

Chicago Title Insurance Company

2002132

LAKE COUNTY
FILED FOR RECORD

2002 045939

2002 MAY 16 AM 9:46

MORRIS W. CARTER
RECORDER

When recorded mail to:
NOVASTAR MORTGAGE, INC.
ATTN: COLLATERAL CONTROL
23046 AVE. DE LA CARLOTA, 2FL
LAGUNA HILLS, CA 92653

Title Order No.: 2002132
Escrow No.: 2002132
LOAN #: 02-044070

2002132BT

[Space Above This Line For Recording Data]

MORTGAGE

MIN 100080100020440706

THIS MORTGAGE ("Security Instrument") is given on MAY 8, 2002.
JEFFREY D. ZENDZIAN AND CHRISTIE LYNN ZENDZIAN, HUSBAND AND WIFE

The mortgagor is

NOT OFFICIAL!

This Document is the property of
the Lake County Recorder!

("Borrower")

This Security Instrument is given to Mortgage Electronic Registration Systems, Inc. ("MERS") (solely as nominee for Lender, as hereinafter defined, and Lender's successors and assigns), as beneficiary. MERS is organized and existing under the laws of Delaware, and has an address and telephone number of PO Box 2026, Flint, MI 48501-2026, tel. (888) 679-MERS. **NOVASTAR MORTGAGE, INC., A VIRGINIA CORPORATION**

is organized and existing under the laws of **THE STATE OF VIRGINIA**
23046 AVE. DE LA CARLOTA, 2FL, LAGUNA HILLS, CA 92653.

("Lender")
and has an address of

Borrower owes Lender the principal sum of *****ONE HUNDRED TWELVE THOUSAND FIVE HUNDRED AND NO/100
***** Dollars (U.S. **\$112,500.00**).

This debt is evidenced by Borrower's note dated the same date as this Security Instrument ("Note"), which provides for monthly payments, with the full debt, if not paid earlier, due and payable on **JUNE 1, 2032**.

Instrument secures to Lender: (a) the repayment of the debt evidenced by the Note, with interest, and all renewals, extensions and modifications of the Note; (b) the payment of all other sums, with interest, advanced under paragraph 7 to protect the security of this Security Instrument; and (c) the performance of Borrower's covenants and agreements under this Security Instrument and the Note. For this purpose, Borrower does hereby mortgage, grant and convey to MERS (solely as nominee for Lender and Lender's successors and assigns) and to the successors and assigns of MERS the following described property located in

LAKE
County, Indiana:
LOT 14, AND THAT PART OF THE VACATED 16.5 FOOT ALLEY ADJOINING SAID LOT ON THE EAST, AS EVIDENCED IN CONFIRMATORY RESOLUTION NO. 389, RECORDED FEBRUARY 24, 1959 AS DOCUMENT NO. 159112, DYER HEIGHTS, IN THE TOWN OF DYER, AS PER PLAT THEREOF, RECORDED IN PLAT BOOK 24, PAGE 55 IN THE OFFICE OF THE RECORDER OF LAKE COUNTY, INDIANA.
AP #: 14-44-15

which has the address of **445 ELM STREET, DYER**

Indiana **46311** ("Property Address");
[Zip Code]

[Street, City],

Initials: *JZ CR*
INDEED 0012

29.00

TOGETHER WITH all the improvements now or hereafter erected on the property, and all easements, appurtenances, and fixtures now or hereafter a part of the property. All replacements and additions shall also be covered by this Security Instrument. All of the foregoing is referred to in this Security Instrument as the "Property." Borrower understands and agrees that MERS holds only legal title to the interests granted by Borrower in this Security Instrument; but, if necessary to comply with law or custom, MERS (as nominee for Lender and Lender's successors and assigns) has the right: to exercise any or all of those interests, including, but not limited to, the right to foreclose and sell the Property; and to take any action required of Lender including, but not limited to, releasing or canceling this Security Instrument.

BORROWER COVENANTS that Borrower is lawfully seized of the estate hereby conveyed and has the right to mortgage, grant and convey the Property and that the Property is unencumbered, except for encumbrances of record. Borrower warrants and will defend generally the title to the Property against all claims and demands, subject to any encumbrances of record.

THIS SECURITY INSTRUMENT combines uniform covenants for national use and non-uniform covenants with limited variations by jurisdiction to constitute a uniform security instrument covering real property.

UNIFORM COVENANTS. Borrower and Lender covenant and agree as follows:

1. **Payment of Principal and Interest; Prepayment and Late Charges.** Borrower shall promptly pay when due the principal and interest on the debt evidenced by the Note and any prepayment and late charges due under the Note.

2. **Funds for Taxes and Insurance.** Subject to applicable law or to a written waiver by Lender, Borrower shall pay to Lender on the day monthly payments are due under the Note, until the Note is paid in full, a sum ("Funds") for: (a) yearly taxes and assessments which may attain priority over this Security Instrument as a lien on the Property; (b) yearly leasehold payments or ground rents on the Property, if any; (c) yearly hazard or property insurance premiums; (d) yearly flood insurance premiums, if any; (e) yearly mortgage insurance premiums, if any; and (f) any sums payable by Borrower to Lender, in accordance with the provisions of paragraph 8, in lieu of the payment of mortgage insurance premiums. These items are called "Escrow Items." Lender may, at any time, collect and hold Funds in an amount not to exceed the maximum amount a lender for a federally related mortgage loan may require for Borrower's escrow account under the federal Real Estate Settlement Procedures Act of 1974 as amended from time to time, 12 U.S.C. Section 2601 *et seq.* ("RESPA"), unless another law that applies to the Funds sets a lesser amount. If so, Lender may, at any time, collect and hold Funds in an amount not to exceed the lesser amount. Lender may estimate the amount of Funds due on the basis of current data and reasonable estimates of expenditures of future Escrow Items or otherwise in accordance with applicable law.

The Funds shall be held in an institution whose deposits are insured by a federal agency, instrumentality, or entity (including Lender, if Lender is such an institution) or in any Federal Home Loan Bank. Lender shall apply the Funds to pay the Escrow Items. Lender may not charge Borrower for holding and applying the Funds, annually analyzing the escrow account, or verifying the Escrow Items, unless Lender pays Borrower interest on the Funds and applicable law permits Lender to make such a charge. However, Lender may require Borrower to pay a one-time charge for an independent real estate tax reporting service used by Lender in connection with this loan, unless applicable law provides otherwise. Unless an agreement is made or applicable law requires interest to be paid, Lender shall not be required to pay Borrower any interest or earnings on the Funds. Borrower and Lender may agree in writing, however, that interest shall be paid on the Funds. Lender shall give to Borrower, without charge, an annual accounting of the Funds, showing credits and debits to the Funds and the purpose for which each debit to the Funds was made. The Funds are pledged as additional security for all sums secured by this Security Instrument.

If the Funds held by Lender exceed the amounts permitted to be held by applicable law, Lender shall account to Borrower for the excess Funds in accordance with the requirements of applicable law. If the amount of the Funds held by Lender at any time is not sufficient to pay the Escrow Items when due, Lender may so notify Borrower in writing, and, in such case Borrower shall pay to Lender the amount necessary to make up the deficiency. Borrower shall make up the deficiency in no more than twelve monthly payments, at Lender's sole discretion.

Upon payment in full of all sums secured by this Security Instrument, Lender shall promptly refund to Borrower any Funds held by Lender. If, under paragraph 21, Lender shall acquire or sell the Property, Lender, prior to the acquisition or sale of the Property, shall apply any Funds held by Lender at the time of acquisition or sale as a credit against the sums secured by this Security Instrument.

3. **Application of Payments.** Unless applicable law provides otherwise, all payments received by Lender under paragraphs 1 and 2 shall be applied: first, to any prepayment charges due under the Note; second, to amounts payable under paragraph 2; third, to interest due; fourth, to principal due; and last, to any late charges due under the Note.

4. **Charges; Liens.** Borrower shall pay all taxes, assessments, charges, fines and impositions attributable to the Property which may attain priority over this Security Instrument, and leasehold payments or ground rents, if any. Borrower shall pay these obligations in the manner provided in paragraph 2, or if not paid in that manner, Borrower shall pay them on time directly to the person owed payment. Borrower shall promptly furnish to Lender all notices of amounts to be paid under this paragraph. If Borrower makes these payments directly, Borrower shall promptly furnish to Lender receipts evidencing the payments.

Borrower shall promptly discharge any lien which has priority over this Security Instrument unless Borrower: (a) agrees in writing to the payment of the obligation secured by the lien in a manner acceptable to Lender; (b) contests in good faith the lien by, or defends against enforcement of the lien in, legal proceedings which in the Lender's opinion operate to prevent the enforcement of the lien; or (c) secures from the holder of the lien an agreement satisfactory to Lender subordinating the lien to this Security Instrument. If Lender determines that any part of the Property is subject to a lien which may attain priority over this Security Instrument, Lender may give Borrower a notice identifying the lien. Borrower shall satisfy the lien or take one or more of the actions set forth above within 10 days of the giving of notice.

5. **Hazard or Property Insurance.** Borrower shall keep the improvements now existing or hereafter erected on the Property insured against loss by fire, hazards included within the term "extended coverage" and any other hazards, including floods or flooding, for which Lender requires insurance. This insurance shall be maintained in the amounts and for the periods that Lender requires. The insurance carrier providing the insurance shall be chosen by Borrower subject to Lender's approval which shall not be unreasonably withheld. If Borrower fails to maintain coverage described above, Lender may, at Lender's option, obtain coverage to protect Lender's rights in the Property in accordance with paragraph 7.

All insurance policies and renewals shall be acceptable to Lender and shall include a standard mortgage clause. Lender shall have the right to hold the policies and renewals. If Lender requires, Borrower shall promptly give to Lender all receipts of paid premiums and renewal notices. In the event of loss, Borrower shall give prompt notice to the insurance carrier and Lender. Lender may make proof of loss if not made promptly by Borrower.

Unless Lender and Borrower otherwise agree in writing, insurance proceeds shall be applied to restoration or repair of the Property damaged, if the restoration or repair is economically feasible and Lender's security is not lessened. If the restoration or repair is not economically feasible or Lender's security would be lessened, the insurance proceeds shall be applied to the sums secured by this Security Instrument, whether or not then due, with any excess paid to Borrower. If Borrower abandons the Property, or does not answer within 30 days a notice from Lender that the insurance carrier has offered to settle a claim, then Lender may collect the insurance proceeds. Lender may use the proceeds to repair or restore the Property or to pay sums secured by this Security Instrument, whether or not then due. The 30-day period will begin when the notice is given.

Unless Lender and Borrower otherwise agree in writing, any application of proceeds to principal shall not extend or postpone the due date of the monthly payments referred to in paragraphs 1 and 2 or change the amount of the payments. If under paragraph 21 the Property is acquired by Lender, Borrower's right to any insurance policies and proceeds resulting from damage to the Property prior to the acquisition shall pass to Lender to the extent of the sums secured by this Security Instrument immediately prior to the acquisition.

6. Occupancy, Preservation, Maintenance and Protection of the Property; Borrower's Loan Application; Leaseholds. Borrower shall occupy, establish, and use the Property as Borrower's principal residence within sixty days after the execution of this Security Instrument and shall continue to occupy the Property as Borrower's principal residence for at least one year after the date of occupancy, unless Lender otherwise agrees in writing, which consent shall not be unreasonably withheld, or unless extenuating circumstances exist which are beyond Borrower's control. Borrower shall not destroy, damage or impair the Property, allow the Property to deteriorate, or commit waste on the Property. Borrower shall be in default if any forfeiture action or proceeding, whether civil or criminal, is begun that in Lender's good faith judgment could result in forfeiture of the Property or otherwise materially impair the lien created by this Security Instrument or Lender's security interest. Borrower may cure such a default and reinstate, as provided in paragraph 18, by causing the action or proceeding to be dismissed with a ruling that, in Lender's good faith determination, precludes forfeiture of the Borrower's interest in the Property or other material impairment of the lien created by this Security Instrument or Lender's security interest. Borrower shall also be in default if Borrower, during the loan application process, gave materially false or inaccurate information or statements to Lender (or failed to provide Lender with any material information) in connection with the loan evidenced by the Note, including, but not limited to, representations concerning Borrower's occupancy of the Property as a principal residence. If this Security Instrument is on a leasehold, Borrower shall comply with all the provisions of the lease. If Borrower acquires fee title to the Property, the leasehold and the fee title shall not merge unless Lender agrees to the merger in writing.

7. Protection of Lender's Rights in the Property. If Borrower fails to perform the covenants and agreements contained in this Security Instrument, or there is a legal proceeding that may significantly affect Lender's rights in the Property (such as a proceeding in bankruptcy, probate, for condemnation or forfeiture or to enforce laws or regulations), then Lender may do and pay for whatever is necessary to protect the value of the Property and Lender's rights in the Property. Lender's actions may include paying any sums secured by a lien which has priority over this Security Instrument, appearing in court, paying reasonable attorneys' fees and entering on the Property to make repairs. Although Lender may take action under this paragraph 7, Lender does not have to do so.

Any amounts disbursed by Lender under this paragraph 7 shall become additional debt of Borrower secured by this Security Instrument. Unless Borrower and Lender agree to other terms of payment, these amounts shall bear interest from the date of disbursement at the Note rate and shall be payable, with interest, upon notice from Lender to Borrower requesting payment.

8. Mortgage Insurance. If Lender required mortgage insurance as a condition of making the loan secured by this Security Instrument, Borrower shall pay the premiums required to maintain the mortgage insurance in effect. If, for any reason, the mortgage insurance coverage required by Lender lapses or ceases to be in effect, Borrower shall pay the premiums required to obtain coverage substantially equivalent to the mortgage insurance previously in effect, at a cost substantially equivalent to the cost to Borrower of the mortgage insurance previously in effect, from an alternate mortgage insurer approved by Lender. If substantially equivalent mortgage insurance coverage is not available, Borrower shall pay to Lender each month a sum equal to one-twelfth of the yearly mortgage insurance premium being paid by Borrower when the insurance coverage lapsed or ceased to be in effect. Lender will accept, use and retain these payments as a loss reserve in lieu of mortgage insurance. Loss reserve payments may no longer be required, at the option of Lender, if mortgage insurance coverage (in the amount and for the period that Lender requires) provided by an insurer approved by Lender again becomes available and is obtained. Borrower shall pay the premiums required to maintain mortgage insurance in effect, or to provide a loss reserve, until the requirement for mortgage insurance ends in accordance with any written agreement between Borrower and Lender or applicable law.

9. Inspection. Lender or its agent may make reasonable entries upon and inspections of the Property. Lender shall give Borrower notice at the time of or prior to an inspection specifying reasonable cause for the inspection.

10. Condemnation. The proceeds of any award or claim for damages, direct or consequential, in connection with any condemnation or other taking of any part of the Property, or for conveyance in lieu of condemnation, are hereby assigned and shall be paid to Lender.

In the event of a total taking of the Property, the proceeds shall be applied to the sums secured by this Security Instrument, whether or not then due, with any excess paid to Borrower. In the event of a partial taking of the Property in which the fair market value of the Property immediately before the taking is equal to or greater than the amount of the sums secured by this Security Instrument immediately before the taking, unless Borrower and Lender otherwise agree in writing, the sums secured by this Security Instrument shall be reduced by the amount of the proceeds multiplied by the following fraction: (a) the total amount of the sums secured immediately before the taking, divided by (b) the fair market value of the Property immediately before the taking. Any balance shall be paid to Borrower. In the event of a partial taking of the Property in which the fair market value of the Property immediately before the taking is less than the amount of the sums secured immediately before the taking, unless Borrower and Lender otherwise agree in writing or unless applicable law otherwise provides, the proceeds shall be applied to the sums secured by this Security Instrument whether or not the sums are then due.

If the Property is abandoned by Borrower, or if, after notice by Lender to Borrower that the condemnor offers to make an award or settle a claim for damages, Borrower fails to respond to Lender within 30 days after the date the notice is given, Lender is authorized to collect and apply the proceeds, at its option, either to restoration or repair of the Property or to the sums secured by this Security Instrument, whether or not then due.

Unless Lender and Borrower otherwise agree in writing, any application of proceeds to principal shall not extend or postpone the due date of the monthly payments referred to in paragraphs 1 and 2 or change the amount of such payments.

11. Borrower Not Released; Forbearance By Lender Not a Waiver. Extension of the time for payment or modification of amortization of the sums secured by this Security Instrument granted by Lender to any successor in interest of Borrower shall not operate to release the liability of the original Borrower or Borrower's successors in interest. Lender shall not be required to commence proceedings against any successor in interest or refuse to extend time for payment or otherwise modify amortization of the sums secured by this Security Instrument by reason of any demand made by the original Borrower or Borrower's successors in interest. Any forbearance by Lender in exercising any right or remedy shall not be a waiver of or preclude the exercise of any right or remedy.

12. Successors and Assigns Bound; Joint and Several Liability; Co-signers. The covenants and agreements of this Security Instrument shall bind and benefit the successors and assigns of Lender and Borrower, subject to the provisions of paragraph 17. Borrower's covenants and agreements shall be joint and several. Any Borrower who co-signs this Security Instrument but does not execute the Note: (a) is co-signing this Security Instrument only to mortgage, grant and convey that Borrower's interest in the Property under the terms of this Security Instrument; (b) is not personally obligated to pay the sums secured by this Security Instrument; and (c) agrees that Lender and any other Borrower may agree to extend, modify, forbear or make any accommodations with regard to the terms of this Security Instrument or the Note without that Borrower's consent.

13. Loan Charges. If the loan secured by this Security Instrument is subject to a law which sets maximum loan charges, and that law is finally interpreted so that the interest or other loan charges collected or to be collected in connection with the loan exceed the permitted limits, then: (a) any such loan charge shall be reduced by the amount necessary to reduce the charge to the permitted limit; and (b) any sums already collected from Borrower which exceeded permitted limits will be refunded to Borrower. Lender may

choose to make this refund by reducing the principal owed under the Note or by making a direct payment to Borrower. If a refund reduces principal, the reduction will be treated as a partial prepayment without any prepayment charge under the Note.

14. **Notices.** Any notice to Borrower provided for in this Security Instrument shall be given by delivering it or by mailing it by first class mail unless applicable law requires use of another method. The notice shall be directed to the Property Address or any other address Borrower designates by notice to Lender. Any notice to Lender shall be given by first class mail to Lender's address stated herein or any other address Lender designates by notice to Borrower. Any notice provided for in this Security Instrument shall be deemed to have been given to Borrower or Lender when given as provided in this paragraph.

15. **Governing Law; Severability.** This Security Instrument shall be governed by federal law and the law of the jurisdiction in which the Property is located. In the event that any provision or clause of this Security Instrument or the Note conflicts with applicable law, such conflict shall not affect other provisions of this Security Instrument or the Note which can be given effect without the conflicting provision. To this end the provisions of this Security Instrument and the Note are declared to be severable.

16. **Borrower's Copy.** Borrower shall be given one conformed copy of the Note and of this Security Instrument.

17. **Transfer of the Property or a Beneficial Interest in Borrower.** If all or any part of the Property or any interest in it is sold or transferred (or if a beneficial interest in Borrower is sold or transferred and Borrower is not a natural person) without Lender's prior written consent, Lender may, at its option, require immediate payment in full of all sums secured by this Security Instrument. However, this option shall not be exercised by Lender if exercise is prohibited by federal law as of the date of this Security Instrument.

If Lender exercises this option, Lender shall give Borrower notice of acceleration. The notice shall provide a period of not less than 30 days from the date the notice is delivered or mailed within which Borrower must pay all sums secured by this Security Instrument. If Borrower fails to pay these sums prior to the expiration of this period, Lender may invoke any remedies permitted by this Security Instrument without further notice or demand on Borrower.

18. **Borrower's Right to Reinstate.** If Borrower meets certain conditions, Borrower shall have the right to have enforcement of this Security Instrument discontinued at any time prior to the earlier of: (a) 5 days (or such other period as applicable law may specify for reinstatement) before sale of the Property pursuant to any power of sale contained in this Security Instrument; or (b) entry of a judgment enforcing this Security Instrument. Those conditions are that Borrower: (a) pays Lender all sums which then would be due under this Security Instrument and the Note as if no acceleration had occurred; (b) cures any default of any other covenants or agreements; (c) pays all expenses incurred in enforcing this Security Instrument, including, but not limited to, reasonable attorneys' fees; and (d) takes such action as Lender may reasonably require to assure that the lien of this Security Instrument, Lender's rights in the Property and Borrower's obligation to pay the sums secured by this Security Instrument shall continue unchanged. Upon reinstatement by Borrower, this Security Instrument and the obligations secured hereby shall remain fully effective as if no acceleration had occurred. However, this right to reinstate shall not apply in the case of acceleration under paragraph 17.

19. **Sale of Note; Change of Loan Servicer.** The Note or a partial interest in the Note (together with this Security Instrument) may be sold one or more times without prior notice to Borrower. A sale may result in a change in the entity (known as the "Loan Servicer") that collects monthly payments due under the Note and this Security Instrument. There also may be one or more changes of the Loan Servicer unrelated to a sale of the Note. If there is a change of the Loan Servicer, Borrower will be given written notice of the change in accordance with paragraph 14 above and applicable law. The notice will state the name and address of the new Loan Servicer and the address to which payments should be made. The notice will also contain any other information required by applicable law.

20. **Hazardous Substances.** Borrower shall not cause or permit the presence, use, disposal, storage, or release of any Hazardous Substances on or in the Property. Borrower shall not do, nor allow anyone else to do, anything affecting the Property that is in violation of any Environmental Law. The preceding two sentences shall not apply to the presence, use, or storage on the Property of small quantities of Hazardous Substances that are generally recognized to be appropriate to normal residential uses and to maintenance of the Property.

Borrower shall promptly give Lender written notice of any investigation, claim, demand, lawsuit or other action by any governmental or regulatory agency or private party involving the Property and any Hazardous Substance or Environmental Law of which Borrower has actual knowledge. If Borrower learns, or is notified by any governmental or regulatory authority, that any removal or other remediation of any Hazardous Substance affecting the Property is necessary, Borrower shall promptly take all necessary remedial actions in accordance with Environmental Law.

As used in this paragraph 20, "Hazardous Substances" are those substances defined as toxic or hazardous substances by Environmental Law and the following substances: gasoline, kerosene, other flammable or toxic petroleum products, toxic pesticides and herbicides, volatile solvents, materials containing asbestos or formaldehyde, and radioactive materials. As used in this paragraph 20, "Environmental Law" means federal laws and laws of the jurisdiction where the Property is located that relate to health, safety or environmental protection.

NON-UNIFORM COVENANTS. Borrower and Lender further covenant and agree as follows:

21. **Acceleration; Remedies.** Lender shall give notice to Borrower prior to acceleration following Borrower's breach of any covenant or agreement in this Security Instrument (but not prior to acceleration under paragraph 17 unless applicable law provides otherwise). The notice shall specify: (a) the default; (b) the action required to cure the default; (c) a date, not less than 30 days from the date the notice is given to Borrower, by which the default must be cured; and (d) that failure to cure the default on or before the date specified in the notice may result in acceleration of the sums secured by this Security Instrument, foreclosure by judicial proceeding and sale of the Property. The notice shall further inform Borrower of the right to reinstate after acceleration and the right to assert in the foreclosure proceeding the non-existence of a default or any other defense of Borrower to acceleration and foreclosure. If the default is not cured on or before the date specified in the notice, Lender, at its option, may require immediate payment in full of all sums secured by this Security Instrument without further demand and may foreclose this Security Instrument by judicial proceeding. Lender shall be entitled to collect all expenses incurred in pursuing the remedies provided in this paragraph 21, including, but not limited to, reasonable attorneys' fees and costs of title evidence.

22. **Release.** Upon payment of all sums secured by this Security Instrument, Lender shall release this Security Instrument without charge to Borrower.

23. **Waiver of Valuation and Appraisal.** Borrower waives all right of valuation and appraisal.

24. **Riders to this Security Instrument.** If one or more riders are executed by Borrower and recorded together with this Security Instrument, the covenants and agreements of each such rider shall be incorporated into and shall amend and supplement the covenants and agreements of this Security Instrument as if the rider(s) were a part of this Security Instrument.

[Check applicable box(es)]

- Adjustable Rate Rider
- Graduated Payment Rider
- Balloon Rider
- VA Rider

- Condominium Rider
- Planned Unit Development Rider
- Rate Improvement Rider
- Other(s) [specify] **PREPAYMENT RIDER; ADDENDUM TO ARM RIDER**

- 1-4 Family Rider
- Biweekly Payment Rider
- Second Home Rider

BY SIGNING BELOW, Borrower accepts and agrees to the terms and covenants contained in this Security Instrument and in any rider(s) executed by Borrower and recorded with it.

LOAN #: 02-044070

Witnesses:

Jeffrey D Zendzian (Seal)
JEFFREY D. ZENDZIAN

Christie Lynn Zendzian (Seal)
CHRISTIE LYNN ZENDZIAN



STATE OF INDIANA,

On this 8th day of May, 2002

personally appeared _____

County ss: Lake

before me, the undersigned, a Notary Public in and for said County,

Jeffrey D. Zendzian and Christie Lynn Zendzian

and acknowledged the execution of the foregoing instrument.

WITNESS my hand and official seal.

My Commission Expires: 12-28-06

Brenda Sohovich
Notary Public Brenda Sohovich
a Porter County Resident

This instrument was prepared by: Lorna Gamboa

**ADJUSTABLE RATE RIDER
(LIBOR INDEX - RATE CAPS)
6-MONTH LIBOR**

LOAN #: 02-044070

THIS ADJUSTABLE RATE RIDER is made this 8TH day of MAY, 2002, and is incorporated into and shall be deemed to amend and supplement the Mortgage, Deed of Trust or Security Deed (the "Security Instrument") of the same date given by the undersigned (the "Borrower") to secure Borrower's Adjustable Rate Note (the "Note") to **NOVASTAR MORTGAGE, INC., A VIRGINIA CORPORATION**

(the "Lender")
of the same date and covering the property described in the Security Instrument and located at:
445 ELM STREET, DYER, IN 46311

THE NOTE CONTAINS PROVISIONS ALLOWING FOR CHANGES IN MY INTEREST RATE AND MY MONTHLY PAYMENT. MY ADJUSTABLE INTEREST RATE CAN NEVER EXCEED OR BE LESS THAN THE LIMITS STATED IN THE NOTE.

ADDITIONAL COVENANTS. In addition to the covenants and agreements made in the Security Instrument, Borrower and Lender further covenant and agree as follows:

A. INTEREST RATE AND MONTHLY PAYMENT CHANGES

The Note provides for an initial interest rate of 10.125%. The Note provides for a change in the adjustable interest rate and the monthly payments as follows:

4. ADJUSTABLE INTEREST RATE AND MONTHLY PAYMENT CHANGES

(A) Change Dates

The adjustable interest rate I will pay will change on the 1ST day of JUNE, 2004 and on the 1ST day of every 6TH month thereafter. Each date on which my interest rate could change is called an "Interest Rate Change Date".

(B) The Index

Beginning with the first Interest Rate Change Date, my interest rate will be based on an Index. The "Index" is the average of interbank offered rates for six-month U.S. dollar-denominated deposits in the London market ("LIBOR"), as published in *The Wall Street Journal*. The most recent Index figure available as of the first business day of the month immediately preceding the month in which the Interest Rate Change Date occurs is called the "Current Index."

If the Index is no longer available, the Note Holder will choose a new index that is based upon comparable information. The Note Holder will give me notice of this choice.

(C) Calculation of Change

Before each Interest Rate Change Date, the Note Holder will calculate my new interest rate by adding SIX AND ONE-HALF percentage point(s) (6.500%) to the Current Index. The Note Holder will then round the result of this addition up to the nearest one-eighth of one percentage point (.125%). Subject to the limits stated in Section 4(D) below, this rounded amount will be my new interest rate until the next Interest Rate Change Date.

The Note Holder will then determine the amount of the monthly payment that would be sufficient to repay the unpaid principal that I am expected to owe at the Interest Rate Change Date in full on the Maturity Date at my new interest rate in substantially equal payments. The result of this calculation will be the new amount of my monthly payment.

(D) Limits on Interest Rate Change

The interest rate I am required to pay at the first Interest Rate Change Date will not increase or decrease by more than 3.000% from the initial interest rate. Thereafter, my interest rate will never be increased or decreased on any single Interest Rate Change Date by more than ONE percentage point(s) (1.000%) from the rate of

interest I have been paying for the preceding 6 month(s).

My interest rate will never be greater than SEVENTEEN AND ONE-EIGHTH percent (17.125%) which is called the "Maximum Rate." My interest rate will never be less than TEN AND ONE-EIGHTH percent (10.125%) which is called the "Minimum Rate."

(E) Effective Date of Change

My new interest rate will become effective on each Interest Rate Change Date. I will pay the amount of my new monthly payment beginning on the first monthly payment date after the Interest Rate Change Date until the amount of my monthly payment changes again.

(F) Notice of Change

The Note Holder will deliver or mail to me a notice of any change in my interest rate and the amount of my monthly payment before the effective date of any change. The notice will include

information required by law to be given me and also the title and telephone number of a person who will answer any question I may have regarding the notice.

B. TRANSFER OF THE PROPERTY

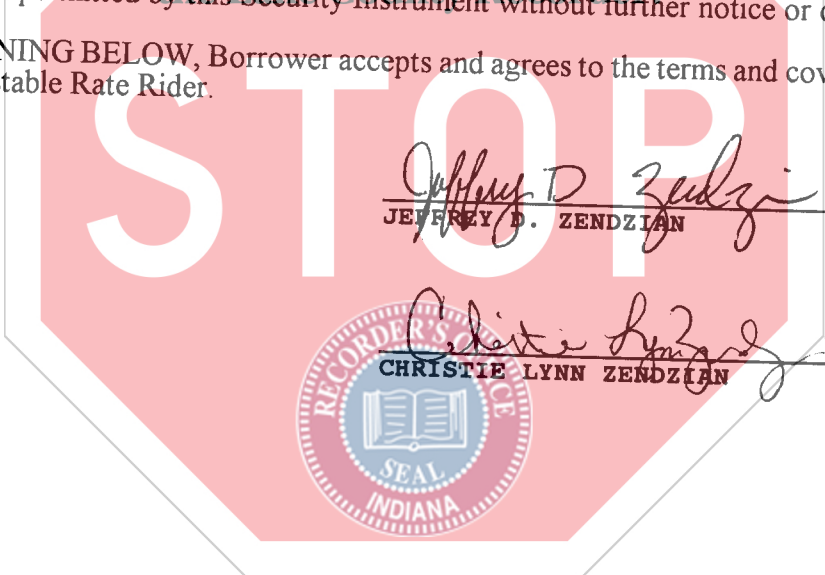
Transfer of the Property shall be governed by the following, any provision of the Security Instrument to the contrary notwithstanding:

Transfer of the Property. If all or any part of the Property or any interest in it is sold or transferred without Note Holder's prior written consent, Note Holder may, at its option, require immediate payment in full of all sums secured by this Security Instrument. However, this option shall not be exercised by Note Holder if exercise is prohibited by federal law as of the date of this Security Instrument. Note Holder also shall not exercise this option if: (a) I submit to Note Holder information required by Note Holder to evaluate the intended transferee as if a new loan were being made to the transferee; and (b) Note Holder reasonably determines that Note Holder's security will not be impaired by the loan assumption and that the risk of a breach of any covenant or agreement in this Security Instrument is acceptable to Note Holder.

To the extent permitted by applicable law, Note Holder may charge a reasonable fee as a condition to Note Holder's consent to the loan assumption. Note Holder may also require the transferee to sign an assumption agreement that is acceptable to Note Holder and that obligates the transferee to keep all the promises and agreements made in the Note and in this Security Instrument. I will continue to be obligated under the Note and this Security Instrument unless Note Holder releases me in writing.

If Note Holder exercises the option to require immediate payment in full, Note Holder shall give me notice of acceleration. The notice shall provide a period of not less than 30 days from the date the notice is delivered or mailed within which I must pay all sums secured by this Security Instrument. If I fail to pay these sums prior to the expiration of this period, Note Holder may invoke any remedies permitted by this Security Instrument without further notice or demand on me.

BY SIGNING BELOW, Borrower accepts and agrees to the terms and covenants contained in this Adjustable Rate Rider.



PREPAYMENT RIDER

LOAN #: 02-044070

THIS PREPAYMENT RIDER is made this **8TH** day of **MAY, 2002**, and is incorporated into and shall be deemed to amend and supplement the Mortgage, Deed of Trust or Security Deed (the "Security Instrument") of the same date given by the undersigned (the "Borrower") to secure Borrower's Note to **NOVASTAR MORTGAGE, INC., A VIRGINIA CORPORATION**

of the same date and covering the Property described in the Security Instrument and located at: **445 ELM STREET, DYER, IN 46311**

PREPAYMENT COVENANTS. In addition to the covenants and agreements made in the Security Instrument, Borrower and Lender further covenant and agree as follows:

I have the right to make payments of principal at any time before they are due. A prepayment of all of the unpaid principal is known as a "full prepayment." A prepayment of only part of the unpaid principal is known as a "partial prepayment." I will notify the Note Holder in writing that I am doing so.

During the first **TWENTY FOUR** (24) month(s) of my loan, I will be charged a **PREPAYMENT PENALTY** in an amount equal to **SIX** (6) month(s)' interest (at the rate in effect at the time Prepayment occurs) on any Prepayment I make in excess of **TWENTY** percent (**20.000%**) of the original principal balance in any **TWELVE** (12) month period. Thereafter, I may make full Prepayment or partial Prepayments without paying any prepayment charge.

The Note Holder will use all of my Prepayments to reduce the amount of Principal that I owe under this Note. If I make a partial Prepayment, there will be no changes in the due dates of my monthly payments unless the Note Holder agrees in writing to those changes. [If this Note provides for an adjustable interest rate, my partial Prepayment may reduce the amount of my monthly payments after the Payment Change Date if my partial Prepayment occurs prior to the Payment Change Date. However, any reduction in the amount of my monthly payment due to my partial Prepayment may be offset by an interest rate increase.]

If the foregoing prepayment penalty exceeds that permitted by applicable law, only the maximum prepayment penalty permitted by applicable law will be imposed.

BY SIGNING BELOW, Borrower accepts and agrees to the terms and covenants contained in this Prepayment Rider.

 **RECORDED**
JEFFREY D. ZENDEZIAN
CHRISTIE LYNN ZENDEZIAN

**ADDENDUM TO ADJUSTABLE RATE RIDER
(FIXED RATE CONVERSION OPTION)
6-MONTH LIBOR**

THIS ADDENDUM TO ADJUSTABLE RATE RIDER (the "Rider Addendum") is made this 8TH day of MAY, 2002, and is incorporated into and shall be deemed to amend and supplement the adjustable rate rider (the "Rider") to the Mortgage, Deed of Trust or Security Deed (the "Security Instrument"), each dated the same date as this Rider Addendum and given by the undersigned (the "Borrower") to secure Borrower's adjustable rate note with the addendum to adjustable rate note in favor of **NOVASTAR MORTGAGE, INC., A VIRGINIA CORPORATION**

(the "Lender") and dated as of even date herewith (the "Note"), covering the property described in the Security Instrument and located at:

**445 ELM STREET
DYER, IN 46311**

The interest rate stated on the Note is called the "Note Rate." The date of the Note is called the "Note Date." I understand that the Lender may transfer the Note, the Security Instrument, the Rider and this Rider Addendum. The Lender or anyone who takes the Note, the Security Instrument, the Rider and this Rider Addendum by transfer and who is entitled to receive payments under the Note is called the "Note Holder." I understand also that the Lender may transfer the servicing of the Note; the company that receives payments under the Note is called the "Servicer." Each date on which my adjustable interest rate could change is called an "Interest Rate Change Date." I understand a new Note Holder may not wish to exercise the Conversion Option.

ADDITIONAL COVENANTS. In addition to the covenants and agreements made in the Security Instrument and Rider, Borrower and Lender further covenant and agree as follows:

1. FIXED INTEREST RATE OPTION

I may have a Conversion Option which I may be able to exercise if all the conditions explained in Section 2 below are met. The "Conversion Option" is my option to convert the adjustable interest rate with interest rate limits I am required to pay under the Note from an adjustable rate to the fixed rate calculated under Section 4 below.

I may only exercise the Conversion Option once. The Conversion Option will be available to me only during the period beginning on the 1ST Interest Rate Change Date, and ending on the 6TH Interest Rate Change Date (the "Option Period"). The new, fixed interest rate (the "Converted Rate") will be effective beginning on the first day of the second month following the month in which I exercise the Conversion Option (the "Conversion Date").

2. CONDITIONS TO EXERCISING THE CONVERSION OPTION

If I have the Conversion Option and choose to exercise it, certain conditions must be met. These conditions are that: (a) I must give the Servicer notice during the Option Period in the manner prescribed in Section 3 below that I wish to exercise the Conversion Option; (b) on the date I give the Servicer notice that I wish to exercise the Conversion Option, I must not be in default under the Note or the Security Instrument and I must not have been delinquent thirty days or more in making any payment I was required to make under the Note during the twelve months immediately preceding the Exercise Date (as defined in Section 3 below); (c) I must pay the Servicer a conversion fee equal to **TWO HUNDRED FIFTY AND NO/100**

dollars (\$250.00) on the Exercise Date; (d) I must have supplied to the Servicer information necessary to complete an updated credit review and I must pay any credit review fees paid by the Servicer to third parties; (e) I must occupy the property; (f) if the Servicer believes the value of the property described in the Security Instrument may have declined since the Note Date, the Servicer must have received an updated appraisal of the property described in the Security Instrument prepared by an appraiser

acceptable to the Servicer and I must pay any related appraisal fee paid by the Servicer to a third party; (g) I must complete, sign and deliver to the Servicer on the Exercise Date, any documents the Servicer requires to effect the conversion. I understand that I may not be allowed to exercise the Conversion Option if I do not meet the Note Holder's property and credit standards or if the Note Holder(s), in its sole discretion, believes the interest rate as calculated herein is below market interest rates then in effect for similar loans. I also understand that I may not be allowed to exercise the Conversion Option if the value of the property described in the Security Instrument has declined since the Note Date.

3. EXERCISING THE CONVERSION OPTION

To obtain information as to the currently available fixed rate, I may telephone the Servicer. I understand there can be no assurance that this rate will be available at any time subsequent to the telephone call, even on the same day. The Servicer will notify me in writing if the phone number should change. To notify the Servicer that I want to exercise the Conversion Option, I must call the Servicer on any business day during the Option Period, between the hours of 8:00 A.M. TO 5:00 P.M. CST. The Servicer may record our telephone conversations.

Once I notify the Servicer that I desire to exercise the Conversion Option, the Servicer will forward to me any documents necessary to effect the Conversion Option. I must complete and sign the documents provided by the Servicer and return them to the Servicer together with the conversion fee, credit review fees and, if applicable, the appraisal fee described in Section 2 above. The date the completed and signed documents are received together with the conversion fee, credit review fees and, if applicable, the appraisal report and appraisal fee is called the Exercise Date. The Converted Rate is the rate quoted by the Servicer on the Exercise Date. If the fees and properly completed documents are not received by the Servicer on the Exercise Date, my adjustable interest rate will not be converted to a fixed interest rate.

4. CALCULATION OF THE CONVERTED RATE

The Converted Rate will be equal to the Federal National Mortgage Association's ("FNMA") required net yield, as of the Exercise Date, for the purchase of thirty-year, fixed-rate mortgage loans under sixty-day mandatory delivery commitments plus percentage point(s), not to exceed SIX percent (6%), rounded to the nearest one-eighth percent (.125%), as quoted by the Note Holder.

5. CALCULATION OF THE NEW PAYMENT AMOUNT

If I have the Conversion Option and choose to exercise it, the Servicer will determine the amount of the monthly payment that will be sufficient to repay the unpaid principal plus accrued but unpaid interest I am expected to owe on the Conversion Date in full by the Maturity Date of the Note at the Converted Rate in substantially equal payments. The result of this calculation will be the new amount of my monthly principal and interest payment. Beginning with my first monthly payment after the Conversion Date, I will pay this new amount as my monthly principal and interest payment until the Maturity Date of the Note unless I pay the Note in full prior to its Maturity Date.

6. TRANSFER OF THE PROPERTY

If I exercise the Conversion Option under the conditions stated in this Rider Addendum, the conditions under which I may be required to make immediate payment in full of all amounts I owe under the Note because of transfer of property which are described in the section of the Note captioned "Uniform Secured Note" will cease to be in effect. Instead such conditions will be as follows:

Transfer of the Property. If all or any part of the Property or any interest in it is sold or transferred without the Note Holder's prior written consent, the Note Holder may, at its option, require immediate payment in full of all sums secured by the Security Instrument. However, this option shall not be exercised by the Note Holder if exercise is prohibited by state or federal law as of the date of the Security Instrument.

If the Note Holder exercises this option, the Note Holder shall give me notice of acceleration. The notice shall provide a period of not less than thirty days from the date the notice is delivered

or mailed within which I must pay all sums secured by the Security Instrument. If I fail to pay these sums prior to the expiration of this period, the Note Holder may invoke any remedies permitted by the Security Instrument without further notice or demand on me. **LOAN #: 02-044070**

BY SIGNING BELOW, Borrower accepts and agrees to the terms and covenants contained in this Rider Addendum.


JEFFREY D. ZENDZIAN _____ Date


CHRISTIE LYNN ZENDZIAN _____  5/8/02
Date

