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HOME
MORTGAGE

Your home equity homebuyer guide

Pursue your dreams by accessing the value in your home

Together we'll go far



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Pursue your dreams

Home equity: a powerful financial tool

Your home is an investment, perhaps your largest. In addition to providing shelter, a place to make happy memories, and a source of pride, your home can also provide the means to make other dreams come true.

Over the last several decades, Americans are realizing that a home is more than just a property to be bought and sold. It's a sound financial resource that can grow in value—a resource that can be used to help meet other financial needs.

The equity you establish in your home can be managed to help you achieve financial goals. This guide is designed to help you understand how to use your home's equity, so you can put one of your most powerful assets to work for you.

What is home equity?

Equity is the difference between the market value of your home and how much you owe on any loans and all liens associated with your home. For most people, that means the difference between the home's value and what they owe on their mortgage.

Think of your home as a company with two stakeholders: you and your mortgage lender. You contribute money in the form of a down payment — let's say 20% — and the mortgage lender provides financing for the balance of the purchase price.

Your down payment amount represents your initial *equity* in the home. Over time, as you pay down your mortgage balance, your equity can increase. Equity may also increase as your home gains value over time, through improvements or local property appreciation. All of that adds up to an equity resource that can provide financing when you need it.

What can home equity do for you?

The interest you pay on many credit cards, auto loans, student loans, and personal loans may not be tax deductible. However, the interest you pay on your home's mortgage or home equity financing may be tax deductible.¹

Savvy homeowners are learning that using their home's equity can be a smart way to meet important needs. College tuition is a great example. The home your children grew up in could actually help them fulfill their dreams. Equity can even help with more immediate needs. For instance, if you need a new car, you can borrow against the equity in your home to finance that purchase.

One very common use of home equity is to finance improvements that may enhance a property's value. That's almost always a wise decision. Adding a new master bedroom suite or a kitchen remodel can effectively cause the value of your home to appreciate.

Another popular reason for home equity financing is debt consolidation. Generally, the homeowner uses their home equity loan or line of credit to pay off high-interest rate debt, converting several credit balances into a single low interest rate loan that can offer tax deductible interest. By getting out from under higher-interest rate loans and credit card balances, you could get a fresh start on managing your finances.

How do you use your equity wisely?

You've worked hard to build the value you have in your home and, like other investments, any decisions about when and how to use your home's value need to be made carefully. Everyone views investments, personal savings, and personal needs differently, but nobody wants to make an unwise financial move.

Your home's equity, put to work in the right way, can make a big difference for you and your family, and Wells Fargo Home Mortgage offers a number of ways to access it.

1. Consult your tax advisor regarding deductibility of interest.

If your first mortgage has an interest rate higher than current market rates

- Refinancing with a **Home Asset Management**SM Account, available only from Wells Fargo Bank could reduce your mortgage interest rate and give you convenient access to your unused equity through a home equity line of credit.³
- Cash out refinancing involves paying off your primary mortgage with a new mortgage at a higher loan amount. The additional cash can be used in any way you choose. Plus, you'd benefit from a lower interest rate that could lower your monthly payments.
- Our **Refinance & Renovate**SM loan can get you a lower interest rate and access to cash for investing in home improvements.

If your first mortgage has an interest rate lower than or equal to current market rates

- Converting a first mortgage from Wells Fargo Home Mortgage to a **Home Asset Management**SM Account allows you to keep your current interest rate and gives you convenient access to available funds when using your home equity line of credit.³
- Applying for home equity financing may give you access to your unused equity to use in any way you choose.⁴

3. Home equity line of credit portion of the **Home Asset Management** Account is available through Wells Fargo Home Equity Group, a division of Wells Fargo Bank, N.A.

4. Home equity loans and lines of credit are available through Wells Fargo Home Equity Group, a division of Wells Fargo Bank, N.A.

Where to start

Calculating your home equity

The first thing you need to do is find out just how much unused equity you have. As previously stated, your available home equity is the difference between what your home is worth and the amount you owe on any liens against the property. This includes your first mortgage, as well as any

second mortgages, home equity loans, or home equity lines of credit. Reviewing your loan or line of credit statements will give you a good estimate of the amount you owe. Just keep in mind that this figure will differ slightly from the actual amount required to pay off. In some cases there may be prepayment penalties, and there could be additional interest due.

Running the numbers on home equity—example below

1 How much of your home's value is financed?

\$250,000	Purchase price
-\$ 195,734	First mortgage unpaid balance
-\$ 10,000	Second mortgage unpaid balance
<hr/>	
\$ 44,266	Paid down equity

2 How much equity have you gained through appreciation?

(Example assumes 5% appreciation per year for five years. Numbers rounded.)

\$ 318,460	Current value
-\$250,000	Purchase price
<hr/>	
\$ 68,460	Amount of appreciation

What's your total?

3	\$ 44,266	Paid down equity from original financing
	\$ 68,460	Amount of appreciation since last financing
	<hr/>	
	\$112,726	Total unused equity

How much is your home worth?

To establish the fair market value of your home, the lender may require an appraisal. Generally, a professional appraiser will review the local real estate market and will probably compare at least three recently sold homes in your area. Ideally, these homes will be in close proximity, size, and amenities (number of bedrooms and baths, etc.) to your home. Then the appraiser will compare the condition of your home to the others and make any necessary adjustments to estimate the fair market value for your home.

If you want to establish the value of your property before talking to your lender, there are a couple of other options that can help you get a ballpark estimate. A real estate agent can help you estimate the sales value of your home. But if you want to go into the loan application process with the most accurate estimate you can get of your current unused equity, hire a professional appraiser. Just keep in mind, if you're having the appraisal done prior to applying for financing, your lender may only accept reports from appraisers whom they've approved. The possibility exists that you may have to pay for a second appraisal.

Which refinancing plan is right for you?

Refinancing expertise for you

Once you know how much equity you have in your home, you'll need to decide how you want to go about accessing it. This is an important decision, and a lot of factors go into making it:

- Interest rates
- Discount points
- Closing costs
- Terms
- Financial goals
- Funds needed
- Planned use

This guide will provide you with an overview of the choices available to you. And as always, your Wells Fargo Home Mortgage consultant will be happy to help you sort through the options. Our home mortgage consultants are specially trained to ask the right questions, ensuring that the financing you receive will help you with your unique long- and short-term goals.

Whether you're all set to refinance or just trying to figure out how much equity you have, you need solid financing information — and Wells Fargo Home Mortgage can help. As a leading residential mortgage lender, the nation's #1 provider of renovation financing, and the only lender with the **Home Asset ManagementSM Account⁵**, we're here to help you with your decisions. Our financing professionals can give you the information you need to help you choose a mortgage to fit your specific needs, drawing from one of the industry's broadest selections of products. In addition to all of the conventional options, we offer special programs that could overcome obstacles such as credit issues, hard-to-document income, and lack of personal savings. Whatever your financial profile, **Personalized Solutions[®]** from our mortgage specialists can help you achieve your goals with faster approvals and streamlined processing.

Understanding home financing costs

Before you make a final decision on the type of financing you're going to use, it's good to know and understand all the costs connected with your financing plan. Costs will vary depending on the type of financing, the loan size, and your individual situation. Here are some costs you may incur if you refinance your first mortgage loan to take cash out:

- ▶ **Application fee:** Depending on the lender, you may be charged an application fee that covers the processing of the loan.
- ▶ **Discount points:** Many lenders allow you to lower the rate on a loan by paying points up front. Each point is equal to roughly 1% of your total loan amount. The more points you pay, the more you can reduce the interest rate on your loan.
- ▶ **Title search and title insurance fee:** This covers the cost of going through public records to determine the precise ownership of your property. The insurance fee protects you and the lender if somebody disputes the legality of your ownership in the future. Your lender will recommend a title company in your area, or you can select your own.
- ▶ **Appraisal fee:** This covers the cost of hiring the professional appraiser mentioned earlier in the guide.
- ▶ **Flood certification fee:** This fee covers the expense of determining whether your property is located in a designated flood zone. If it is, your lender will require you to purchase a flood insurance policy.
- ▶ **Loan origination fee:** Your lender may charge this fee to cover the costs of evaluating, processing, and preparing your loan.

Shortly after applying for your loan, you'll receive a Good Faith Estimate that details the costs associated with your loan. Because these costs can change based on your closing date and loan parameters, your lender will need to give you a final list of costs shortly before closing.

Financing your closing costs

If you're concerned about coming up with the cash for your closing costs or would rather use that money for other things, don't worry. Talk to your Wells Fargo Home Mortgage consultant about rolling the closing costs into the loan so you won't have to pay anything out of pocket. The closing costs can either be added to the principal amount you're borrowing or factored into your interest rate. You may pay more in the long run, but a lot of people prefer that to depleting their cash or liquidating important investments as closing day approaches.

What are your refinancing options?

Our exclusive **Home Asset ManagementSM Account** combines the benefits of a Wells Fargo first mortgage and home equity line of credit, with just one application and one closing.⁶ When you buy a new home or refinance your current one, you'll also be prepared for other expenses.

▶ **Your equity can grow automatically** – As you make principal payments on your first mortgage⁷

▶ **You may be offered optional quarterly increases on your home equity line of credit without reapplying.**⁷

▶ **You can manage your mortgage and home equity line of credit with only one statement** – Simplify your account management with a combined monthly statement

Home equity financing from Wells Fargo Bank⁸

The **Wells Fargo Home Equity Account** offers financing from \$10,000-\$3 million.

It can serve as a flexible financial resource with:

- Low interest rates
- Interest-only payments (With an interest-only plan, your principal balance is reduced only when you make voluntary principal payments during the interest-only period.)⁹
- Re-usable line of credit as you pay down the principal balance (during the draw period)
- Potentially tax-deductible interest (Consult a tax advisor regarding the deductibility of interest.)

Your Wells Fargo Home Mortgage consultant can help you review all of your financing options and select the one that makes the most sense for your situation.

6. Home equity line of credit portion of the **Home Asset Management** Account is available through Wells Fargo Home Equity Group, a division of Wells Fargo Bank, N.A.

7. This feature is not available in Nevada or New York. The Home Asset Management Account is not offered in Texas. Credit is subject to approval. Some restrictions apply. Consult a Home Mortgage Consultant for details.

8. Home equity loans and lines of credit are available through Wells Fargo Home Equity Group, a division of Wells Fargo Bank, N.A.

9. Interest only loans/lines provide for the payment of interest for a set period of time and payments of principal and interest for the remainder of the loan term. During the interest only period, principal is not reduced. At the end of this period, your monthly payment will increase, possibly substantially, even if you have a fixed interest rate because you will be required to pay down the outstanding principal. Always consider paying more than the minimum payment to pay down the principal. Because these product features do not require you to make principal payments during the interest only period, you may have a higher Annual Percentage Rate or interest rate than a traditional mortgage product, depending on the specific loan details

Refinance & RenovateSM loan

Wells Fargo Home Mortgage is not a one-size-fits-all company. Talk with one of our home mortgage consultants. If a home equity option isn't right for you, we'll help you explore other options. For instance, it's common for homeowners to discover that the cost of their proposed home improvements exceeds the amount of equity they have available to them. Instead of cutting back on your improvements, you could look into our **Refinance & Renovate** loan.

While most financing is based on your home's current value, a **Refinance & Renovate** loan amount is based on the future value of your home after improvements. So let's say your

home's value is \$275,000, and your current mortgage is \$235,000. That limits you to \$40,000 in accessible funds—tops. If you're planning major renovations—a remodeled kitchen, a third bathroom, and a fully expanded second floor, for example — you may actually need \$75,000. A **Refinance & Renovate** loan can get it for you if you can demonstrate that the improvements justify the larger loan amount. If you're approved for the loan, there are two stipulations:

- 1) The funds can only be used for home improvement.
- 2) You must hire a licensed contractor to manage the work.

Cash out refinancing

What is it?

In simple terms, *cash out refinancing* means replacing your current mortgage with a bigger one that:

- 1) Pays off your current mortgage.
- 2) Uses your home's equity to provide additional funds for other purposes.

Let's say you want to add \$20,000 in upgrades to your kitchen. Your home is worth \$180,000, and you owe \$100,000 on your mortgage. That gives you \$80,000 of equity. Let's also say that interest rates have dropped to such an attractive level that you've been thinking about refinancing to get a lower rate.

By refinancing your loan for \$120,000 instead of just the \$100,000 you still owe, you could get a lower interest rate and the \$20,000 you need for your kitchen upgrades. The lender can justify giving you that extra \$20,000 dollars because you have four times that amount in equity backing up your ability to repay. And even though your total mortgage amount is higher, refinancing to the lower interest rate may actually lower your payments or keep them the same as before.

When to consider cash out refinancing over other options

How do you know if cash out refinancing is the right move? There's no hard-and-fast answer to that question, but refinancing is probably worth looking into when any of the following "if" situations apply:

► **If interest rates have dropped substantially since the last time you financed your home:**

Depending upon your loan amount, a good rule of thumb is to consider refinancing if current interest rates are at least 0.5% lower than the rate on your current mortgage.

However, to fully offset your closing costs, you may want to wait until rates have dropped by a full 1% or more.

- **If you intend to stay in your home for several more years:** The longer you're planning to stay in your home, the more likely it is that refinancing will pay off.
- **If you can shorten your loan term:** Shortening your loan term can help you build equity faster and help you pay less in interest over the long term. Mortgage loan terms range from 10 years to 40 years.

Important questions to think about

With cash out refinancing, you need to weigh the benefit of what you're going to use the money for against the amount of time it'll take to pay off the loan. Here are some things to think about:

- **What are the interest rates?** The interest rate charged on the loan will dictate much of the cost of the loan. On a cash out refinance, you want to get an interest rate equal to or less than your current financing. Otherwise, it may make sense to look into a home equity loan or line of credit instead.
- **How much cash do you need?** Refinancing your first mortgage to take cash out is generally best for large sums of money that require a longer period of time to repay or when you can significantly reduce your current interest rate. While you can select a term of anywhere from 10 years to 40 years, determining your loan amount also involves carefully weighing the total amount you'll have to repay after factoring interest into the equation. The longer you take to repay the loan, the more total interest you'll pay.
- **What's the monthly payment amount?** If taking cash out will raise your monthly payment, look carefully at how the new amount could affect your overall budget. Don't borrow more than you can comfortably repay.

- ▶ **What's the effect on your taxes?** The interest you pay for home financing may be tax deductible.¹² Make sure you factor any potential tax deduction into determining whether a cash out refinance will be more cost effective than other types of financing (credit card, personal loan, auto loan, etc).
- ▶ **What's the total cost of borrowing?** Take a look at how much it will cost you to obtain your financing. This includes closing costs, fees, additional interest charges, and any other charges that may be associated with your loan (e.g. appraisal, title search).

- ▶ **What's your break-even point?** Once you get a clear idea of all the financial obligations involved in refinancing, you'll want to determine your break-even point. At what point will you start to come out ahead? For instance, if it's going to take you 36 months to break even, and you plan to move in two years, you probably shouldn't consider a cash out refinance. It's a fairly complicated calculation, but your Wells Fargo Home Mortgage consultant can help you do the math.

The goal at Wells Fargo home mortgage isn't just selling you a loan. We want to help you make the most of your investment in homeownership. Your home mortgage consultant can also weigh the costs and benefits of taking cash out against other financing options. That'll help you determine whether this is the right step for you and your long-term financial goals.

Applying for your loan

Your home mortgage consultant will sit down with you and walk through the application process. It is a simple interview, and most of the information you'll need can be taken straight from your credit report. The amount you'll actually need to provide on your own isn't overwhelming.

Depending on the type of loan program you need, your credit, and the size of your requested loan in relation to your income and home's value, the documentation you'll be required to produce can vary.

What happens next

After collecting the information needed to process the loan, your Wells Fargo Home Mortgage specialist will send you a commitment letter detailing any additional documentation or other requirements you'll need to meet should your loan be approved. At the same time, the mortgage consultant will order an appraisal, if one is required. At this point, you'll have the option to lock in your interest rate range on the first mortgage. Discussing these options with your home mortgage consultant is important.

► **Floating the rate:** You've applied for your first mortgage loan but you've also decided to wait before committing to your loan pricing, perhaps because you think interest rates stand a chance of going down in the short-term. Your first mortgage can stay in a float status up until five days before closing, in most cases. During any float period, you can stay up to date on interest rates by contacting your home mortgage consultant.

► **Locking in:** You and your first mortgage lender commit to an interest rate range for a specified period of time — from 30 to 120 days. During that period, your interest rate range is protected. If you close on the first mortgage during that period, you get the interest rate within that range. If you go beyond the lock-in period without closing, your loan may revert to a “float” status and be priced again based on current market interest rates. The interest rate range you get may be lower, higher, or equal to your lock-in rate, so it's very important to discuss all these options and possibilities with your home mortgage consultant.

There are also some reasons why an interest rate range could change even during a lock-in period. For instance, a change in your credit profile could occur, you might decide to change your down payment, or you might change your mind on how many discount points you want to pay.

Whether you decide to lock or float, you'll be taking a calculated risk. It's an important decision, and you're the only one who can make it. Talk with your home mortgage consultant to get an idea of what interest rates have been doing recently.

Rebuilding the equity in your home

As you access your home's equity, you'll want to think about how you're going to rebuild your equity share, so you have it available should you need it again. Here are two tips on how you could rebuild equity.

► **Shorten the term of your loan:** If you haven't already secured your term, and you want to rebuild your equity, one of the best things you can do is to shorten the length of your loan. Not only do you pay off the entire loan in fewer years, you also start paying more toward principal sooner than with a long-term loan. Making principal payments adds directly to your equity. Just keep in mind that by shortening the term of your loan you'll be increasing the amount of your monthly payment, possibly significantly. Beware in some limited circumstances, paying the loan before the end of the term could result in prepayment penalties.

► **Make extra payments on your current mortgage loan:** Making just one extra payment a year cuts the principal amount you owe on your loan and reduces the amount of interest you'll pay over the life of the loan. It's a great money-saving strategy. If you're concerned that you're not disciplined enough to make those extra payments happen on your own, Wells Fargo Home Mortgage has a FREE automated program that will do it for you. We can set you up on our **Preferred Payment Plan**SM Options that allow you to divide your large monthly payment into weekly or biweekly electronic withdrawals from any checking or savings account. You can even split the payments among up to 4 different accounts! As a result, you'll be making one extra payment a year — painlessly — and paying down your mortgage years sooner. Of course, you can also do this all on your own.

Make the most of your growing wealth with Wells Fargo products

A wide range of personalized services

As you consider cash out refinancing or a home equity loan or line of credit, you'll probably run into a lot of other questions about your long-term financial plans. At Wells Fargo Bank, we understand how important those decisions are — and we want to help. For nearly six generations, we've been pioneering products and services that help people manage their finances and grow their assets. Wells Fargo & Company is a multibillion dollar diversified financial investment and consumer financial services company. As part of the Wells Fargo family, Wells Fargo Home Mortgage can provide easy customer access to additional products and services to help achieve new goals and realize new dreams, both today and in the future.

Easy account management

Get more from your Wells Fargo Home Mortgage relationship

Wells Fargo Bank is happy to offer you this exclusive opportunity to realize more from your Wells Fargo Home Mortgage relationship. Now, discover the convenience of managing your mortgage account with FREE access to **Wells Fargo Online**. From viewing updated account information, to making payments, to getting ready for year-end tax planning, you can do it all quickly, easily and securely. Sign up at www.yourwellsfargomortgage.com now, and you can:

- View your balance, payment history and escrow information
- Make mortgage payments, even up to the last minute
- View year-to-date totals on principal and interest

Make mortgage payments your way

We offer you several online payment options to fit your lifestyle. Choose the one that works best for you:

- ▶ **Automatic payments:** arrange to have payments deducted from your checking or savings account every month
- ▶ **Preferred Payment PlanSM options:** build equity more quickly by making additional payments
- ▶ **Wells Fargo Easy PaySM:** make a one-time, same-day or next-day payment.

Plus, for added convenience, you can manage your other Wells Fargo accounts at Wells Fargo Online, using your same username and password.

At your service

- ▶ **Locally:** Whether you visit us in a mortgage office or a Wells Fargo Bank branch, our home mortgage consultants are available in more than 2,100 locations doing business in 50 states.

Wells Fargo Home Mortgage operates one of the leading retail mortgage-lending networks in the country, and we are ready to meet your financing needs.

Glossary¹³

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

Alternative financing – A home financing program that accommodates borrowers with special qualifying factors, including poor credit histories.

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.

Automated underwriting – A computerized method of reviewing home mortgage applications for loan approval.

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.

Contingency – A condition that must be met.

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.

Deed – The legal document conveying title to a real property.

Default – The failure to perform an obligation as agreed in a contract.

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

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

Escrow – An item of value, money or documents, deposited with a third party, to be delivered upon the fulfillment of a condition. For example, the deposit by a borrower with the lender of funds to pay taxes and insurance premiums when they become due, or the deposit of funds or documents with an attorney or escrow agent to be disbursed upon the closing of a sale of real estate. In some parts of the country, escrows of taxes and insurance premiums are called impounds or reserves.

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

FICO score – A numerical rating developed and maintained by Fair Isaac and Company that indicates a borrower’s creditworthiness based on a number of criteria.

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 ten 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.

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.

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.

Leverage – Using credit or borrowed money to increase the rate of return from an investment. For example, by purchasing a \$100,000 home with 10% down, you are using just \$10,000 to control the investment.

Lien – A legal claim or attachment against property as security for payment of an obligation.

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.

Mortgagee – The lender on a mortgage transaction.

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

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.”

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

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.

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.

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 us today.

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Restrictions may apply. Contact your Home Mortgage Consultant for details. Credit is subject to approval. Some restrictions apply.
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