

Your first-time homebuyer's guide

Take a step closer to homeownership

Together we'll go far



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Heading home

Buying a home is part of the American dream. It is a significant long-term investment that often represents the foundation of our lives, providing financial and emotional security. It can be one of the smartest and, over the long term, most secure investments you can make.

At Wells Fargo Home Mortgage, our home mortgage consultants are trained to work with you on helping you make an investment in your home. We can help you put your home at the heart of your financial well-being. It's not just about money. Few things in life compare with the pride and satisfaction you get from owning your own home. Perhaps you come from a long line of homeowners. Or maybe you're the first in your family to ever be one. Either way, a home can be the foundation for a lifetime of memories. It may even become a family treasure to be passed down over the years—one that preserves family history and provides your heirs with a welcome sense of financial security. That's why, at Wells Fargo Home Mortgage, we believe it's so important to choose a home and a mortgage that are well suited to your needs.

This guide is designed to help you learn about the home buying process, so that you can make informed decisions. But you don't have to do it alone. Wells Fargo Home Mortgage is here to help. It is a good idea for you to understand your mortgage options and how much they may cost so you can make an educated decision about the home financing package that fits your needs. We will help you so that your financing fits with your unique financial picture. We'll be pleased to work with you and the real estate, financial and building professionals of your choice to make sure finding and financing a home is a friendly and rewarding experience.

Why buy instead of rent?

Decades after the phrase "the American dream" was first coined, homeownership is still a meaningful goal for a large number of individuals and families. And, as the years go by, you can build ownership interest, called equity, which you may be able to borrow against if you choose. In contrast to renters, most homeowners receive significant tax breaks, because interest paid on a home mortgage is usually tax deductible. You will want to consult your tax advisor regarding deductibility of interest. Finally, there's the personal satisfaction of having a home you can call your own to share and enjoy with friends and family.

Owning can cost less than renting

Renting certainly has some advantages over owning. If you need to move frequently, if you're not at a stage of your life where you want to commit to the responsibilities or costs of maintaining a home, or if your future income is extremely uncertain, renting may be the best option. Just don't assume that renting is less expensive than owning. A monthly mortgage payment may be lower than the monthly rent on a much smaller property. Every month, the payment you make on your mortgage typically adds to the equity you have in your home and makes your home asset a more valuable part of your portfolio. Money paid for rent simply evaporates each month. Plus, research has shown that in the past real estate has proven to deliver a highly reliable increase in value compared to other types of investing. If you're renting, those returns are going into your landlord's pocket, not yours. When you add in the federal tax deductions¹ for mortgage interest and real estate taxes, homeownership becomes an even more attractive idea.

1. Consult your tax advisor for details.

The basics

What is a mortgage?

A mortgage is a loan secured by real estate. In other words, in return for the funds necessary to purchase a home, a lender, such as Wells Fargo Home Mortgage, gets your promise to pay back the funds over a certain period at a certain cost. Backing your promise to repay is the property. Should you default, or stop paying, the loan, the lender would take over ownership of that property. Typically, the repayment of a mortgage occurs through monthly payments.

What does my mortgage payment include?

Usually, your monthly mortgage payment is made up of four parts: principal, interest, taxes and insurance (PITI), but it can also include maintenance expenses, such as condominium homeowners' association dues. The principal is the amount in your monthly payment that reduces the original amount borrowed. Over the life of a standard mortgage loan, the entire original amount borrowed is generally scheduled to be fully paid off, or amortized. The interest rate is the fee charged to borrow the outstanding balance for the past month. In addition, a monthly amount may be collected and held in a separate escrow account to cover property taxes, homeowner's insurance and mortgage insurance. Your lender uses the money in the escrow account to pay your tax and insurance bills, as they come due.

Mortgage payment breakdown

Principal + Interest + Taxes + Insurance = PITI

► **Principal** is the amount of money you borrow based on the sale price of the home. In the early stages of your mortgage term, your monthly payment includes only a small portion that repays your original principal. As you continue to make payments through the years, a greater portion of your payment goes to reduce the principal.

- **Interest** is the cost of borrowing money. In the early stages of your mortgage term, your monthly payment is mostly interest. As you continue to make payments through the years, a smaller portion of your payment goes to interest.
- **Taxes** are paid by homeowners to local governments, and are usually charged as a percentage of the assessed property value. Tax amounts vary depending on where you live.
- **Insurance** offers financial protection in the event of a loss and has two main components that can be included as part of your payment. Homeowner's or hazard insurance protects you against financial losses on your property as a result of fire, wind, natural disasters or other hazards. Most lenders will require you to have a homeowner's insurance policy on your home because it will help protect their investment as well as yours.
 - Mortgage insurance (MI) is required on certain loans to protect the lender against financial losses if the borrower fails to repay the loan. Usually, whenever the down payment is less than 20% of the home's purchase price, lenders require some type of insurance. Loans insured by FHA/HUD programs require a mortgage insurance premium (MIP), while VA loans require a funding fee. Conventional loans, or those without government backing, can be insured with Private Mortgage Insurance (PMI).

Typically, the portion of your monthly mortgage payment that covers taxes and insurance is held in a special account by your lender. Then, when these bills are due, the lender forwards payment on your behalf to the local government or insurance company. This process is known as escrow. Using escrow for taxes and insurance is an option for the homeowner and not a requirement. Once your mortgage is paid in full, you are still responsible for taxes and hazard insurance.

The real costs of homeownership

Homeownership has some wonderful advantages. But there are some additional costs involved that you may not incur as a renter. Make sure you consider these in your monthly budget before you decide to become a homeowner.

- ▶ **Homeowners insurance:** Most lenders require the purchase of a homeowners insurance policy to protect your home against loss due to legal liability, fire, flood, or natural causes.
- ▶ **Maintenance:** It takes time and money to keep a property in top condition. You'll find that some sellers have kept their homes in great shape, and some in not-so-great shape. This is particularly true with older homes. One way homebuyers protect themselves is with a home warranty. They cost a few hundred dollars a year, depending on the size of your mortgage and where you live, but they cover most of the major appliances and protect you from big expenses. They can be a good value in any homebuying situation, but especially if you have a fondness for older homes.
- ▶ **Taxes:** Most communities finance a lot of their schooling and services through property taxes. The tax rate varies from town to town, so speak with your real estate agent to understand what the taxes are on each home you look at. The good news is that property tax payments should be fully deductible at income tax time.²
- ▶ **Homeowners association dues:** Condominiums and planned developments often have homeowners associations. The fees connected to these groups can range from a few dollars to several hundred dollars a month for upscale condos or neighborhoods with lots of amenities.

How do I qualify for a mortgage?

In general, all lenders use the same four basic standards to approve applicants for a mortgage. Different mortgage products have varying guidelines within those standards. The lender looks at what is referred to as the "the four C's": capacity, character, capital and collateral.

Income (Capacity)

Do you have steady and sufficient income to make the monthly payments? This income can come from a primary, second, or part-time job(s), overtime and bonuses, commissions, self-employment, retirement benefits, pensions and annuities, public assistance, child support, alimony or maintenance payments, veterans benefits, disability payments or rental property income. In most cases, you need to provide documentation regarding your income. Alimony and child support need not be noted unless you want to have them included as the basis for repayment of the debt.

Credit History (Character)

Have you paid back money you borrowed in the past? Have you been late in making your payments? Have you filed for bankruptcy? Do you have a record of judgments and collection accounts filed? If you have a limited or no credit history, a "nontraditional" credit history may be considered. You may need to show paid receipts and canceled checks for rent and utility payments that document a pattern of paying your monthly obligations on time.

Savings (Capital)

Have you saved any money that can be used toward the purchase of your home? The savings can be money in a savings account, certificate of deposit, or a gift from a relative or friend. A lender wants to see that you have the capital to fulfill your current obligations as well as your new mortgage. Ideally, you should have enough savings to act as a source of funds for your down payment and several months of reserve funds to cover your anticipated monthly mortgage payments should anything happen to you or your job.

Property (Collateral)

Your lender will require an appraisal on your home to determine its market value. Your lender will also look at the type of the property and whether there are additional fees such as homeowner's association dues. If you'd like to be preapproved for a mortgage loan, you do not need to have a property in mind. Before you begin working with a real estate agent or builder, ask your Wells Fargo Home Mortgage consultant about getting a **PriorityBuyer**[®] preapproval.³ It is a smart move for serious homebuyers because it shows sellers that you come to the negotiating table ready to complete the transaction.

How much money can I borrow?

To answer that question, lenders look at all the elements that make up your financial profile, including your credit history, the cash you have available for a down payment and closing costs, your income and your existing debt and financial obligations. Then, taking the current market interest rate into account, a lender can give you an estimate of the maximum mortgage amount you can borrow. By adding your maximum mortgage amount to the funds you plan to use for your down payment, you will know your home purchase price range. Speak with a Wells Fargo Home Mortgage consultant who can help you get an estimated mortgage amount.

Two general guidelines are used by lenders to determine the loan amount for which you may qualify. Based on your individual financial profile, these guidelines ensure that your housing expenses and debt payments don't take up too much of your income. These guidelines can help you remain inside your financial comfort zone after you buy a home.

1. Consult your tax advisor for details.

3. A **PriorityBuyer**[®] preapproval is based on our preliminary review of credit information only and is not a commitment to lend. We will be able to offer a loan commitment upon verification of application information, satisfying all underwriting requirements and conditions, and providing an acceptable property, appraisal, and title report. Not available on nonconforming products.

The first guideline, known as the housing expense-to-income ratio (or front-end ratio), compares your proposed monthly house payment (PITI) to your total household gross monthly income. The second guideline, known as the debt-to-income ratio (or back-end ratio), compares your anticipated monthly housing payment to your gross (pre-taxed) monthly earnings and your monthly debt requirements. Monthly debt includes expenses such as credit cards, car loans, student loans, consumer loans plus other financial obligations such as child support and alimony.

How important is my credit?

Your credit report is an important consideration to lenders reviewing your financial profile. If you have a history of paying your monthly obligations on time, that's a signal to a lender that you are likely to make your monthly mortgage payments on time as well. So your credit can be a factor in the kind of mortgage program you may qualify for.

Your credit history can also affect the amount required for a down payment, the amount of money you can borrow in relation to your income, and the interest rate you are offered. But keep in mind that even if you have no established credit history or less-than-perfect credit, there are still loan

programs that can help you buy a home.

Here are some steps you can take to establish or improve your credit rating:

- If you've always paid cash or used checks to make purchases and haven't established a credit record, it's a good idea to do so before you buy a home. You can use credit to purchase low-priced items, make prompt payments and pay off the balance.
- Some loan program guidelines allow "alternative" credit records. If you have a limited credit history, your paid receipts and canceled checks for rent and utility payments can help you document a pattern of paying your monthly obligations on time.
- If you already have outstanding loans or credit card debts, try to pay off as many as possible. The amount of monthly debt you are responsible for paying reduces your capacity for taking on housing debt (via the back-end ratio, discussed above).

Financing options help you achieve home ownership

Owning your own home...it's one of the greatest achievements in life. But while homeownership may be a dream many Americans share, a lot of us find saving for the down payment to be a major hurdle. Others have money available through things like 401(k) accounts and mutual funds, but don't feel right dipping into those investments. If you fall into one of these two groups, we have good news for you. Today, there are options that may allow qualified borrowers in eligible locations to purchase a home with little money down.³

How much do I need for a down payment?

In the past, saving money for a down payment on a home was often the largest obstacle to homeownership with lenders requiring a minimum of a 20% down payment. But today's flexible home loan programs make this issue less of a challenge, with some programs allowing you to put very little down. Some homebuyers may even be eligible for local down payment assistance programs. If one is available in your area, your Wells Fargo Home Mortgage consultant can give you further details. If you decide to use less than a 20% down payment, your lender may require Private Mortgage Insurance (PMI). These insurance programs protect the lender in the event you do not fulfill your commitment to repay the mortgage.

Creative ways to save

While low money down payment options³ may make homebuying more accessible, it's still a good idea to have some savings you can bring to the table. Having some funds on hand is also helpful in covering closing costs, any work your property may need, or unforeseen expenses that may come along. Here are several suggestions to help build the size of your funds reserves.

- ▶ **Set up a forced savings plan:** Set up a separate banking account and deposit a set amount into it every month. This works best if you do it through an automatic deduction. If you don't see the money, you're less likely to spend it. Contact a Wells Fargo banker to discuss setting up a direct deposit account.
- ▶ **Skip or downsize luxuries for a year:** Start small and stick with it. Things you might not necessarily think of as luxuries can really add up in terms of dollars saved. For instance, if you usually buy lunch every day try "brown bagging" a few days a week. If your family has gotten used to eating out at least once a week, try cutting back to just a couple of times a month. On the "big ticket" side, you might consider a less expensive car than you might otherwise buy or a lower-cost vacation than you might normally take.
- ▶ **Pay off credit cards:** Big credit card balances don't do you any favors on credit reports or when qualifying for a loan. They can make you appear overextended. They can also put a huge burden on your savings efforts. Always start by paying off the cards with the highest interest rates, even before the ones with lower balances. And you don't have to completely get rid of your credit cards. You just need to be careful about using them. Credit cards used smartly are actually signs of a financially responsible and creditworthy borrower.

- ▶ **Certificates of deposit (CD):** Certificates of deposit are a convenient, low-risk method of saving. But when rates are low, committing to a few long-range CDs isn't a good idea. Get several shorter-term CDs of varying ranges, instead. That way, you can adjust or "ladder" your CD choices to take quick advantage of movements in interest rates.
- ▶ **Sell unwanted items:** Chances are good that an in-depth search of your current home will turn up quite a few items you rarely use and/or simply don't even want to keep. Sell all that stuff and put the proceeds straight into your down payment fund.
- ▶ **Earn some extra income:** Look for a part-time job that you can do without interfering with regular employment. Try an evening job in retail, party-oriented sales, or a seasonal job. The key here is discipline, so that your extra income goes directly into your down payment fund and not into taking advantage of your employee discount at every opportunity.

Finding funds in surprising places

The most common sources for a down payment are personal savings accounts and traditional investments, but there are several other places that can supply part or all of your down payment.

- ▶ **Gifts:** Depending on the loan guidelines, you may be able to use monetary gifts from family or friends as part of your down payment. However, you will most likely be required to provide written proof that the funds were truly a "gift" and not a personal loan. Also, there are caps on how much gift money you can receive per year without increasing your tax obligations. Check with a financial advisor, tax accountant, and a home mortgage consultant to learn more about how these options can impact your overall home financing plans and future goals.
- ▶ **Non-profit down payment assistance programs:** There are also DAPs that can provide you with funds for your down payment and closing costs. Many don't even require repayment, if you meet the organization's guidelines. Groups like Habitat for Humanity and Homeownership Alliance of Nonprofit Downpayment Providers (HAND) also can be a source of help with homeownership resources. Speak with your home mortgage consultant.

Ways to make a home more attainable

If you've gone through your budget process and feel that you can't purchase what you want, there are some other things you can do to make getting a home more attainable.

- ▶ **Purchase a fixer-upper:** Any time a home has obvious problems, the selling price becomes much more

negotiable. If those problems are superficial things, like ugly wallpaper, worn carpeting, or hideous color schemes, you can probably get the property at an attractive price, then fix it up to suit your own tastes fairly easily. If the problems are the kind that require light construction work, like replacing drywall, the fixes become a little more challenging. If you have absolutely no free time or if you're simply not handy when it comes to home repairs, the fixer-upper route can be more costly than it's worth.

- ▶ **Consider condos:** Condominiums are an especially attractive option if you have a very active schedule and don't particularly like doing home maintenance. Initial purchase prices are generally less than single-family homes, but be sure to factor the monthly association fee into your budget. It could be significant, depending on the level of maintenance and amenities your association provides.
- ▶ **Buy a foreclosed property:** While it's true that you can find occasional bargains among foreclosed properties, there are serious pitfalls you need to avoid. Foreclosed properties are often sold "as is" (meaning you can't require the seller to make any fixes), and the purchase time line may not give you enough room to do a careful inspection. If you decide to go this route, just make sure you get an opportunity to check out the property thoroughly. Ask your real estate agent to help you identify foreclosure listings in your area. You can also search the Web sites for Fannie Mae, Freddie Mac, HUD, and the Department of Veterans Affairs.

What about closing costs?

The cost of buying a home is more than just the purchase price. Each homebuying transaction requires the services of a large number of professionals from a variety of fields. It's common for these costs to add up to between 3% and 5% of your total mortgage. When you choose to work with a lender, your home mortgage consultant will give you an initial Good Faith Estimate, and as a result of changes to your mortgage we may provide you with another Good Faith Estimate that includes updated information. It can help you budget for your closing. We can also work with you to include your closing costs in your loan amount to reduce the amount of out-of-pocket money involved.

The amount you pay in closing costs varies among lenders, mortgage products and localities. The closing cost fees generally fall into one of three categories: out-of-pocket expenses, pre-paid items and points.

Out-of-pocket expenses usually cover third-party services that are directly charged to you, such as fees for appraisals, attorneys, credit reports, title (deed recording), or tax services. Which services you must pay for varies on the property location and home financing program. If you don't understand what a particular fee covers, or why you are required to pay it, ask your home mortgage consultant to explain.

Prepaid items can vary based on the type of property and the time of the closing, but they generally include homeowner's insurance, mortgage insurance, and fees associated with establishing an escrow account. Escrow accounts are set up by lenders to pay property tax and insurance premiums. Instead of paying the entire premium every six or twelve months, the borrower pays a portion of the cost along with every monthly mortgage payment. This helps the borrower avoid the hassle of planning for the large payments, while reassuring the lender that tax and insurance payments are always up to date. Using an escrow account can be an option, but is a requirement with less than a 20% down payment.

Points are fees, with each point representing 1% of your loan amount, that cover the cost of your mortgage loan. Generally, points can be split into two categories:

- **Origination points:** This is an amount collected by the lender for making the loan.
- **Discount points:** As discussed elsewhere in this guide, this is a fee that allows you to buy down your interest rate. In other words, in return for paying more discount points up front, you can lower your interest rate and thus your monthly payment.

To make the best apples-to-apples comparison on lenders and home financing packages, be sure that the rates all have the same number of total points and that you factor in the total amount you will be paying in closing costs. While one loan may offer a lower rate, it may also require you to pay a higher number of points at closing and more money out of pocket for you. Also, don't forget to consider loan features and service after closing in addition to the rate, APR, and points when you compare different loan programs. Your home mortgage consultant can give you information on average closing cost percentages for specific areas and loan programs.

Making choices

What kinds of mortgages are available?

It's also a good idea to gain a basic understanding of the kinds of home mortgages that are available. As you review the list, keep in mind that these categories widely overlap—for example, we provide adjustable-rate FHA loans and fixed-rate jumbo mortgages. As your advisor through the mortgage process, your Wells Fargo Home Mortgage consultant can help you determine the right loan to fit your needs and design a custom financing solution for you.

As one of the nation's leading retail mortgage lenders, Wells Fargo Home Mortgage offers a full range of standard home loan programs, with a variety of rate, term and cost options to answer individual homebuyer needs. We also offer programs for those with less-than perfect credit histories and difficult-to-document income. In addition, we offer exclusive programs that provide special options, services and conveniences. These programs include specialized options for homes that require renovation and new construction financing. Your Wells Fargo Home Mortgage consultant may help you find a solution that's right for you.

- ▶ **Fixed-rate mortgages.** The interest rate remains fixed for the life of the loan.
 - Offer predictable monthly payments of principal and interest throughout the life of the loan.
 - Provide protection from rising rates. No matter how high market rates go up, your interest rate stays the same.
 - Generally well-suited to borrowers who plan to stay in their homes for a long period of time.
- ▶ **Adjustable-rate mortgages.** The interest rate adjusts periodically to reflect market conditions on pre-determined dates.
 - The initial introductory period usually offers a lower rate (relative to fixed-rate mortgages), after which the rate adjusts periodically, based on a market index.
 - The initial rate can be locked in for different periods. Typically, the rate readjusts annually after the introductory period.
 - May be more appropriate for borrowers who may want to sell or refinance early, can manage to make larger monthly payments after the rate adjusts.
- ▶ **FHA Loan.** The Federal Housing Administration (FHA) insures a wide variety of mortgages provided by Wells Fargo Home Mortgage. These loans are designed to meet the needs of homebuyers with low or moderate incomes and feature:
 - Low down payment requirements⁴
 - Loan limits based on geographic locations
 - Generally more liberal qualifying guidelines
 - Use of gift funds for down payment and/or closing costs
- ▶ **VA Loans.** The Department of Veterans Affairs (formerly the Veterans Administration) guarantees mortgages for qualified veterans and active-duty military personnel and their spouses who are first- or second-time homebuyers. Available through Wells Fargo Home Mortgage, VA loans feature:
 - Low or no down payment requirements
 - A wide range of rate, term, and cost options
 - Flexible qualifying guidelines
 - Use of gift funds for closing costs

Are there any tips to consider when loan shopping?

When you're comparing mortgage rates and programs, the following information can come in handy.

Make it a point to ask about points

When inquiring about rates, be sure to ask if the quoted interest rate reflects payment of points. Many loan programs allow you to receive a discounted interest rate by paying a fee in points or origination fees. One point equals 1% of the loan amount, and the more points you can or wish to pay, the more you can lower your rate. Paying points is not a requirement; it's just an option that lenders offer to accommodate the immediate or long-term monthly payment concerns of home mortgage customers.

Wells Fargo Home Mortgage typically quotes rates with 1 total point (zero discount points and one origination point).

The annual percentage rate is the key

When you're shopping for a home mortgage, make sure you ask lenders for the annual percentage rate (APR) as well as the interest rate, so you compare it accurately to other available mortgage rates. In addition to the interest rate (which determines the amount of your monthly payment), the APR adds in the other costs required to make the loan to determine your loan's total finance charge, expressed as a percentage over the scheduled life of your loan. After you apply for your mortgage, you will receive a Truth-in-Lending Statement.

Illustration of how points paid impacts the APR for a 30-yr Fixed Rate Mortgage

Interest rates are illustrative and change daily. Contact us for current rates.

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|---|---|-----------------------------------|-------------------|
| \$145,000 Loan Amount with a 20% down payment | Interest rate: 7.00% APR: 7.170% | 360 monthly payments: \$964.69 | Total points : 1% |
| | Interest rate: 6.875% APR: 7.249% | 360 monthly payments: \$952.55 | Total points : 3% |

The payment amounts provided do not include homeowner's insurance or property taxes which must be paid in addition to your loan payment. Your actual payment may be higher. Closing costs are assumed to be paid by the customer at closing. If the closing costs are financed, the loan and payment amounts will be higher. Your loan's interest rate will depend upon the specific characteristics of the loan transaction and your credit profile up to the time of closing. The APR reflects the impact of the interest rate, points and other finance charge fees. In this illustration, the loan with the lower interest rate would be the more expensive option because of the impact the points have on the APR.

Locking or floating

A lock gives you a specified period of time—from 30 to 120 days—of protection from financial market fluctuations in interest rates by setting the range of pricing available to you. Your rate may still be affected by changes in the loan's characteristics (for example, if you choose to pay fewer points or make a smaller down payment) or in your credit profile.

If you choose to float your pricing, then your rate will fluctuate with the market. The benefit to floating is that you would have the option of locking at a lower level if rates should decrease. The risk, of course, is that you would face a higher interest rate should interest rates rise before you lock. Generally, you'll be able to lock in your loan pricing once you have found a property

and as late as up to five days before closing. We also offer programs that allow you to lock pricing before finding a property.

When you lock, make sure the lock period allows enough time for your loan to be processed. If your lock period expires before you're ready to take ownership of the house, your loan pricing may be adjusted to reflect current market conditions. Some loan programs allow a one-time float down option that can be used during the rate lock period. The one-time float down allows you to seek a lower rate should rates drop while your loan is locked, if you qualify. No one knows if rates will rise or fall, so it's impossible for a home mortgage consultant to tell you whether or not you should lock or float your loan. The decision is yours. If you are looking to build your home,

5. A non-refundable closing commitment deposit or an extended lock fee will be required for participation in a Builder Best program. The Builder Best program is allowed with qualified products with lock features ranging from 3 months to 12 months. Due to daily pricing variations between products, you are encouraged to work with your home mortgage consultant to ensure that pricing available on the Builder Best lock feature that you choose is the most advantageously priced Builder Best lock feature for you.

When you're ready to look for a house

we provide the ability to lock your pricing for up to 12 months to accommodate lengthy construction time frames. You can also get this extended lock with an option to re-set your interest rate once during the rate-lock period, provided you qualify at the time you seek the new rate.⁵

Choosing the right real estate agent

Real estate agents make it their business to know about communities and the homes within them. A good real estate agent can:

- Help you decide what you want in a home. Communicating your desires is essential to helping your real estate agent find you the right home.
- Search the Multiple Listing Service (MLS) and other resources for homes that match your needs.
- Show you appropriate homes.
- Provide valuable information on communities, comparable values of neighboring homes, tax rates and building code regulations.
- Help you formulate an offer on the home you want to buy.
- Act as an intermediary between you and the seller, smoothing the negotiating process.

Choose your agent carefully. Note the names of agents on “For Sale” signs as you drive through neighborhoods of interest. Ask anyone you can for referrals — including your home mortgage consultant. That consultant works with real estate agents every day, so he or she will be able to provide you with a list of qualified candidates. Check the Internet sites of local realty companies, too. When you've got a good list of names, interview at least two or three of the agents. In addition to having experience in the area where you hope to buy your home, the agent you choose should be trustworthy

and easy to talk to. Tell them what you're interested in and ask if they can provide some additional information about area schools, taxes, or some other special interest. Then see how quickly they respond and how accurately they follow your request. Once you've selected an agent, stick with that agent even when you're looking at homes listed by other agencies. A good agent will make it his or her business to be familiar with all the listings in your chosen area. Contacting a different real estate agent simply because you're attracted to a listing of theirs is counterproductive when you've built a level of familiarity and trust with your selected agent.

Make your wish list

Once you know a comfortable price range, put together a wish list of the things that are most important to have in your home. We've included a sample house-tour checklist toward the back of this guide to help you get started. When you've completed your list, rank the items in order of importance. Be sure to cover your basic needs then include any strong preferences you have about things like the style of home you want and the type of exterior finish you prefer. If you absolutely don't like the flow of ranch style houses or the size of rooms in Tudors, make a note of it. Your edited wish list will make it much easier for a real estate agent to find the perfect house for you.

Choose a neighborhood

Location is an extremely important factor in determining your long-term happiness with your new home. The right real estate agent should be able to give you a lot of information in this area.

Here are a few things to think about, so you'll be able to discuss them with your agent.

- Do the schools meet my needs?

- Is the commute time acceptable?
 - Are there good public recreation areas nearby?
 - Will I like the nearby grocery stores and services? Am I willing to drive out of my way regularly if I don't?
 - Is the neighborhood stable? Is there sufficient improvement happening around it? If homes are being well maintained and renovated it's a good sign the area is stable.
 - What trends are occurring in neighboring areas? Is there revitalization happening or are they experiencing a downturn? Neighborhoods transition, that's only natural. What you need to do is select an area where positive transition is the most likely possibility.
- ▶ **Start looking online:** There are several excellent Web sites offering listings of homes for sale. Searching your price range is a good way to narrow down the field of neighborhoods you'll have to choose from, get a quick sense of areas you'd like to explore further, and figure out a few areas you'd prefer to skip entirely. Write down the MLS numbers for any properties that get your attention so you can give them to your real estate agent. Remember that the real estate agent you select, with few exceptions, can show you the homes listed by any agency.
- ▶ **Check school reports:** If you'll need to send kids to school now or in the future, the quality of area schools is very important. Ask your real estate agent to provide you with

the school reports for any neighborhoods you're interested in. Another good source is the economic development Web site of the city you're considering, the local convention and visitors bureau Web site, and the Web site of the largest daily newspaper in the area.

Choosing the right lender

Whether you're all set to buy or just trying to figure out what you can buy, choosing a lender who listens carefully, has products for your needs, responds promptly, and treats you with respect is critical. Wells Fargo Home Mortgage consultants are trained to ask questions that will give them a clear picture of both your current needs and future goals. They can help you customize a home financing program that will not only help you buy a home now, but one that can also start you on the road to overall financial success.

We help homebuyers every day in making a choice for their home financing needs. Our home financing professionals work with one of the broadest selections of products and services in the industry. In addition to all the conventional financing options, we offer programs that can help overcome obstacles that first time homebuyers may encounter.

The process

Get an edge—get a **PriorityBuyer**[®] preapproval

Before you begin searching for a home, we highly recommend you ask your Wells Fargo Home Mortgage consultant about preapproval. You can get a preapproval letter that lets you know how much home you can qualify for. Getting this preapproval letter lets you know exactly how much you can spend, and shows prospective sellers and real estate agents that you're a serious buyer. In addition, many sellers will require a preapproval letter prior to reviewing an offer. So lining up your financing ahead of time will help you get your offer in quickly in hot real estate markets.

Completing the application

Your home mortgage consultant will assist you in completing a *Uniform Residential Loan Application* form. Much of the information on your application can be pre-filled from your credit report, so the amount of information you'll need to provide is not overwhelming. Your home mortgage consultant can tell you what you'll need to have on hand to complete the application.

There are generally six areas that must be filled in:

1. Personal data

Full names, addresses, and Social Security numbers of all borrowers.

2. Income

The amount and source(s) of income for all borrowers.

3. Assets

Information on all assets you'll be using to qualify for the loan, such as checking and savings accounts, stocks and bonds, retirement plans, and other real estate owned.

4. Debts and obligations

Information on all outstanding debts and other financial obligations.

5. Credit references

Information concerning loans or debts that have been paid, plus any other references to good credit use.

6. Property information

Specifics on the property you wish to buy, if you've chosen one.

Loan approval

After you've completed the application, your lender will need to verify the information you provided and return a decision on your application. This means your lender will review your credit report and other financial information to make an underwriting decision regarding the degree of risk involved in lending you money. If there are any initial questions about your approval decision, the loan application is forwarded to a trained underwriting professional for a full review. We will work with you to provide, if possible, a loan program or loan terms that accommodate your needs and circumstances. We want to provide mortgage financing options that meet your individual needs.

Based on the information from your credit report and the type of property you want to finance, you may need to provide additional documents or letters that:

- Verify the income you'll use for loan qualification

- Confirm your down payment and closing expenses in your bank account
- Clarify any incorrect items on your credit report
- Verify any debts not listed on your credit report

What happens next?

You've applied for your mortgage. Now what? This simple, four-step walk through to loan closing will help you understand the procedure and give you an idea of what to expect.

1. Processing

Your home mortgage consultant or mortgage specialist collects the information needed to process your loan. Documentation requirements vary depending on the loan program you apply for and your individual financial and credit profile. If your property does not qualify for an automated valuation or drive-by assessment, an appraisal will be ordered to determine the fair market value of the property you wish to purchase. You will have the option to lock in your loan pricing or float. It is important to discuss these options with your home mortgage consultant.

2. Decisioning

Many home mortgage applications are approved quickly. On occasion, loan applications need further review. Wells Fargo Home Mortgage will evaluate your financing requirements.

3. Pre-closing

Prior to closing, sometimes referred to as "loan settlement," your home mortgage consultant may ask you to provide certain insurance and real-estate-related documents. There are two types of title insurance: one protects the lender, the other protects the borrower from claims against your ownership of the property. Such claims might be made by undisclosed spouses, heirs of previous owners, creditors holding liens against previous owners, or other parties. Your lender will most likely require you to purchase a title policy, which will cover their interest in the property. It's up to you if you would like to purchase a policy to protect your interest in the home. Your home mortgage consultant will be able to recommend a title insurance company who can provide you with additional information about the policies available in your area.

When you are ready to schedule your closing date, all involved parties will be contacted to arrange for the closing to take place at a convenient time and location. The closing procedure

and associated fees vary depending on where you purchase. Before the closing you will be notified of the exact amount of money you need in order to close and any additional documents you may need to bring.

4. Closing

At your closing, ownership of the property is transferred from the seller to you. A closing agent (an attorney of your choice or a title agency representative, depending on what is customary in your area) coordinates and distributes all the paperwork and funds, according to the terms agreed upon by you and the seller. You become the proud owner of your new home.

Wanting a home is the beginning

Benefit from the strengths of the company that provides funding for one out of every nine homes financed in the United States—Wells Fargo Home Mortgage. We're committed to offering the most extensive product line in the mortgage lending industry, which is why we're leaders in:

- Low- to moderate-income lending
- Relocation lending
- Reverse mortgage lending
- New construction lending
- Credit challenge solutions
- Renovation lending
- Home mortgage servicing

At your service

Whether you visit us in a mortgage office or a Wells Fargo Bank branch, nearly 10,000 home mortgage consultants are available in more than 2,200 locations doing business in 50 states. Wells Fargo Home Mortgage is one of the nation's leading retail mortgage lenders and we are ready to meet your financing needs. Contact your local Wells Fargo Home Mortgage consultant today.

Wells Fargo. Well-established. Well-respected.

Glossary⁵

Adjustable-rate mortgage (ARM) – A mortgage in which the interest rate is adjusted periodically according to a pre-selected index.

Annual percentage rate (APR) – A yearly percentage rate that expresses the total finance charge on a loan over its entire term. The APR includes the interest rate, fees, points, and mortgage insurance, and is therefore a more complete measure of a loan's cost than the interest rate alone. The loan's interest rate, not its APR, is used to calculate the monthly principal and interest payment.

Appraisal – A report made by a qualified person setting forth an opinion or estimate of property value. The term also refers to the process by which this estimate is obtained.

Appreciation/depreciation – “Appreciation” refers to the increase in a property's value, except for inflation. A decrease in the value of a property is called “depreciation.”

Assessed value – The value that a taxing authority places on real or personal property for the purpose of taxation.

Capital gains – Used for tax purposes, this is the capital gain you make when you sell your home. For example, if you purchase a property for \$100,000 and sell it some years later for \$150,000, your capital gain is \$50,000.

Closing – The consummation of a real estate transaction. The closing includes the delivery of a deed, financial adjustments, the signing of notes, and the disbursement of funds necessary to complete the sale and loan transaction.

Closing agent – Usually an attorney or title agency representative who oversees the closing and witnesses the signing of the closing documents.

Closing costs – The costs paid by the mortgage borrower (and sometimes the seller) in addition to the purchase price of the property. These include the origination fee, discount points, appraisal, credit report, title insurance, attorney's fees, survey, and prepaid items such as tax and insurance escrow payments.

Commission – Compensation for negotiating a real estate or loan transaction, often expressed as a percentage of the selling price or loan amount.

Commitment letter – A formal offer by a lender stating the terms under which it agrees to loan money to a homebuyer.

Comparable market analysis (CMA) – A written analysis of houses having similar characteristics currently being offered for sale as well as comparable houses sold in the past six months. This enables you to determine if you are paying market value for a home, and to identify whether market prices are rising or falling.

Conventional loan – A mortgage not obtained under a government insured program (such as FHA or VA).

Credit report – A report detailing an individual's credit history.

Debt-to-income ratio – A formula lenders use to determine the loan amount for which you may qualify. Also known as the “back-end ratio.” Guidelines may vary, depending on the loan program.

Down payment – Money paid to make up the difference between the purchase price and the mortgage amount.

Down payment assistance programs (DAPs) – Gift funds offered to qualified homebuyers to be used toward down payments and closing costs. These programs are often administered by local non-profit foundations.

Equity – The ownership interest; i.e. portion of a property's value over and above the liens against it.

Escrow account – A holding account for the amount a mortgage borrower pays each month and which the lender uses to pay for the borrower's taxes, other periodic debts against the property, homeowner's insurance and, if applicable, mortgage insurance.

Fixed-rate mortgage – A mortgage in which the interest rate and payments remain the same for the life of the loan.

Float the rate – This term is used when a mortgage applicant chooses not to secure a rate lock, but instead allows the note rate pricing to fluctuate until the applicant decides to lock in, usually no later than five days prior to closing.

Foreclosure – A legal procedure in which property mortgaged as security for a loan is sold to pay the defaulting borrower's debt.

Front-end ratio – Also known as the housing expense-to-income ratio, it compares your proposed monthly house payment (PITI) to your total household gross monthly income.

Funding fee – The amount charged on VA mortgages to cover administrative costs.

Good faith estimate – A document which tells borrowers the approximate costs they will pay at or before settlement, based on common practice in the locality. Under requirements of the Real Estate Settlement Procedures Act (RESPA), the mortgage banker or mortgage broker, if any, must deliver or mail the GFE to the applicant.

Government loan – A mortgage insured by a government agency, such as FHA, VA, Farmers Home Administration, or a state bond program. The loans are generally made by private lenders, such as Wells Fargo Home Mortgage.

Home mortgage consultant – The Wells Fargo Home Mortgage representative a homebuyer initially consults about a mortgage loan. Sometimes called a loan officer, account executive, or sales representative.

Homeowners insurance (also called hazard insurance) – A real estate insurance policy required of the buyer protecting the property against loss caused by fire, some natural causes,

vandalism, etc. May also include added coverage such as personal liability and theft away from the home.

House inspection – A thorough evaluation and written report of a home's condition both inside and out. The inspection is valuable in locating any problems in a property and helps you determine the extent of renovation needed. You can use the report to have the seller make repairs or reduce the purchase price. Always use your own inspector, and do not rely solely on the seller's inspection reports.

HUD-1 settlement statement – A standard form used to disclose costs at closing.

Index – A published interest rate, such as the prime rate, LIBOR, T-Bill rate, or the 11th District COFI. Lenders use indexes to establish interest rates charged on mortgages or to compare investment returns. On ARMs, a predetermined margin is added to the index to compute the interest rate adjustment.

Interest rate – The percentage of an amount of money which is paid for its use for a specified time.

Interim interest – The interest that accrues, on a per-diem basis, from the day of closing until the end of the month.

Loan conditions – These are terms under which the lender agrees to make the loan. They include the interest rate, length of loan agreement, and any requirements the borrower must meet prior to closing.

Loan payment reserves – A requirement of many loan programs that, in addition to funds for the down payment and other purchase-related costs, you have saved enough money to cover one or two months of mortgage payments after your closing.

Loan settlement – The conclusion of the mortgage transaction. This includes the delivery of a deed, the signing of notes, and the disbursement of funds necessary to the mortgage loan transaction.

Loan-to-value (LTV) – The ratio between the amount of a given mortgage loan and the lower of sales price or appraised value.

Margin – The set percentage the lender adds to the index rate to determine the interest rate of an ARM.

Mortgage – The conveyance of an interest in real property given as security for the payment of a loan.

Mortgage insurance (MI) – See *private mortgage insurance (PMI)*.

Mortgagee – The lender on a mortgage transaction.

Mortgagor – The borrower in a mortgage transaction who pledges property as security for a debt.

Mortgage specialist – The Wells Fargo Home Mortgage employee responsible for collecting the completed application and all supporting documents before the entire loan packet is submitted to underwriting. Also known as a “processor.”

Multiple listing service – A computer-based service for real estate agents that provides descriptions of most of the houses listed for sale in an area.

Nonconforming loan – Conventional home mortgages not eligible for sale and delivery to either FNMA or FHLMC because of various reasons, including loan amount, loan characteristics or underwriting guidelines.

Note – A general term for any kind of paper or document signed by a borrower that is an acknowledgment of the debt, and is, by inference, a promise to pay. When the note is secured by a mortgage, it is called a mortgage note and the mortgagee (lender) is named as the payee.

Origination fee – The amount charged for services performed by the company handling the initial application and processing of the loan.

Points – A one-time charge by the lender to increase the yield of the loan; a point is 1% of the amount of the mortgage.

Preapproval – A written letter from a lender, subject to a property appraisal and other stated conditions, that lets you know exactly how much home you can purchase.

Prepays – Closing costs related to the mortgage loan which are collected at or before loan closing – including per diem prepaid interest and initial deposits of monthly escrows of taxes and insurance.

Principal – The amount borrowed or remaining unpaid; also, that part of the monthly payment that reduces the outstanding balance of a mortgage.

Private mortgage insurance (PMI) – Insurance written by a private company protecting the mortgage lender against loss resulting from a mortgage default.

Processing – The preparation of a mortgage loan application and supporting documentation for consideration by a lender or insurer.

Rate cap – The limit of how much the interest rate may change on an ARM at each adjustment and over the life of the loan.

Rate lock – The borrower and the lender agree to protect the interest rates, points, and term of the loan while it is processed.

Real estate agent – A salesperson, usually licensed by the state, and supervised by a broker. Agents work solely on commissions earned by selling properties.

REALTOR® – Person licensed to sell or lease real property acting as an agent for others and who is a member of a local real estate board affiliated with the National Association of Realtors.®

Return on investment – The percentage of capital gain that you make on an investment. For example, say you invest \$1,000 into a property, and a year later it is worth \$1,500. Your return on investment equals the profit (\$500) divided by the initial investment (\$1,000) or 50%.

Title insurance – An insurance policy that protects a lender and/or homebuyer (only if homebuyer purchases a separate policy, called owner’s coverage) against any loss resulting from a title error or dispute.

Truth-in-lending statement – A full disclosure of credit terms using a standard format required by Federal law. This is intended to facilitate comparisons between the lending terms and financial institutions.

Underwriting – Analysis of risk, determination of loan eligibility, and setting of an appropriate rate and terms for a mortgage on a given property for given borrowers.

Contact me today.



Daniel Saadi

Home Mortgage Consultant
Cell: 803-414-1867
Fax: 866-780-9108
508 Hampton Street
Suite 203
Columbia, SC 29201
daniel.saadi@wellsfargo.com



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