Sente
MORTGAGE

First Time Homebuyers Guide

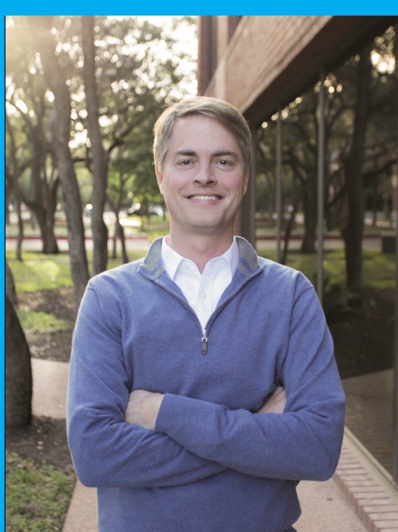
Simple Steps For Buying Your First Home

Sente Mortgage | 901 S. MoPac Expy. | Bldg IV, Suite 125 | Austin TX 78746
www.SenteMortgage.com | info@SenteMortgage.com
P: 800.994.0562 | O: 512.637.9900

Introduction

As a first-time home buyer, you are about to embark on an exciting and important journey. Along the way, you will be asked many questions and undoubtedly have many of your own. Please ask! There are no silly questions when it comes to buying a home. Clear and honest answers will help you make sound decisions. We look forward to working with you and providing you with the information—and the loan—you need to buy the home of your dreams.

Message from
Tom Rhodes, CEO

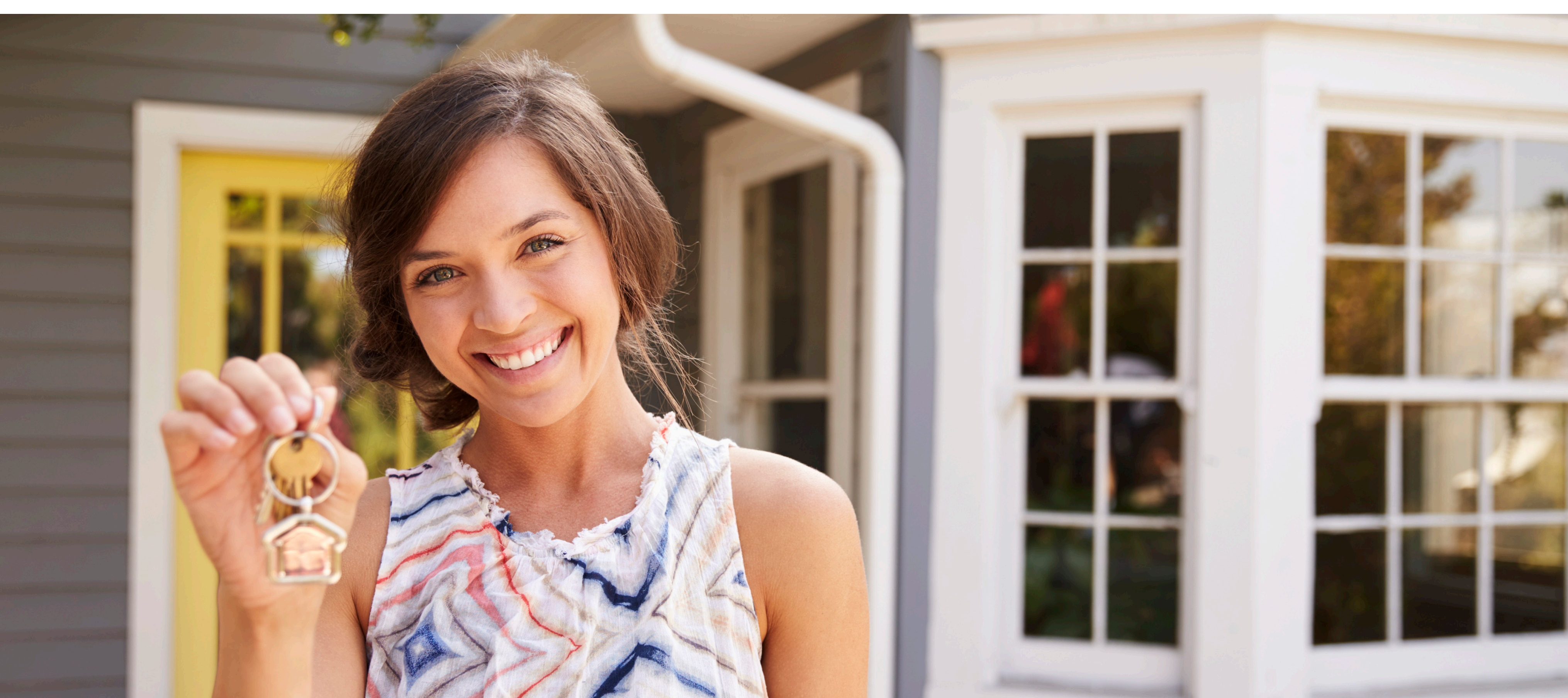


At Sente Mortgage, we know that for many the mortgage process is unfamiliar. We believe that education is a fundamental part of the home purchasing process, and goes a long way to inspire trust and confidence throughout the process. Our goal is to provide all of the information that our clients need to make smart, educated decisions throughout the mortgage process, and to be by their side every step of the way.

Our First Time Home Buyers Guide started as a list of frequently asked questions from first time home buyers and quickly grew into a more robust resource guide.

We hope that as you start your home purchasing process that the information we have provided in this guide will help you feel better prepared for the mortgage process.

Should you have any questions along the way, we would be happy to help.



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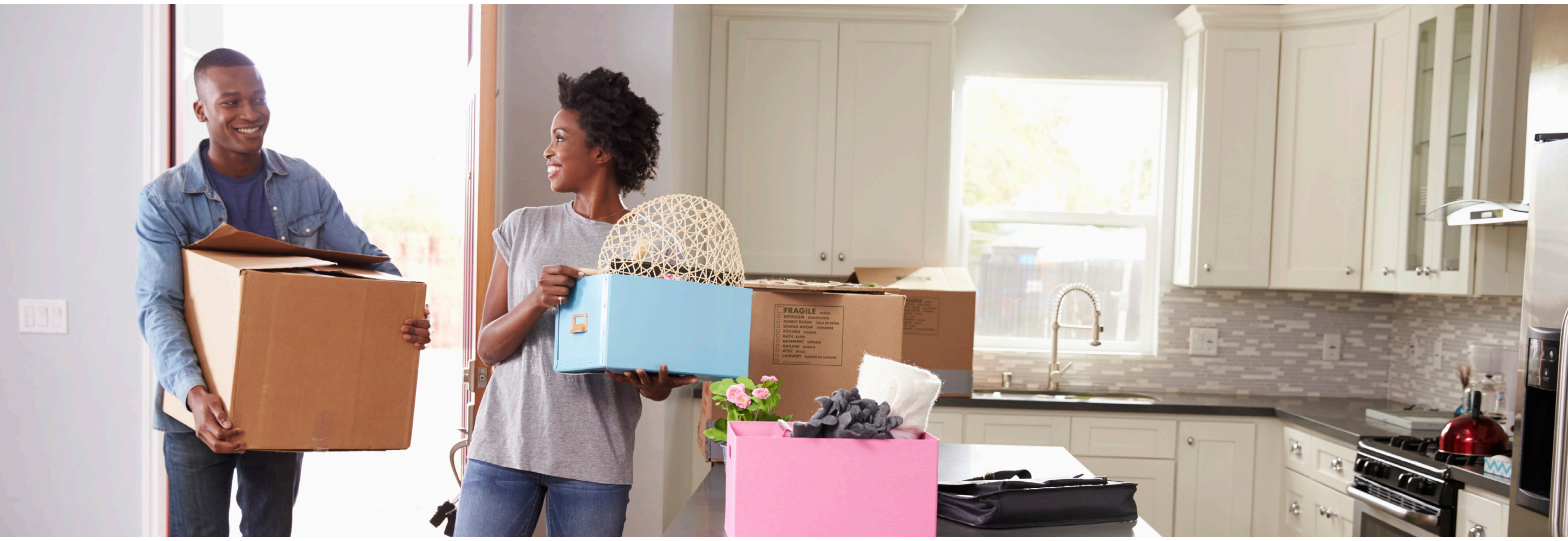
This guide is designed to offer a brief introduction to the steps and people involved in finding and financing your new home. Here's what you'll find in the following pages:



Chapter 1: Overview

Home Ownership has Advantages

Did you know that a homeowner's net worth is 33 times greater than that of a non-homeowner?

While the decision to stop renting is not always easy, it's helpful to remember the financial advantages of owning your own home:

Homeownership can help build wealth through equity.
If you have difficulty saving for long term expenses (college, retirement, etc.), think of owning your home as a long term savings plan. Over time you are adding to your investment—building valuable equity in your home and enhancing your net worth. Every month that you make a mortgage payment you not only decrease the amount that you owe, but you also increase the amount of equity (or value) that you have in your home.

Predictable payments.
One of the advantages of owning your own home is that you can anticipate (and budget for) more stable monthly payments. Landlords often increase rent with every lease renewal. While there may be some fluctuation based on taxes or your loan product, mortgage payments are typically more stable than rent.

Tax benefits of home ownership.
The tax code usually allows homeowners to deduct mortgage interest from their tax obligations. For many people this is a huge deduction, since interest can be the largest component of the mortgage payment.

Lifestyle.
Homeownership offers privacy, security, independence and the opportunity to create a personal home environment—a source of pride and accomplishment with long-term rewards. Homeownership is the beginning of a legacy.

As you work with your mortgage banker throughout the pre-qualification, application and purchasing process, remember that each step moves you closer to homeownership and the fulfilment of these enduring benefits.

Overview of the Home Buying Process

The home loan process can be a straightforward, simple and easy process to navigate when you have a thorough explanation of what to expect. If you're just getting started, or if you've already been through this before, we find it's helpful to have an overview of the process and key milestones. Let's look at what you can expect during the home buying journey.

Step 1: Pre-Qualification

- Find a Mortgage Banker
- Analyze your needs in a consultation
- Obtain financial pre-qualification
- Find a Realtor you can trust

Step 2: House Hunting

- Select & view properties
- Work with your real estate agent to write an offer to purchase and deposit earnest money.
- Negotiate and counteroffer
- Accept the contract

Step 3: Processing

- Complete the mortgage application.
- Your Loan Officer will order an appraisal & home inspection
- They will also schedule a survey.
- With all documentation collected your file will be submited underwriting.

Step 4: Closing

- With approvel from underwriting your file will be sent to your Title Company.
- Close on the property.
- Move into your new home!

Meet the Players

In the course of your home purchase, you will meet or communicate with many people. Here is a brief overview of these individuals and the roles they will play.

- **Buyer/Borrower.**
  Without you, the buyer, there would be no home purchase! The buyer/borrower may be one or more persons.
- **Real estate agent.**
  Your agent will help you find a home, negotiate the terms and complete the "paperwork" involved in the transaction.
- **Mortgage banker / Loan officer.**
  The individual who helps you select, apply for and process your purchase loan. While you will consult primarily with a single representative, there are other important individuals working behind the scenes:
- **Loan processor.**
  An individual who specializes in document preparation.
- **Underwriter.**
  The person who reviews and approves the entire loan package to assure that it is complete and in compliance with the loan specified.
- **Loan closer.**
  After all parties have signed the purchase documents, the closer reviews the signatures, authorizes the final funding of the loan and wires the loan funds to the title company.
- **Appraiser.**
  An independent, third-party individual trained and state-licensed or certified to determine the current value of property.
- **Surveyor.**
  An individual retained to locate, mark and map the legal boundaries of a property, including improvements, easements, rights of way, encroachments and other physical features.
- **Insurance agent.**
  A person who writes a policy of insurance to protect the homeowner against losses by damage to people, property or possessions.
- **Title agent.**
  A title company representative who investigates the past ownership of the property, helps direct the resolution of any issues and then writes a policy of title insurance to protect the lender and/or owner against disputes over the title. Your purchase transaction will be finalized at the office of the title company.

Chapter 2: Pre-Qualification

Understanding the Pre-qualification Process:

In today's fast-moving and competitive real estate marketplace, you need to know before you start looking how much you can afford. The process of reviewing your short- and long-term goals, your finances and your loan options is called pre-qualification and it is completed with your mortgage banker.

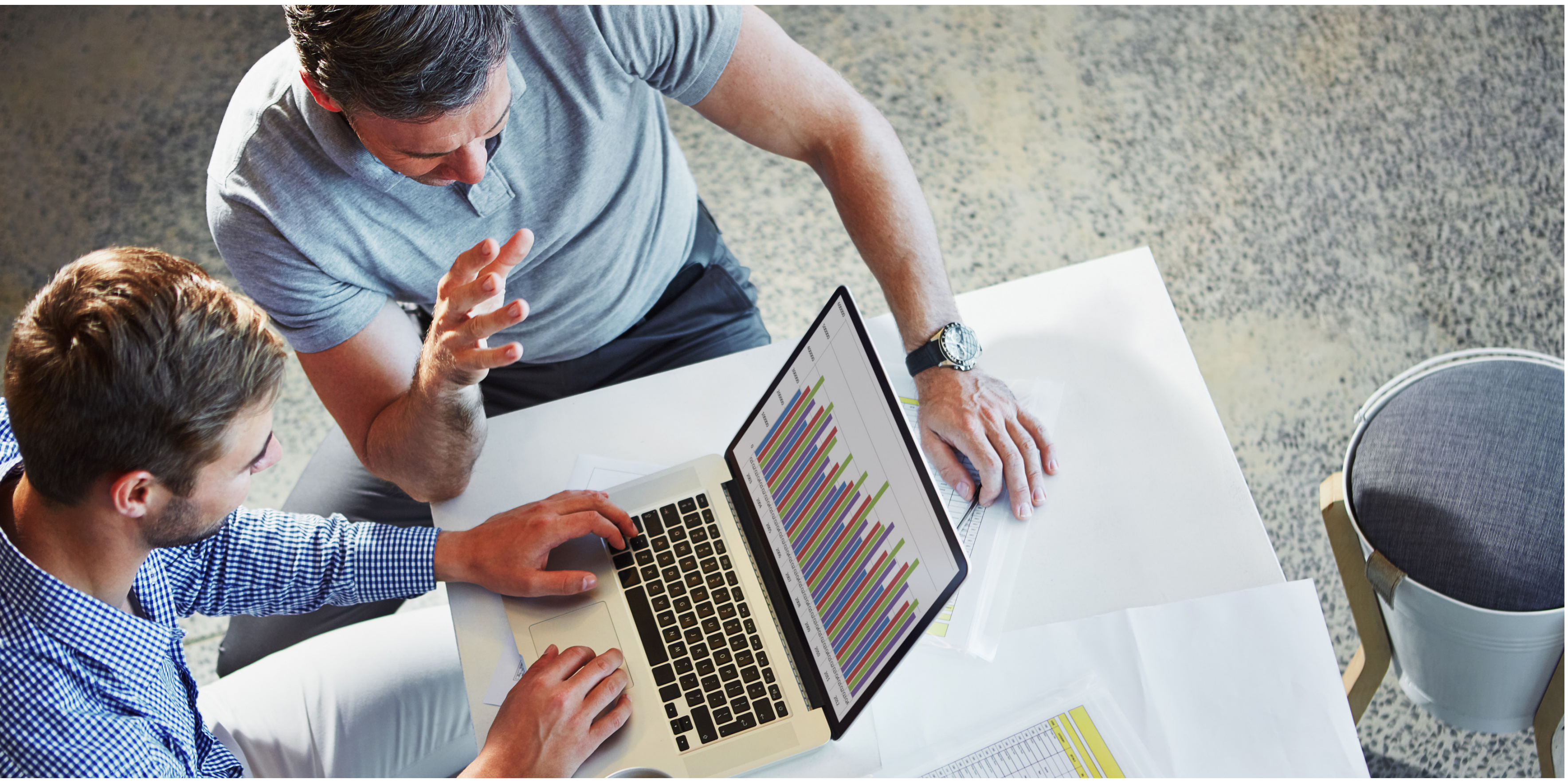
Pre-qualification is not the same as pre-approval. In getting pre-qualified you are exploring your loan options and purchasing power and, very importantly, streamlining the process when you eventually fine your dream home. The mortgage process can be document-intensive; collecting documents during pre-qualification can cut down on the number of requests you will receive during the processing and underwriting portion of the mortgage.

Getting pre-qualified will help you determine a price range that is ideal for your financial situation. Your loan officer will explain the different loan types, down payment options and closing costs.

When you have completed the pre-qualification process, your mortgage banker will provide you with a pre-qualification letter stating that your income, assets, credit and debts have been reviewed by a lender. This will greatly strengthen your position when you make an offer on a home.

- Find a lender.
- Make an appointment with a loan officer to meet or talk on the phone.
- Discuss your real estate goals and your general credit outlook.
- Answer any questions the loan officer may have.
- Discuss possible mortgage options.
- Review the suggested price range.
- Ask questions about borrowing.
- Get a pre-qualification letter from the lender.
- Make an offer on the home of your dreams!

Getting a loan & your credit score



When you borrow money, the lender needs to feel confident that you will repay the loan. One of the best indicators is your credit history.

During the loan application process, your mortgage banker will ask you for a variety of documents, help you understand your credit history and, if necessary, advise you on how you can improve your credit.

YOUR CREDIT SCORE.
In 1981, the Fair Isaac Corporation (FICO) introduced an impartial and consistent system of national credit scoring to evaluate credit history and credit risk.

Every time you make a payment (utility bill, auto loan, credit card, etc.) or apply for a loan or credit card, that information is recorded by each of the major credit bureaus (Equifax, Experian and TransUnion). Based on that data, FICO weighs your performance and calculates a credit score.

IN GENERAL, THE ELEMENTS THAT CONTRIBUTE TO YOUR SCORE ARE:

35% payment history
30% amounts owed
15% length of credit history
10% new credit
10% types of credit

Credit scores range from 300 to 850; the higher the number, the better your rating.

What to do if you have credit problems?

A credit report may turn up problems for even the most responsible person. There may be simple computer/accounting errors that have not been noticed or corrected. Bankruptcy, credit fraud, foreclosures and identity theft can have longer-range repercussions. (The Federal Trade Commission provides a site where you can obtain a free copy of your credit report once a year. This simple step can prevent surprises when you apply for a loan. The site is www.annualcreditreport.com.)

Your mortgage banker will help you identify credit problems and determine which debts should be paid for maximum score improvement.

Don't let your credit score stand between you and your dream home.

Your mortgage banker will help you identify credit problems and determine which debts should be paid for maximum score improvement.

If your score is too low to qualify for a loan, your mortgage banker may recommend credit repair. This may be a simple matter of correcting errors or it may be a more extensive process if, for instance, you have experienced identity theft. There are credit repair organizations that will offer to assist you with this process for a fee, but you have the right to dispute any problems on your own by contacting the credit reporting agencies directly—by phone, mail or online.

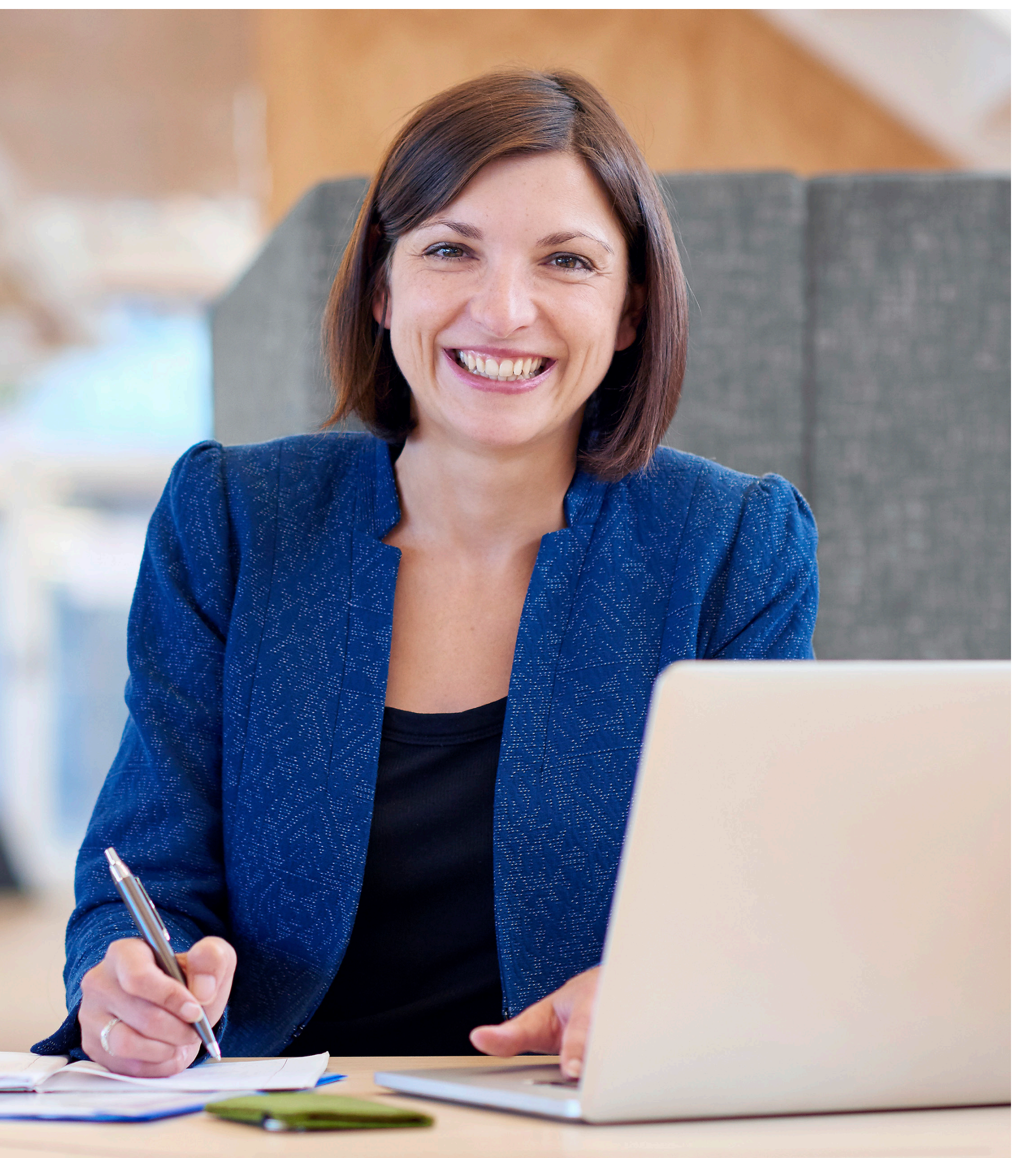
The good news is that everyone can improve their credit score. Here are few simple steps to get started:

- **Pay bills on time.** Paying on time has the single biggest impact on your credit score.
- **Reduce your credit card balances.** Reducing your credit card balances means not only regular payment and not accumulating more credit card debt, it also includes paying off debt rather than moving it between credit cards. Moving between cards can have a double negative impact as it keeps your debt level high and shows a more new credit. Apply for new accounts only when you need them.
- **Get your credit report and check it for errors.** Staying on top of your credit score, and report, is good practice and can be particularly important if you have had errors in the past or if you have a common name. There are a lot of "Bob Smiths" out there, and they may not all have stellar credit.

Chapter 3: Mortgage Process

Understanding the Mortgage Process:

You began your search for a home by getting pre-qualified for a loan. That process continues as you complete and submit your application. Here are the basic steps:



01 Loan application

The loan application form asks for detailed information about you, any co-borrowers, the property, and your personal finances. All of the information provided in the loan application is protected and confidential, and will be used to determine your strength as a borrower and your ability to repay the loan.

In addition to the application itself, you will be asked to review and sign a number of disclosures, detailing the relationship, if any, between the various parties. Your loan officer will review each of the documents with you.

You will also receive a Loan Estimate outlining the loan terms, including the loan amount, interest rate and total monthly principal, interest, projected payments and closing costs. It is very important to review this document carefully for accuracy and discuss any questions or concerns with your mortgage banker.

02 Lock your interest rate

Once you have gone through the initial phases of the application process and you have been pre-approved for a loan, you may ask the lender to guarantee ("lock") the quoted combined interest rate and points for a specified length of time. That means you'll be protected if the rates go up before your loan closes, but it also means you will not be able to take advantage of lower rates, if they go down during that time.

03 Loan processing

In this phase of the mortgage, the loan processor will coordinate the necessary paperwork and verify all documentation that you have provided in your mortgage application. You may be asked for additional documentation regarding your history, assets, and debts as the loan processor prepares your file for underwriting. It's important to respond to these requests as quickly as possibly so there aren't any delays.

Understanding the Mortgage Process - continued:

04 Appraisal

During processing you can also expect that an appraisal will be ordered on your new home to assess its current market value and allow the lender to determine that the value of the home covers the loan amount.

05 Underwriting

The underwriter reviews your file in order to determine your ability to repay the loan. It is the underwriter's job to ensure a sound investment on behalf of the mortgage bank. After reviewing your file, an underwriter will typically do one of three things:

Issue a Clear to Close. Clear to Close means that you are approved and ready to close on your new home. It's rare that a file will get a Clear to Close the first time it goes to an underwriter, it's best to be prepared for a few more questions or requests.

Issue a Conditional Approval. This is a request from the underwriter to provide additional documentation or satisfy certain conditions before they issue a Clear to Close. Conditions vary from one file to the next, but a common request is additional pay stubs, more tax returns, or a letter of explanation on a late or missed payment. If you are asked for additional documentation, get this information back to your mortgage banker as quickly as possible. The goal is to satisfy all conditions so a Clear to Close can be issued.

Deny the File. It's very rare that an underwriter would do this, but if the loan terms don't match up it is possible that an underwriter could deny the file. If there is a potential issue with your file, in most circumstances your mortgage banker would be working with the underwriter prior to your file ever reaching this point in the process.

06 Clear to close

This is the final stretch. The keys to your new home will soon be yours. Prior to closing day, there are several things that will happen. The first thing is preparation of the Closing Disclosure (CD), which you should receive at least three days before closing. This 5-page document gives you specific information about your loan, its key terms, and how much you are paying to obtain your mortgage and buy your home. Your loan officer will review the document with you to make sure it is accurate and that it matches the terms quoted in the Loan Estimate (LE). The Closing Disclosure is the information that will be used to prepare the legal documents that you will sign on closing day so it is a critical step in the process.

07 Closing & Funding

The closing documents will be signed at the office of the title company at a specific date and time. Make sure to note the date and time in your calendar. If you expect to be out of town, let your loan officer know so the signing can be arranged accordingly.

At your loan closing:

- First, you will sign many pages of legal agreements between you, the lender and the seller, to transfer ownership and agree to the terms and conditions of the sale.
- Second, you will pay any closing costs and escrow fees that you've agreed to pay out of pocket as part of your loan terms. Make sure you know how much to bring with you and the specified form, usually a cashier's check or bank wire transfer, not a personal check. Failure to provide funds in the correct form can delay your closing.

When those steps are completed and the loan is funded, you will be presented with the keys to your new home.
Congratulations!

Mortgage Documentation Checklist

When you apply for a loan, you will need to provide a variety of documentation to your mortgage banker. There are four general categories of documents: income, assets, liabilities and personal documents. Gathering them ahead of time will speed the process considerably.

Always provide the most recent documents available. In some cases, depending on the length of the loan process or the calendar cycle, you may be asked to supply updated versions just before closing.

Income. Provide, as applicable:

- W-2 forms for the most recent two years.
- Pay stubs for the most recent 30 days.
- Federal tax returns (including all schedules) for the most recent two years.
- Pension and/or Social Security statements.
- Alimony, child support records
- For self-employed borrowers or business owners, business tax returns, including all schedules, for the most recent two years (Note: if you have an excellent financial profile, you may only be required to show 1 year of personal and business tax returns. The lender will average the year-over-year amount and divide by 24 to get a monthly amount used for qualifying. Inconsistent income, new businesses or those without two years of filed federal income tax returns may have to wait to apply.)

Assets. Provide, as applicable:

- Bank statement (all pages) from the most recent month from each account
- Most recent statement from asset accounts, including mutual funds, investment accounts, CDs, etc.
- Most recent statement of pension, retirement account, IRA and/or 401(k)

Liabilities. Provide, as applicable:

- Mortgages. Please include most recent statements, including minimum monthly payments and balances, for:
- Any liabilities that are not reported on the credit report.

Personal Documents / Other.

- Copy of your driver's license or state-issued ID
- Divorce decree (if applicable), including child support, alimony, property settlements, quitclaim deeds, modifications, etc.
- VA only: form DD214 and Certificate of Eligibility

What Will it Cost?

In order to figure out what you can afford and which loan program is the best for you, it is helpful to know the general costs involved in your home purchase. There are three parts to every purchase: down payment, closing costs and monthly mortgage payments.

COST BREAKDOWN:

01 DOWN PAYMENT.

In general, loans require a down payment of between 3.0% and 20.0% of the purchase price of the home. If your down payment is in the 20% range, you will not be required to carry mortgage insurance.

02 CLOSING COSTS.

There are a variety of fees involved with a mortgage. These are listed item by item in your Loan Estimate and confirmed in the Closing Disclosure form. Depending on your loan, you may wish to pay closing costs in cash or have them included as part of your financing. Closing costs generally range between 3% and 6% of your mortgage loan.

03 MONTHLY MORTGAGE PAYMENT.

Your mortgage payment to the lender includes the following, known as PITI:

a. (P) Principal on the loan
b. (I) Interest on the loan
c. (T) Property taxes
d. (I) Homeowner's insurance

Your loan officer will help you understand these costs and evaluate your loan options so that your mortgage is manageable.

Chapter 4: Mortgage Products

Loan Programs

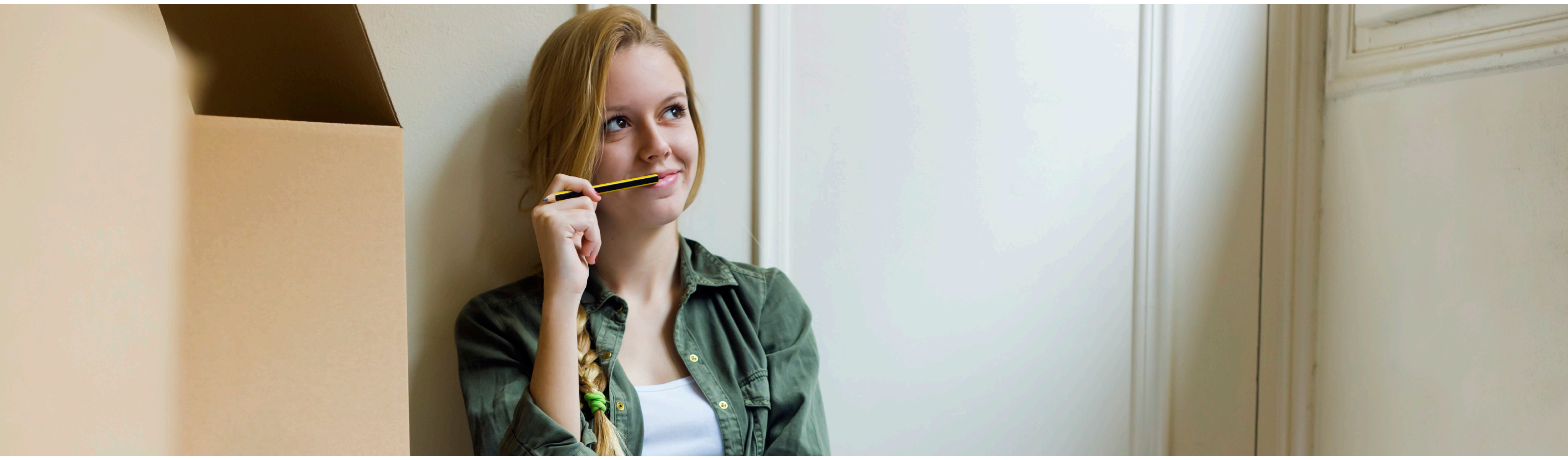
Your mortgage banker wants you to succeed in purchasing a home. Your loan officer will work hard on your behalf to find a loan that fits your budget, your credit history and your lifestyle so that you can be truly comfortable in your new home. There are many options, and loan limits vary by geographical marketplace. Here is a brief loan overview:

Conventional

Conventional loans can be used to buy a primary or secondary residence or rental property. Rates may be fixed or adjustable and terms typically range from 10 to 30 years. Minimum down payment is generally 3%. Down payments under 20% require private mortgage insurance (PMI). Credit score: 680 and above.

FNMA HomeReady.

The Fannie Mae HomeReady mortgage is a flexible loan, designed to get past the hurdle of large down payments. The minimum down payment is 3%, which may be sourced from cash-on-hand, gifts from parents or relatives, and down payment assistance programs. Borrowers may include the income of household members not named on the loan (e.g., parents, unmarried partner, other family members) as well as documented boarder/roommate income. The program also allows income from non-occupant co-borrowers. Income limits vary by geographic area. Credit score: 620-680 and above. All buyers must complete a home buyer education program.



USDA

Backed by the United States Department of Agriculture, USDA loans are zero down-payment mortgages suitable for eligible homebuyers in rural and suburban areas. Loan types include single family direct homeownership loan, single family guaranteed homeownership loan, rural repair and rehabilitation loan or grant, and mutual self-help loan. Available only for owner-occupied residences. Term: 30 years. Monthly mortgage insurance is required. Credit score: 620 or higher.

FHA

Insured by the Federal Housing Administration, FHA loans have easier qualifying terms, lower down payments and lower closing costs. They are available only for owner-occupied residences. Rates may be fixed or adjustable and terms typically range from 10 to 30 years. Two mortgage insurance premiums are required. There are no prepayment penalties and FHA loans are assumable. The minimum down payment is 3.5%, which may come from personal savings, gifts from family members or down-payment assistance grants. Credit score: 580 or higher for minimum down payment; scores of 500-579 may qualify with larger down payment.

VA

Guaranteed by the U.S. Department of Veteran Affairs, VA loans provide home-buying assistance to qualified active service members, veterans, eligible surviving spouses and reservists. Available only for owner-occupied residences. Terms typically range from 15 to 30 years. In most cases, no down payment is required and no private mortgage insurance (PMI) is required. Credit score: 600 or higher.

FHLMC Home Possible

Freddie Mac's Home Possible® mortgages are a type of conventional loan designed for low- and moderate-income borrowers. Rates may be fixed or adjustable and terms typically range from 15 to 30 years. Minimum down payments of 3% to 5% can be sourced from family, employer-assistance programs and secondary financing. First-time homebuyers must participate in a borrower education program, such as Freddie Mac's CreditSmart.

Ask about Down Payment Assistance.

While loans provide a good deal of flexibility in terms of down payment amount, you may still come up short. There are a number of resources available to help you fill the gap. Start on the local level, where city, county or state governments or regional partnerships may offer grant programs, second mortgage loans or tax credits. Ask your loan officer for information on down payment assistance.

Chapter 5: FAQs

What is Debt-to-Income Ratio?

Debt-to-income ratio is calculated by dividing monthly minimum debt payments, including your proposed mortgage payment, by your monthly gross income.

For example: a couple with a combined monthly gross income of $7,500 making minimum payments of $800 on loans and credit cards, that has a proposed mortgage payment of $2300 has a debt-to-income ratio of 41%:

$$\frac{\$800 + \$2300}{\$7500} = .41$$

What are points?

When exploring mortgage options you'll find quotes from lenders that include both loan rates and "points." A point is a fee equal to 1% of the loan. A 30 year, $200,000 mortgage might have a rate of 7%, and also come with a charge of 1 point, or $2,000.

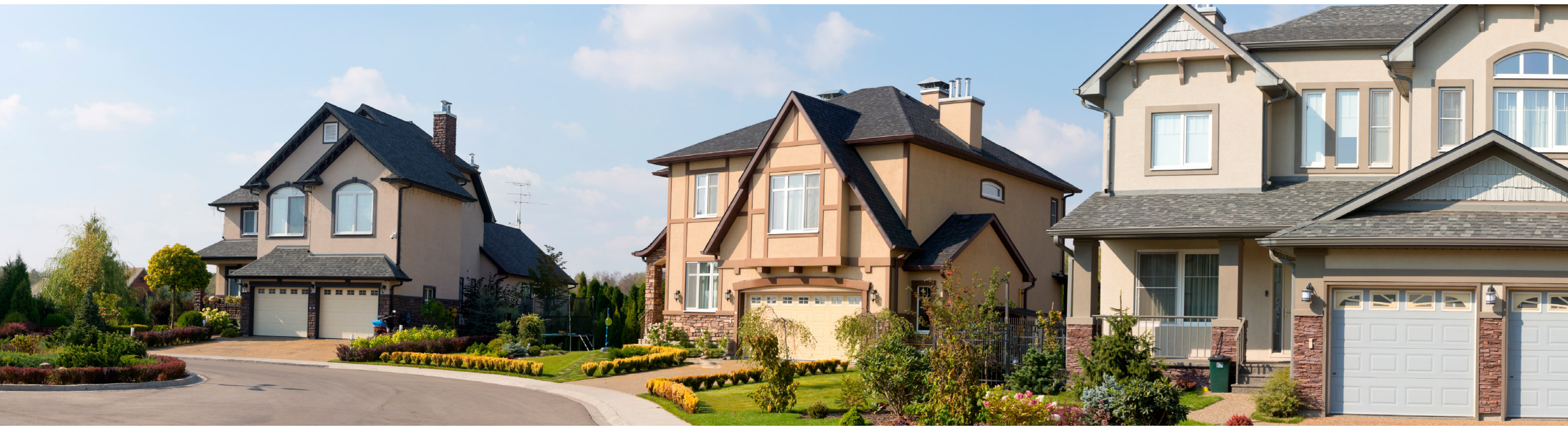
There are two kinds of points borrowers can pay:

- Origination points are charged by the lender to cover the costs of making the loan. They are not tax-deductible.
- Discount points are actually pre-paid interest on the mortgage. The more points you pay, the lower the interest rate on the loan and vice versa.

Borrowers typically can pay anywhere from 0 to 4 points, depending on how much they want to lower their rates. Discount points are tax-deductible.

What is a rate lock?

Once you choose to lock an interest rate, you are protected from the day-to-day market fluctuations that could increase your note rate on the loan. When you choose to lock the rate, you are accepting the current interest rate offered, which also means you are unable to take advantage of lower rates, should they happen.



What are escrows? How do escrows work?

When borrowers make their monthly mortgage payments, they generally also pay one-twelfth of the anticipated annual amount needed to pay taxes and insurance premiums. These additional funds are deposited into an account until the lender pays the taxes and insurance premiums as they come due. That account is known as escrow. It's a win-win. The borrower benefits for budgeting reasons because costs are paid over the course of the year rather than as a lump sum; the lender benefits by avoiding tax delinquencies or lapses of hazard insurance coverage on the property.

What is Mortgage Insurance and why do I need it?

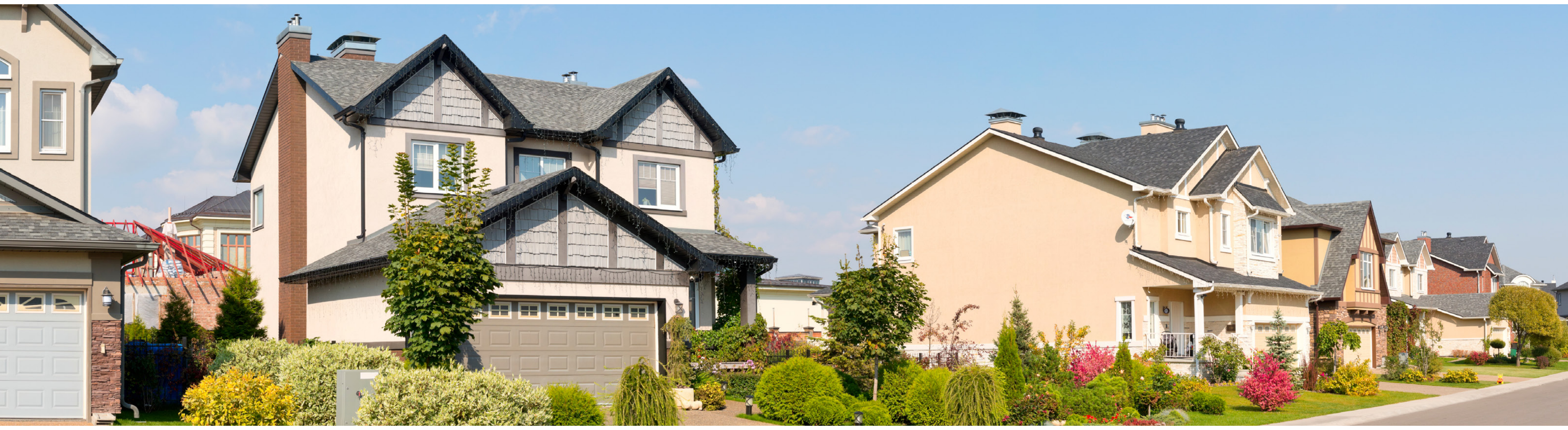
Private Mortgage Insurance (PMI) is extra insurance that lenders require from most homebuyers who obtain loans for more than 80 percent of the home's value. In other words, buyers with less than a 20 percent down payment are normally required to pay PMI. PMI plays an important role in the mortgage industry by protecting a lender against loss if a borrower defaults on a loan and by enabling borrowers with less cash to have greater access to home ownership. With this type of insurance, it is possible for you to buy a home with as little as a 3 to 5 percent down payment.

What are my costs if I decide to cancel my loan after I sign the initial loan documents?

You will not be required to pay any lender or title company fees should you decide to cancel the loan. You will be required to pay any third-party fees for work already performed, such as an appraisal or survey. If you cancel the loan prior to these services being performed, you will not owe anything to your mortgage banker.

After closing, I got a lot of letters saying they were from Sente Mortgage. Did you sell my information?

Sente Mortgage never sells the information of our clients. However, once you have signed the closing document, your Deed of Trust becomes public record. A variety of businesses seek access to that information and use it to try to sell you additional (and often unneeded) services. If you ever receive something you think is from us, feel free to call us to be certain.



Sente Mortgage

901 S. MoPac Expy.
Bldg. IV, Suite 125
Austin TX 78746
Phone: 512.637.9900
Fax: 512.63.9901

Info@sentemortgage.com
www.SenteMortgage.com
www.JoinSenteMortgage.com