ☐ Not applicable to your loan ☐
Your loan is being underwritten and approved without full documentation of your employment, income, or financial situation. Regardless, all statements made by you or your loan representative must be accurate and true. Inaccurate or untruthful statements are a serious violation of law and may result in criminal penalties. Your loan representative should explain to you any additional cost associated with a reduced documentation loan.

To be completed by Borrower:

I have received the foregoing ARM Illustration and Loan Comparison Worksheet and have had it for at least 24 hours before applying for an ARM. I have read the ARM Illustration and have completed the Loan Comparison Worksheet and understand them. I have received a filled out copy of this Illustration and Loan Comparison Worksheet to keep.

Dated: ________________

_________________________________ _____________________________

Borrower's signature Borrower name (please print)

To be completed by Arbor Financial, Inc., John R. Van Buren, or Zeshan S. Rajput

I hereby certify that I provided the above ARM Illustration and Loan Comparison Worksheet, filled them out as accurately as possible, and provided them to the borrower at the time and date indicated below:

Delivered to borrower on:

________________________ (date)

at ________________________ (time)

and, Borrower returned a signed copy of the same to me at least 24 hours after having had them and the CHARM Booklet on the following date and at the following time:

Received from borrower:

________________________ (date)

at ________________________ (time)

Signed on behalf of ____________________

By: _______________________________ Date: _____________________________

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Print Name and Title

NONTRADITIONAL ARM ILLUSTRATION & LOAN COMPARISON WORKSHEET

Important Facts About Interest Only and Payment Option ARM Mortgages

Whether you are buying a house or refinancing your mortgage, this information can help you decide if an interest-only mortgage or a payment option mortgage is right for you. These mortgages can be complicated. If you do not understand how they work, you should not sign any loan contracts, and you might want to consider other types of loans.

Important Information:

- ► **Your broker must check each term that applies to the loan you are considering**
- ► **After reading each term, please initial the box next to the term**
- ► **You must have this ARM Illustration and Loan Comparison Worksheet for at least 24 hours before applying for a loan**
- ► **After you have read and completed all pages, please sign and date it on the last page and return it to your mortgage broker**

Check if this term applies ☐	**Your Initials** ______	**Interest-Only Mortgages** allow you to pay only the interest on the money you borrowed for the first few years of the mortgage (the "interest-only period"). **If you pay only the amount due, then at the end of the interest-only period:** • You will still owe the original amount you borrowed. • Your monthly payment will increase because you must pay back the principal as well as interest. Your payment could increase even more if you have an adjustable rate mortgage ("ARM") and interest rates increase.
Check if this term applies ☐	**Your Initials** ______	**Payment Option Mortgages** allow you to choose among several payment options each month during the first few years of the loan (the "option period"). The option period will end earlier than scheduled if the amount you owe grows beyond a set limit—for example, 110% or 125% of your original mortgage amount. **During the option period, the payment options usually include:** • A payment of principal and interest, which reduces the amount you owe over time. • An interest-only payment, which does not reduce the amount you owe. • A minimum payment, which may be less than the interest due that month. *If you choose this option, any unpaid interest will increase the amount you owe.* **At the end of the option period, depending on what payment options you chose:** • You could owe substantially more than the original amount you borrowed. • Your monthly payment could increase significantly because: ➢ You may have to start paying back principal, as well as interest. ➢ Unpaid interest may have increased the amount you owe. ➢ Interest rates may have increased (if you have an ARM).
Check if this term applies ☐	**Your Initials** ______	**You will be required to pay a prepayment penalty if you pay off your loan within _____ months. [Insert term of prepayment period.] The amount of the penalty will be _________________. [Insert amount or formula for calculating prepayment penalty.]** Some ARMs require you to pay a large prepayment penalty if you sell your home or refinance during the first few years of the loan. A prepayment penalty can make it difficult, or very expensive, to sell your home or refinance, which you may need to do if your interest rate, and therefore your payment, is about to increase significantly. Under Colorado law, a mortgage broker cannot recommend or induce a borrower to enter into a mortgage that contains a prepayment penalty that extends past the adjustment date for any type of ARM.
Check if this term applies ☐	**Your Initials** ______	**Your loan will have a higher price because of reduced documentation.** "Reduced documentation" or "stated income" loans usually have higher interest rates or other costs compared to "full documentation" loans where you document your income, assets, and liabilities. These higher costs can be substantial.

Additional Information

➢ **Home Equity –** If you make interest-only payments, your payments are not building home equity. And if you make only the minimum payment on an Option ARM mortgage, you may be losing home equity. This may make it harder to refinance your mortgage or to obtain funds from selling or refinancing your home.

➢ **Yield Spread Premium –** Yield Spread Premium ("YSP") refers to a fee paid by the lender to your broker because the loan carries a higher interest rate. In some cases, the YSP may offset other costs. You should inquire about this offset.

LOAN COMPARISON WORKSHEET
READ CAREFULLY

How to compare loan terms: The Loan Amount, Loan Type, Rate, and Note Payment should be compared to the Note you sign at closing. You should scrutinize the costs on the Good Faith Estimate in light of this disclosure, or a revised version of this disclosure, and compare with the HUD Settlement Statement at closing. **You are not obligated to take this loan. Consider your options carefully.**

Comparing Monthly Payments for Refinances: If you are refinancing your existing loan your monthly payments will change as follows by taking out a Loan Amount of $_________: [Circle or Insert term of ARM]: 1 3 5 yr ARM

Current Loan Type: ☐ Fixed ☐ ARM		Proposed Loan Type: ☐ Fixed ☐ 1 3 5 yr ARM	
Current principal and interest:	$ _______________	Proposed principal and interest:	$ _________________
Current monthly reserves:	_______________	Proposed monthly reserves:	_________________
Current total:	$ _______________	Proposed total:	$ _________________

BELOW ARE 5 THINGS YOU SHOULD KNOW ABOUT AN OPTION ARM LOAN.
PLEASE REVIEW AND INITIAL THESE POINTS BEFORE APPLYING FOR THIS TYPE OF LOAN:

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1. THERE ARE TWO RATES ASSOCIATED WITH AN OPTION ARM LOAN: A PAYMENT RATE AND A FULLY-INDEXED INTEREST RATE There are two rates that apply to an Option ARM loan. The first rate is the initial low "payment" rate, and the second is the fully-indexed rate. The initial low rate of an Option ARM loan is the interest rate for **only the first month of your loan**, and then it becomes the payment rate. The fully-indexed rate is calculated using a reference rate that can change monthly or annually, such as the London Interbank Offered Rate, or "LIBOR", plus a margin, which is a fixed number of percentage points, usually 2% or more. Be sure to ask your broker about which reference rate your option ARM will use, when that rate changes (monthly or annually), and how it has performed in the past (i.e., what it has been over the course of the last ten years, and whether it has increased or decreased over time). _____ Borrower's Initials	**(This column to be filled in with information about the specific Option ARM loan discussed)** Payment rate (interest rate for ________ month(s)):_________ Fully-indexed rate (interest rate for remainder of the loan): Margin________ + Index_________* = __________ *Changes _________ [Insert time period when index changes]
2. AN OPTION ARM GIVES YOU SEVERAL PAYMENT OPTIONS. An Option ARM allows you to make a monthly "minimum payment," an interest only payment, or a payment of principal and interest that results in paying off your loan. _____ Borrower's Initials	Loan amount: ______________________ Minimum monthly payment: ________________ Monthly interest-only payment (assumes current fully-indexed rate): ________________ Monthly principal and interest payment (assumes current fully-indexed rate and pay-off in __ years): ________________

3. BECAUSE YOUR INTEREST RATE BECOMES ADJUSTABLE AFTER ____ [Insert time period] AND WILL BE HIGHER THAN YOUR PAYMENT RATE, MAKING THE MINIMUM PAYMENT WILL RESULT IN YOU OWING MORE MONEY. If you continue to make a minimum payment after the first month of your Option ARM loan, you will not be paying all the monthly interest that you owe, and the unpaid interest will be added to your owed principal. This is called "negative amortization" or "deferred interest" and will result in you owing more money than you originally borrowed. In addition to adding unpaid interest to your principal, your monthly interest will be calculated based upon the higher principal amount, causing you to owe more in interest each month. _____ Borrower's Initials	Loan amount:_________________ Interest-only payment (assumes current fully-indexed rate):________________________ Minimum payment:___________________ Monthly deferred interest (if only monthly payment minimum payment is made, calcualated at the current fully indexed rate): _____________________ New total amount owed:_______________________________ New interest-only payment (assumes current fully-indexed rate): ________________________________
4. EVEN THOUGH THE OPTION ARM ALLOWS YOU TO MAKE THE MINIMUM PAYMENT FOR A SET PERIOD OF TIME, YOUR LOAN MAY "RECAST' BEFORE THEN AND REQUIRE YOU TO START MAKING MUCH HIGHER FULLY-AMORTIZED PAYMENTS. Most Option ARM loans have a period of one to five years during which you may make the minimum payment. However, these loans usually have provisions that require the loan to "recast" when your owed principal reaches 110%-125% of your original principal, which can happen quickly with negative amortization or deferred interest. When a loan recasts, your option to make the minimum monthly payment is eliminated, and you are required to make a fully-amortized principal and interest payment each month based upon the fully-indexed rate, which adjusts monthly or annually. _____ Borrower's Initials	Loan amount:_________________________ Loan recasts at _____% of loan amount, or ________________ Monthly deferred interest if making minimum payment (assumes current fully-indexed rate): _______________________ Months it will take for loan to recast:______* Required monthly payment after recasting (assumes current fully-indexed rate):_________________ *This calculation does not take into account the fact that deferred interest will increase monthly because the principal will increase monthly, so time to recasting likely will be even less than this number.

5. OPTION ARM LOANS TYPICALLY INCLUDE A PRE-PAYMENT PENALTY. Most Option ARM loans include a pre-payment penalty that penalizes you for re-financing your loan and/or selling your house within the first three years. The pre-payment penalty is included as an addendum to your adjustable rate note. Typically the pre-payment penalty states that if you pay off more than 20% of your original principal in the first three years, you must pay a pre-payment penalty amounting to six months interest on the remaining principal. Therefore, if you decide that you do not want to be in your Option ARM loan in the first three years, you must pay a significant amount of money to be re-financed into a different loan. Under Colorado law, a mortgage broker cannot recommend or induce a borrower to enter into a mortgage that contains a prepayment penalty that extends past the adjustment date for any type of ARM. _____ Borrower's Initials	If you refinance or sell your house prior to _________________ you will pay a prepayment penalty of $______________, or ________% of the principal loan balance. The adjustment date for your ARM is ________________________, 20____. The prepayment penalty does ☐ does not ☐ extend past the adjustment date for your ARM.

To be completed by Borrower:

I have received the foregoing Nontraditional ARM Illustration and Loan Comparison Worksheet and have had it for at least 24 hours before applying for an ARM. I have read the Nontraditional ARM Illustration and have completed the Loan Comparison Worksheet and understand them. I have received a filled out copy of this Illustration and Loan Comparison Worksheet to keep.

Dated: _________________

___________________________________ ____________________________

Borrower's signature Borrower name (please print)

To be completed by Arbor Financial, Inc., John R. Van Buren, or Zeshan S. Rajput

I hereby certify that I provided the above Nontraditional ARM Illustration and Loan Comparison Worksheet, filled them out as accurately as possible, and provided them to the borrower at the time and date indicated below:

Delivered to borrower on:

_________________________ (date)

at _________________________ (time)

and, Borrower returned a signed copy of the same to me at least 24 hours after having had them and the CHARM Booklet on the following date and at the following time:

Received from borrower:

_________________________ (date)

at _________________________ (time)

Signed on behalf of _____________________

By ___________________________________ Date: _____________________________

____

Print Name and Title

EXHIBIT D

CERTIFICATION OF PROVIDING CHARM BOOKLET

To be completed by Borrower:

I have received the CHARM Booklet, which I may keep, and have had it for at least 24 hours before applying for an ARM. I have read the CHARM Booklet and understand it.

Dated: _________________

___________________________________ ____________________________
Borrower's signature Borrower name (please print)

To be completed by Arbor Financial, Inc.,
John R. Van Buren, or Zeshan S. Rajput

I hereby certify that I provided the CHARM Booklet to the borrower at the time and date indicated below:

Delivered to borrower on:

__________________________ (date)

at __________________________ (time)

Signed on behalf of _____________________

____

____
Print Name and Title

Date: ____________________________