A Guide to
Family Mortgages*

The smart way to manage mortgage loans between family members.

* For Financial Advisors

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We support intra-family mortgage 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 Borrower's subject property is located in one of the US states listed directly above.)

* If your clients wish to facilitate an intra-family mortgage loan secured by a property located in Cook County, Kane County, Peoria County, or Will County, we only support the Reverse Mortgage use-case. The local Estate attorney or Elder attorney who will otherwise conduct the Borrower's loan closing must obtain a Private Lending Exemption Certificate (PLEC) from the state of Illinois Anti-Predatory Lending Department as required under state law in order to record the Mortgage.

Are your clients providing financial support to their adult children or retired parents?

As a financial advisor, tax professional, or estate planner, you know the importance of properly documenting and formalizing intra-family financial transactions to both:

(1) Prevent legal and tax problems AND (2) Protect family relationships

National Family Mortgage's ® safe, easy, and affordable intra-family mortgage solutions help ensure transactions are documented, while tax planning and loan repayment is as simple as possible.

With National Family Mortgage ® you clients can:

- Help adult children purchase a home or sell their children a family home
- Help a retired parent with cash flow needs while protecting own financial future
- Transfer wealth between generations
- Diversify their investment portfolio
- Receive a steady flow of cash payments
- Protect loans to newly married children
- Lend money from a Trust or manage annual gifting

Borrowers benefit, too:

- Easier access to cash in tight credit market
- Better interest rates from family
- Lower origination fees
- Ability to deduct mortgage interest *
- Keep wealth in the family

You and your client will be assigned a dedicated Family Mortgage Team Member to guide you throughout the entire process.

- Promissory Note and Mortgage for each situation and state
- Registered security and tax deductible *
- Electronic funds transfer to process payments
- Online account access to manage loans
- Year end tax reports

*Borrowers can deduct their home mortgage interest on acquisition debt and substantial home improvement debt 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. As of 2018, interest payments on Home Equity loans are no longer tax deductible.

About Us

At a Glance

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

Smallest loan to date: $11,100

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

Largest loan to date: $3,225,000

We are not a bank. We are doing business as anyone's attorney, financial advisor, or accountant. (That's where you come in.) We are a niche online company that helps protect families who are borrowing, lending, or gifting money with relatives to purchase, refinance, or renovate a 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 ® products 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 be documented properly. A National Family Mortgage ® helps minimize the legal, tax, and personal consequences that can occur when family real estate loans and financial gifts are documented improperly — or not documented at all.

Mortgage Loans That Fit Your Clients

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 tax problems. That's where we come in.

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, how we do it, and how we might help your clients!

The Win-Win Mortgage ® / The Gift Mortgage ®

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.** Each family is assigned a dedicated Family Mortgage Team Member to guide them 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 you, and your client's other professional advisors 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 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 the Borrower's closing attorney, title company, or escrow company that will otherwise conduct the Borrower's real estate settlement. There is generally only one settlement agent, be it an attorney, title company, or an escrow company, as determined by state regulations and customs. Typically, the real estate agents involved in the transaction will help guide the selection of the settlement agent.* As with an institutional lender, the Borrower's 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 Borrower’s property is in Texas, we require the Borrower’s 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 = $130**

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 your client decides to cancel their Loan Servicing account and manage their loan on their own, there is a $90 Loan Servicing cancellation fee.

The Caregiver Mortgage ®

What is The Caregiver Mortgage ®?

The Caregiver Mortgage ® is a secured line of credit funded by the relatives of a homeowner. It allows the homeowner to receive tax-free cash borrowed against home equity, knowing that their own family — not an institution — is building equity in their home. It offers many of the features and benefits that attract people to institutional reverse mortgages, but without the high costs and restrictions.

Our easy and transparent process is designed to facilitate sibling participation if needed, foster open communication, and maintain harmony between extended family members.

Adult siblings or other close relatives can pool their resources and crowd fund a family funded reverse mortgage for a loved one. Sometimes, the Caregiver Mortgage ® is an even better solution to protect the financial health of caregivers with adult siblings who aren't helping their aging parents at all.

Our award winning, patented Caregiver Mortgage ® Manager ensures family expectations are clear, relationships are protected, and year-end tax reporting is simple.

Midlife Adults Commonly Provide Financial Support to Aging Parents

• Over **78%** of US Caregivers are incurring out-of-pocket expenses as a result of caregiving.*

• Financial Caregivers collectively spend an estimated **$190 Billion** each year on out-of-pocket care-related expenses.**

• **Financial Caregivers often sacrifice their own financial health, and their own retirement needs, and are never repaid!**

The Caregiver Mortgage ® might be the solution your clients have been been looking for!

*   AARP, 2021. "Caregiving & Out-of-Pocket Costs Study"
** Merrill/AgeWave 2020. "The Journey of Caregiving: Honor, Responsibility, & Financial Complexity"

The Caregiver Mortgage ® — $1,825

	Institutional Reverse Mortgage	The Caregiver Mortgage ®
Cost	$6,000 - $10,000	**$1,825 ✓**
Monthly Service Fees	$25 - $35	**$0 ✓**
Age Requirements	Must be at least 62 years old	**None ✓**
Property Requirements	Must be primary residence	**Primary/Secondary residence ✓**
Interest Rate	May be fixed or variable	**Fixed as chosen by family ✓**
Home Disposition	Home is sold and debt repaid	**Home is sold and debt repaid or home stays in family ✓**
Disbursement Schedule	Usually 1 – 3 preset options	**Flexible for life of loan ✓**
Financial Counseling	Mandatory HUD requirement	**None ✓**
Initial Mortgage Insurance Premium	2.00% of the loan amount	**None ✓**
Annual Mortgage Insurance Premium	0.50% of the loan balance	**None ✓**

The Caregiver Mortgage ® Manager

Our award winning, government patented, online Caregiver Mortgage ® Manager helps Lenders manage their loan:

- Online account access & full loan accounting
- Annotate disbursements
- Upload & attach images, receipts, or bank statements
- Individual annual tax reports
- Individual and group payoff statements
- Federal Patent No. US D788,142 S
- 90 day, full-refund, money-back, guarantee

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IRS Applicable Federal Rates

Please visit our website to review current IRS AFRs

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 to Learn More

To learn more about what we do and how we do it, please re-visit our website and download one of our three comprehensive, use-case specific, consumer product guides designed to thoroughly explain how an intra-family mortgage can help someone:

Buy a Home

Buy a Relative's Home

Reverse Mortgage

Each 35 page detailed product guide is designed to answer all of your questions, including product limitations as explained in our Company Standards found on Page 5 of each guide. Your clients will need to read it!

Of course, if you ever have any questions, we're always happy to help!

NATIONAL
Family Mortgage®

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

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National Family Mortgage ® as featured by:

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Forbes
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