Your Guide To Understanding Your Home Financing Choices And The Features Of Your Mortgage

At Wells Fargo Home Mortgage, we understand the important role your home plays in your life. That's why we are committed to helping you make well-informed decisions about your home financing.

Since there's a lot of information to digest during the financing process, we'd like to simplify it for you. Let this document be your guide. It cuts through some confusing industry terminology and clearly explains the home financing options that are available to you, including the:

- Benefits of each mortgage feature.
- Drawbacks of each mortgage feature.
- Circumstances each feature is designed to meet.

The information in this guide is for Wells Fargo Home Mortgage home financing products, unless otherwise noted. You may also receive information on other home financing products and features, and their costs, from other Wells Fargo Bank divisions, such as Wells Fargo Financial and Wells Fargo Home Equity.

We hope this guide helps you better understand your options, so you can choose the mortgage and features that best meet your needs today and in the future.

Please contact a Wells Fargo Home Mortgage consultant with any questions.

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TABLE OF CONTENTS

Introduction

Mortgage Feature Descriptions

Section 1: *Interest Rates*

Section 2: *Types Of Mortgages*

Section 3: *The Term Of Your Mortgage*

Section 4: *Documentation And Documentation Levels*

Section 5: *Loan-To-Value (LTV)*

Section 6: *Types Of Mortgage Payments*

Section 7: *How Mortgage Features Impact Payments And Equity*

Section 8: *How You Make Your Mortgage Payments*

INTRODUCTION

Why Mortgage Features Matter

The features of each mortgage loan may have an impact on your interest rate, the amount of your monthly payment and its variability, and your overall cost of borrowing. They also may impact your sense of security. That's why you should select mortgage features that you'll feel comfortable with over the long term.

Be Sure You Look Beyond Short-Term Benefits

Some customers select mortgages with features that work to their benefit in the short term. They do this thinking that once the short-term benefits end, they'll be able to refinance or sell their home. Unfortunately, in some markets or for some homeowners, refinancing may not be an option and selling the home may be difficult.

It's important for you to know that refinancing or selling may not be an option if interest rates are higher overall, if you cannot qualify because the market environment or your personal finances have changed, or if the value of your home has declined. Even if you are able to refinance, there may be a significant cost to do so.

For these reasons, be sure you look beyond short-term benefits and carefully consider your ability to manage your mortgage over the long term.

Important Points To Keep In Mind

As you review this guide, it's important to understand the many factors that come into play when you work with Wells Fargo to determine the home financing that works best for you:

- Your financial situation today and the level of certainty you have about your financial future.
- How long you plan to own the home or keep the mortgage.
- Your comfort level in assuming the risk of potential rate increases with certain types of mortgages.
- Your credit profile and your current ability to manage your debts and obligations in a timely fashion.
- The amount of funds you have for a down payment and closing costs.
- The type of property you want, its use, and its value.
- The kind of documentation you will need and can provide to obtain the mortgage.
- Whether or not this is your primary residence, a second home or investment property.
- The amount of monthly income remaining after paying all of your bills.

Before You Decide On The Mortgage Financing That's Right For You

- Be sure you can answer all 10 questions on the next page about the mortgage you have chosen.
- Be sure you understand your mortgage terms, including any fees/charges that apply.
- Seek any professional help you need to better understand your mortgage terms by speaking to your Wells Fargo Home Mortgage consultant, lawyer, accountant, or translator.

The Mortgage Features Described In This Guide Are Not Necessarily Available

- Wells Fargo may choose to temporarily eliminate a mortgage or feature from its financing menu.
- This guide also describes mortgage features that Wells Fargo has decided not to offer due to the risks they may pose for some customers. Because you may be shopping lenders, we've included brief descriptions just to help you understand those mortgage features.
- Not every feature will be available to every customer. Your Wells Fargo Home Mortgage consultant can provide information to help you determine what features are important to you.

If you are getting a Wells Fargo home equity line of credit or loan in addition to your mortgage, please refer to the document entitled "Features Of Wells Fargo's Home Equity Lines Of Credit And Loans" for details on the choices and features available to you.

10 Important Questions
To Ask And Answer About Your Mortgage

1. **Can my interest rate go up over time? By how much and how often?**
   Adjustable-rate mortgages (ARMs) and hybrid ARMs have rates that may start low and then change over time at prescheduled adjustments. If your mortgage falls into the ARM category, be sure you know the adjustment schedule, plus the “index” and the “margin” on which the rate adjustment will be based. ***(see page 9)***

2. **Can my principal and interest payment go up over time? By how much and how often?**
   Payment increases can occur on certain types of mortgages and for multiple reasons other than an adjustment to your rate. It’s important to know if the mortgage you’re considering has the potential for payment increases because if you can’t afford to make your payments, you could lose your home. It’s also important to remember that even on mortgages with principal and interest payments that don’t increase, your payments for items like property taxes and homeowners insurance may increase. ***(see pages 17-19)***

3. **Can my mortgage balance go up, even if I make all payments in full and on time?**
   Wells Fargo Home Mortgage **does not** provide what is referred to as a “negative amortization” feature or “neg am mortgages.” If you are shopping other lenders, be aware that the low-payment feature on a negative amortization mortgage permits your balance to increase, even if you make minimum payments. ***(see page 19)***

4. **Will any scheduled payment exceed the normal monthly payment?**
   Balloon mortgages, which are not very common, are mortgages with a final payment that exceeds the normal monthly payment, usually significantly. ***(see page 18)***

5. **Will my regular monthly payment cover only interest at any point during the mortgage term?**
   Some mortgages allow you to make monthly payments that cover only the interest accrued during the month for an initial number of years. As a result, payments are lower than payments that include principal, but they do not reduce your mortgage balance and may increase substantially after the interest-only period ends. ***(see page 17)***

10 Important Questions *…continued*

6. **Will my monthly payment include escrow payments (taxes, insurance, etc.)? If not, will I pay a fee for not including escrow payments in my monthly payment?**
   Wells Fargo Home Mortgage uses the funds you will pay monthly into an "escrow account" to pay your property taxes, insurance, or other charges related to your home when they come due. If you want to pay these items yourself, you might be able to waive the escrow account requirement, but there may be a fee. ***(see page 21)***

7. **If I choose to provide the lender with less than complete documentation of my income or assets, will I pay additional costs?**
   Some Wells Fargo Home Mortgage customers qualify for a low-documentation feature at no extra cost. If you do not qualify for the no-cost feature and low-documentation is an available option, you will pay for that convenience in your rate and/or fees. ***(see page 15)***

8. **Will I have to pay a fee if I pay off the mortgage in full ahead of schedule? Will I have to pay a fee if I pay more than the required monthly payment?**
   Most mortgages have no prepayment fees whatsoever. Wells Fargo Home Mortgage does not currently provide mortgages that have penalty fees for prepayment. However, Wells Fargo Home Equity and Wells Fargo Financial products may carry a prepayment fee. As you shop for a mortgage, be sure you fully understand whether there will be a prepayment fee, how it will be calculated, and when it can be charged. You'll also need to understand if there is a prepayment fee only when you pay off the full balance within a certain period, or any time you make a payment above and beyond your scheduled payment. If you currently have a mortgage and are about to refinance or purchase a new home, call your mortgage servicer to see if you will have to pay a prepayment penalty or other fees, and to determine the amount. ***(see page 18)***

9. **Will I pay an additional fee if my payments are late? How much?**
   Late fees apply when you do not make a payment on time. Your lender may, or may not, give you a "grace period," during which you can pay late without incurring a late fee. ***(see page 22)***

10. **What is my initial interest rate and what are my settlement charges?**
    Be sure you know what your interest rate is and the estimate of your closing costs (settlement charges), particularly when you're shopping for the best mortgage package. A lower interest rate may be offered in exchange for higher settlement charges. In other cases, lower settlement charges may come with a higher interest rate. ***(see pages 7-10)***

SECTION 1: *Interest Rates*

Q: What is an interest rate?

A: The annual rate you pay on the funds you borrow. You may have the option of choosing:

- A fixed-rate mortgage (FRM)
- An adjustable-rate mortgage (ARM)
- A hybrid (or intermediate) adjustable-rate mortgage (hybrid ARM)
- A temporary buydown of the interest rate

Q: What is an annual percentage rate (APR)?

A: When you choose your mortgage, you are quoted an “interest rate,” which may vary until it’s locked in, that establishes the initial amount of your monthly principal and interest payments.

- You should see both an “interest rate” and an “annual percentage rate (APR)” in various documents. The APR, which is usually higher than the interest rate, expresses the total cost of the mortgage as an ongoing annual rate and includes certain fees, points, closing costs and other expenses (even though they are paid at application, or before or at closing).
- APRs can help you compare types of mortgages and the total costs between mortgages or lenders, but remember that the APR is different from the actual interest rate on your mortgage.

Q: How is the interest rate determined?

A: Many factors determine the interest rate on a particular mortgage. Your rate will reflect conditions in the financial markets and your mortgage type, as well as an assessment of the risk of your specific mortgage. This is why a “quick rate quote” during a phone call to a lender or a rate pulled from an online or newspaper advertisement may not provide enough information or reflect the interest rate you will receive once a lender has assessed your specific circumstances.

- **Mortgages reflect conditions in the financial markets.** Complex variables affect the rise and fall of interest rates. It’s most important to understand that there is no “one mortgage rate.” Rates can fluctuate daily, even hourly, with movements in the financial markets, and by mortgage type and mortgage amount.
- **In addition, the interest rate on your mortgage depends on the risk your mortgage features represent**. When lending money to customers to finance their homes, lenders and their investors take the risk that these customers will, in fact, pay back the money loaned to them.
  - Lenders typically offer lower mortgage rates on mortgages that present less risk.
  - Based on decades of lending, factors that reduce or increase risk have been identified, which include down payment amount, credit score, and other factors.
  - For example: Because a customer has more money invested in a mortgage with a higher down payment, it is considered less risky than a mortgage with a lower down payment. Customers with higher credit scores have historically defaulted less often (so there’s less risk) than those with lower credit scores.
  - Other factors are similarly considered: your debt level in relation to your mortgage amount, whether your home is your residence or an investment property, whether it’s a single-family or multi-family home, the mortgage term you need or want, the amount of documentation you provide, etc.
- **Be careful if you decide to “shop rates” among several lenders.**
  - A rate that’s not based on the full details of your specific circumstances can only be a guess.
  - A guess you obtain today from one lender versus a guess you obtained yesterday or a week ago from another lender offers little basis for an accurate comparison.
  - Different mortgage types (Section 2) and different mortgage terms (Section 3) have different rates.
  - Be sure to understand whether the rate you are quoted is an introductory rate, sometimes called a “teaser rate,” that might rise dramatically a short time after closing.

Q: What is a fixed-rate mortgage (FRM)?

A: A mortgage with an interest rate that remains the same over the entire term of the mortgage, regardless of how interest rates change in the marketplace.

Who benefits? Customers who:
- Finance their home when rates are relatively low.
- Want the security of predictable principal and interest payments over the long term.
- Seek protection from rising rates and monthly payments.

What are the drawbacks?
- Generally, the interest rate is higher than the initial interest rate of an ARM or hybrid ARM.
- Your rate will not adjust to a lower rate unless you refinance to a new mortgage.

Q: What is an adjustable-rate mortgage (ARM)?

A: A mortgage with an interest rate that changes at scheduled dates to reflect market conditions.
- The initial rate is usually lower than on a fixed-rate mortgage, making your initial payments lower too.
- After the initial period, the rate adjusts at certain times (up or down), based on a market index.
- A one-year ARM adjusts up or down for the first time after one year, then every year after that.
- A six-month ARM adjusts up or down every six months.
- A one-month ARM adjusts up or down every month.

Who benefits? Customers who:
- Will sell their home before rates adjust up "too high."
- Want to save as much money as possible during their first year(s) of homeownership.
- Finance their home when fixed rates are comparatively high.
- Know their income will increase over time, helping them keep pace with potentially increasing payments.
- Are willing to take a chance that their rate will stay the same or decrease when it adjusts.

What are the drawbacks?
- If your rate increases at adjustment, you may experience "payment shock" if your monthly payments increase to an amount you may not be able to afford along with your other monthly obligations. If refinancing or selling is not an option, you could be at risk of losing your home. ***(see page 4)***

Q: What is a hybrid adjustable-rate mortgage (hybrid ARM)?

A: A kind of adjustable-rate mortgage (known as hybrid or intermediate ARM) with an initial interest rate that is fixed for a number of years, typically three, five, seven or 10 years, and then adjusts every year thereafter.
- Hybrid ARMs are often referred to as 3/1, 5/1, 7/1 and 10/1 ARMs. For example, a 3/1 ARM adjusts for the first time after three years, and then every year after that.
- At each adjustment, the rate goes up or down based on a market index plus the margin. ***(see page 9)***
- The rate during the fixed period is usually lower than a traditional fixed-rate mortgage, but higher than a one-year ARM. ***(see chart on page 20 for comparisons)***

Who benefits? Customers who:
- Intend to sell their home just before or soon after the fixed period ends.
- Understand they may need/want to refinance at the end of the fixed period.
- Have sufficient income to manage a potentially increasing payment if refinancing or sale is not an option.

What are the drawbacks?
- Like any ARM, you may experience payment shock at the end of the fixed period.
- You may not have the opportunity to refinance or sell if you can't make the higher payment. ***(see page 4)***

Q: How do rates on an ARM or hybrid ARM adjust?

A: When any type of ARM reaches each adjustment date, the rate will adjust based on a published "index," such as the Prime Rate, US Treasury or LIBOR, plus a predetermined "margin" identified in your mortgage documents. Adjustments are subject to caps that limit the amount the rate can rise or fall.

- For example: Let's say your current 5/1 ARM rate is 5.5%, with a predetermined margin of 2.25%.
    - On your ARM's adjustment date in year 6, let's say the published index is 3%.
    - The 3% index rate added to the 2.25% margin would give you a new, lower 5.25% rate.
- As another example: Let's say the published index is at 5% when your 5.5% 5/1 ARM adjusts.
    - The index of 5% added to the margin of 2.25% would give you a rate of 7.75%.
    - The higher rate means your payments will increase significantly.
- Annual and lifetime limits (caps) on increases at adjustment provide some protection from extreme rate increases. Your rate can never go higher than your original rate plus whatever the lifetime cap is.
- Pay attention to the caps because different mortgages have different caps. For example, many ARMs have a cap of 2% per adjustment and a lifetime cap of 6%. Others can have a first adjustment cap of 5%, a 2% cap on subsequent adjustments, and a lifetime cap of 5%.

The margins may be higher or lower than the examples provided above, based on the terms of your mortgage. After you apply, you will receive a booklet called the Consumer Handbook On Adjustable-Rate Mortgages, which will give you more in-depth information on ARMs.

Q: What is an interest rate buydown?

A: Wells Fargo Home Mortgage provides two ways to lower the rate on your mortgage, one permanently and one temporarily. You can:

- Permanently buy down the interest rate by prepaying your interest in the form of "points." Each point (equal to one percent of the mortgage amount) lowers your rate by an amount calculated by Wells Fargo Home Mortgage.
- Temporarily buy down your rate for a one- to three-year period.

You can pay the buydown yourself or use funds from the builder, seller, or other party.

Who benefits? Customers who:

- In the case of a permanent buydown, have cash-on-hand to lower all future monthly payments, particularly if the customer expects to stay in the home for more than a few years.
- In the case of a temporary buydown, are fortunate to receive money-saving assistance from a third party or who have the extra cash to temporarily buy down their own rate in the early years of their mortgage.
- Seek the long-term security of fixed-rate payments, but want lower payments in the first year or longer.

What are the drawbacks?

- Temporary and permanent buydowns must be paid for and there may be limits to the buydown amount.
- For some temporary buydowns, you must be qualified at application for the higher fixed-rate payment after the buydown ends. This is to ensure you can make the higher payment when the buydown ends.
- If you sell or refinance before the temporary buydown ends, you may not recoup its cost.

Q: What does it mean to lock in a range of rates or float a rate?

A: At Wells Fargo Home Mortgage, you can lock in your range of rates at application or at a set time prior to closing, when it will lock automatically. The interest rate on the day the rate is locked will be the rate you obtain at closing, assuming you close within the lock-in period (normally 30, 60 or 90 days). An unlocked rate can float up or down until it's locked into the market rate.

Who benefits? Customers who:

- Lock their rate know that neither the rate nor the mortgage will change, assuming the closing takes place within the lock-in schedule. At lock-in, a one-time float-down option can be purchased in case rates fall.
- Float the rate have the opportunity to obtain a lower interest rate should market rates decline.

What are the drawbacks?

- Floating puts your rate at risk (should rates rise) and your mortgage choice at risk (should the mortgage you've chosen be discontinued).
- If rates go higher you may no longer qualify for the mortgage amount for which you've been approved.
- Locked rates can't be lowered if market rates decline, unless a float-down option has been purchased.

SECTION 2: *Types Of Mortgages*

Q: What types of mortgages are available?

A: Different mortgages meet different needs. The type of mortgage you qualify for impacts your interest rate and mortgage terms. The mortgage types available include:

- Conventional prime
- Government (FHA and VA)
- *Home Opportunities*[SM] program (a proprietary Wells Fargo mortgage program)
- Nonprime — provided on a limited basis by Wells Fargo Home Mortgage based on market conditions, but may be available through Wells Fargo Financial
- Alternative-A (Alt-A) — provided based on market conditions

Conventional prime, government-insured, and *Home Opportunities*[SM] mortgages have interest rates that are usually lower than the interest rates on nonprime or Alt-A mortgages.

Q: What is a conventional prime mortgage?

A: The most common category of mortgages, sometimes referred to as “A-Paper” mortgages in the industry.

- They come in “conforming” mortgage amounts (limits are set each year by the federal government) and “jumbo” mortgage amounts (any amount above the conforming limit).
- They are not insured or guaranteed by a government agency, but may be the least expensive.

Who benefits? Customers who:

- Have good, though not necessarily perfect, credit histories.
- Want the most favorable rates and terms available and can satisfy conventional qualifications.

What are the drawbacks?

- If your down payment for a purchase, or home equity in the case of a refinance, is less than 20%, you will have to pay for private mortgage insurance (PMI).
- Some customers may not have the credit, income, down payment, documentation or property requirements to qualify.
- Some customers have financing needs that exceed the conforming mortgage limits. Nonconforming prime mortgages usually have a higher interest rate.

Q: What is a government mortgage?

A: A mortgage for which repayment to the lender is insured by a government agency such as the Federal Housing Administration (FHA) or guaranteed by the Department of Veterans Affairs (VA).

- The interest rates and terms are similar to conventional prime mortgages.
- There may be more flexibility in qualifying guidelines than with conventional mortgages.

Who benefits? Customers who:

- Seek a mortgage with a lower down payment requirement.
- Need to use funds from other sources for closing costs.
- May need more-flexible qualifying guidelines due to limited or less-than-perfect credit history.
- For a VA mortgage, have served or are the spouse of someone who has served in the armed forces.

What are the drawbacks?

- You must pay for FHA insurance or the VA guarantee.
- You must demonstrate your VA eligibility.
- The FHA has caps (limits) on the mortgage amount based on the county where the home is located.

Q: What is the Wells Fargo *Home Opportunities*[SM] program?

A: A program that may accommodate a customer's constraints regarding down payment, income and credit requirements, and the source of funds required for closing.

- The interest rate is similar to conventional prime mortgages, but may cost a little more.

Who benefits? Customers who:

- Have low-to-moderate income.
- Face challenges in accumulating funds for the down payment.
- Require flexible credit requirements due to limited or non-traditional credit histories.

What are the drawbacks?

- The program requires that your income fall within the limits set by area.
- You will have to pay private mortgage insurance (PMI) if your down payment or home equity is less than 20%.

Q: What is a nonprime or subprime mortgage?

A: A nonprime mortgage accommodates customers with qualifying challenges. Nonprime mortgages are sometimes known as "subprime" or "B- or C-Paper" in the industry.

- Nonprime mortgages generally come in both conforming and jumbo mortgage amounts.

Who benefits? Customers who:

- Have had credit challenges that are reflected in low or lower credit scores, but want to purchase or refinance a home.
- Have higher loan-to-value ratios.
- Have higher debt-to-income ratios.

What are the drawbacks?

- Nonprime mortgages are not provided by Wells Fargo Home Mortgage in certain market conditions, but nonprime refinance mortgages may be available through Wells Fargo Financial.
- Interest rates for nonprime mortgages are typically higher than for other mortgages.
- To qualify and receive the lowest possible nonprime interest rate, you may need to consider:
  - Choosing an ARM instead of a fixed-rate mortgage.
  - Accepting a prepayment penalty. ***(see page 18)***

Q: What is an Alternative-A mortgage?

A: Also known as "Alt-A," these mortgages provide a qualifying alternative to "A-paper" conventional prime programs and generally come in both conforming and jumbo mortgage amounts.

Who benefits? Customers who:

- Have good credit scores but cannot meet other criteria for a conventional or government mortgage because of property type or the need for reduced or alternative documentation.
- Have income that is irregular or hard to evaluate.

What are the drawbacks?

- Alt-A mortgages are not offered by Wells Fargo in certain market conditions.
- Interest rates for Alt-A mortgages are typically higher than conventional prime and government mortgages.

Q: What is a piggy-back, combination, or simo loan?

A: A first mortgage combined with a home equity loan or line of credit in second position is a common type of financing for a number of different reasons, depending on market conditions.

Who benefits? Customers who:

- Want to avoid the higher rate on a jumbo mortgage by obtaining a conforming mortgage up to the permitted limit and covering the balance of what they need to borrow with a home equity loan/line.
    - Sometimes this “blended jumbo” combination (conforming mortgage plus the home equity financing) has lower monthly payments and interest rates than a single jumbo mortgage.
- Have financing needs for which the entire amount is not needed at once, such as home improvement. With a home equity line of credit, customers only pay interest on the amount drawn on the account.

What are the drawbacks?

- You will need to qualify for two loans: the mortgage and the home equity loan or line of credit.
- You need to make two payments, one for the home equity loan or line of credit and one for your mortgage — unless you have a Wells Fargo *Home Asset Management*℠ account, which requires only one combined payment.
- If the combined loan amount is high in relation to your home’s value, and its value declines, you may find yourself owing more money than the home is worth. ***(see “high LTV” and “CLTV” on page 16)***

Q: What is the Wells Fargo *Home Asset Management*℠ account?

A: A first mortgage combined with a second home equity line of credit with certain features that are different from the piggy-back, combination, or simo loan described above.

- The most distinguishing feature is that the available line of credit may increase as the home’s value increases and as the first mortgage is paid down, subject to certain credit qualifications.
- The first mortgage and home equity line of credit are combined on a single payment statement.

Who benefits? Customers who:

- Have excellent credit and money management skills in a market environment of appreciating values.
- Want to have easy access to their home’s equity without having to obtain a new loan.

What are the drawbacks?

- If the combined loan amount is high in relation to your home’s value, and its value declines, you may find yourself owing more money than the home is worth. ***(see “high LTV” and “CLTV” on page 16)***

If you are getting a Wells Fargo home equity line of credit or loan in addition to your mortgage, you will be sent a document entitled “Features Of Wells Fargo’s Home Equity Lines Of Credit And Loans” explaining the home equity choices and features available to you.

SECTION 3: *The Term Of Your Mortgage*

Q: What is a mortgage term?

A: The term, which is established in your mortgage documents, is the number of years it will take to repay your mortgage if you make no more than the required principal and interest payments every month.

- Typically, mortgage terms are 10, 15, 20, 30 or 40 years, but any number of years in between might be available as long as you qualify for the monthly payment amount.
- Generally, the shorter the term, the lower the interest rate, but the higher the monthly payment.

Q: What is a shorter-term mortgage?

A: Generally speaking, mortgages with terms of 20 years or less are viewed as shorter-term mortgages. Wells Fargo Home Mortgage will accommodate any term length on its first mortgages, such as 10 years, 11 years, 18 years, etc., but there is a minimum term for a first mortgage of 10 years. Less than that can be accommodated by a different type of loan.

Who benefits? Customers who:

- Want to take advantage of a lower interest rate on the shorter-term mortgage, saving money on the total interest paid over the mortgage term.
- Would like to pay off their mortgage and own their home outright sooner.

What are the drawbacks?

- Although the interest rate is lower on a shorter-term mortgage, your monthly payments may be higher because the mortgage amount will be repaid in a shorter period of time.
- You must be able to qualify for the potentially larger monthly payments.
- Since you pay less interest and your mortgage will be paid off sooner, you may lose a tax deduction that may be beneficial to your overall financial profile (consult your tax advisor).

Q: What is a longer-term mortgage?

A: Generally speaking, mortgages with terms of 25, 30 or 40 years are viewed as longer-term mortgages. Wells Fargo Home Mortgage will accommodate any term length between 20 and 30 years, such as 22 years, etc., on its mortgages.

Who benefits? Customers who:

- Seek lower monthly payments than might result from a shorter-term mortgage.

What are the drawbacks?

- The interest rate is typically higher than a shorter-term mortgage, which means you will pay more interest because of the higher rate and longer term of your mortgage.
- If you only make the scheduled payments, you will repay your mortgage more slowly than a shorter-term mortgage.
- Some 40-year term mortgages have a maturity date of 30 years, even though the amount of the monthly payments has been based on the full 40 years. Some 40-year mortgages may require you to make a “balloon” payment at the end of the 30th year, or refinance. ***(see page 18)***

SECTION 4: *Documentation And Documentation Levels*

Q: What is documentation and what is meant by levels?

A: When you apply for your mortgage, you'll be asked to provide financial paperwork that documents your ability to make your monthly payments on a timely and consistent basis.

- There may be different levels (amounts) of documentation required, ranging from full documentation to low, or reduced documentation.
- No matter what documentation level is used for your mortgage, it is a federal crime to knowingly provide false information on your application or submit fraudulent documents.

Q: What is full documentation?

A: Full documentation is the full amount of financial paperwork required to qualify you for a mortgage at a certain amount. This documentation may include:

- Documenting income, employment, and funds for the down payment, closing costs, and sometimes additional money "in reserve."
- For example: When documenting income, you could be asked to provide several years of W-2s or tax returns and paperwork supporting anything that supplements your income that you wish to use to qualify for the mortgage, such as child support or dividend payments. You also may be asked to document and explain your debts, such as the payment of alimony and child support, or other items that may or may not appear on your credit report.

Who benefits? Customers who:

- Want to avoid the additional cost that may be charged for the convenience of reduced documentation.
- Appreciate that taking the time to organize and collect their financial paperwork is worth the effort to obtain a mortgage type/amount suitable for their financial needs.

What are the drawbacks?

- It may take time to assemble all the required documents.
- You may have income or assets that are difficult to document.

Q: What is reduced documentation?

A: A reduction in the amount or type of financial paperwork usually required for mortgage qualification.

- Some customers can be approved with little documentation—and no extra cost—because their credit is strong and their down payment is substantial.
- Other customers may choose to take advantage of certain mortgage programs, if available, with a feature that allows them to choose to provide less documentation than is normally required.

Who benefits? Customers who:

- Automatically qualify for low documentation on certain mortgages because of their total financial picture and financing needs.
- Don't automatically qualify, but want to take advantage of the low documentation feature in exchange for additional fees or a higher interest rate on certain mortgages because they:
  - May not have the required documentation readily available.
  - Would like to avoid the task of collecting documents to verify complicated income or asset sources (i.e., small business owners, professional partnerships, or those with several sources of income).

What are the drawbacks?

- For those who don't automatically qualify, there may be higher rates or fees than for full documentation.
- You may need to agree to have your tax returns reviewed for quality assurance purposes.
- The reduced documentation feature is not available for all programs or all customers, and may not be offered in certain market conditions.

SECTION 5: *Loan-To-Value (LTV)*

Q: What is a loan-to-value (LTV) ratio?

A: The loan-to-value (LTV) ratio is the mortgage amount expressed as a percent of the home's value. The home's value is either the purchase price or its appraised value, whichever is lower.

- For example: If the appraised value of the home is $200,000 and your down payment or existing equity in the home is $40,000 (20% of the value), your loan amount will be $160,000 or 80% of the value, making your LTV 80%.

Q: What is a low-LTV ratio?

A: Generally speaking, a low-LTV ratio is one that is equal to or less than 80% of the home's value.

Who benefits? Customers who:

- Have a large down payment or a lot of equity in their home typically qualify for:
    - The best rates and terms with lower monthly payments.
    - No requirement to pay private mortgage insurance (PMI).
- Experience a decline in home values will have less concern about owing more than the home is worth.

What are the drawbacks?

- With a low-LTV ratio, considerable equity (personal wealth) is "locked" in your home. "Unlocking" the equity requires a cash-out refinance, obtaining a home equity loan/line of credit, or selling the home.

Q: What is a high-LTV ratio?

A: Generally speaking, a high-LTV ratio is one that is higher than 80% of the home's value.

Who benefits? Customers who:

- Are unable to make a large down payment, but may still be able to qualify for a mortgage.
- Prefer to use their savings for home improvements, education, etc., instead of a down payment.

What are the drawbacks?

- Monthly private mortgage insurance (PMI) payments may be required. These payments are collected in addition to your monthly principal and interest payments. Conditions under which you are no longer required to pay private mortgage insurance differ by your type of financing.
- High-LTV financing may not be available in certain market conditions.
- If your LTV is high and home values drop, you could have a mortgage larger than the home's value.
    - This makes it more difficult to refinance or sell your home without losing money.
    - As tax law stands today, the interest on the portion of the mortgage that is greater than the appraised value may not be tax deductible (consult your tax advisor).
    - If your home sells for an amount lower than your mortgage, you may owe your lender money.

Q: What is a combined-loan-to-value (CLTV) ratio?

A: Financing with a first mortgage and a home equity loan or line has a combined-loan-to-value (CLTV) ratio.

- For example: If your first mortgage is 70% of your home's value, and your home equity loan is 10% of your home's value, your CLTV is 80%.
- A high-CLTV ratio has the same drawbacks as a high-LTV ratio if home values drop. ***(see above)***

SECTION 6: *Types Of Mortgage Payments*

Q: How is the monthly mortgage payment amount determined?

A: The amount of your monthly mortgage payment over the life of your mortgage is dictated by:

- Your interest rate
- Your mortgage type: fixed-rate mortgage, adjustable-rate mortgage (ARM), or hybrid ARM
- Your mortgage term: 10 to 40 years
- The type of payments you make:
  - Regular principal and interest payments
  - Interest-only payments
  - Balloon payment
  - Any voluntary prepayments you choose to make in addition to the required payment
  - If applicable, you will also make escrow payments

Q: What are regular monthly principal and interest payments?

A: Regular payments are those made once-a-month to cover the required principal and interest amount that will pay off the mortgage over a specified term, such as 15, 20, 30 or 40 years. This process is called "amortization."

- Your payments in the early years are comprised of mostly interest and partly of principal.
- As the years go by, your payment shifts to more and more principal and less and less interest.
- Your home mortgage consultant can provide an amortization schedule for any term.

Who benefits? Customers who:

- Want to steadily build equity throughout the mortgage term by making monthly payments towards principal, so they'll own their home outright by the end of the term.
- Appreciate the tax deduction usually allowed on the interest paid on the mortgage (consult a tax advisor).

What are the drawbacks?

- Paying only the required principal and interest each month instead of making larger principal payments means you'll be making mortgage payments for the full term of your mortgage.
- You will be paying the full amount of interest over the full term of your mortgage.

Q: What are interest-only payments?

A: Payments that cover the interest portion of your monthly obligation for an initial period (typically about 10 years), but do not include any payment on principal.

- You are required to pay only the interest, but also have the option of making additional principal payments at any time.
- It's critical to note that, unlike other lenders, Wells Fargo Home Mortgage **does not** provide interest-only mortgages that negatively amortize. As long as you make the interest payments, your mortgage amount will not increase.

Who benefits? Customers who:

- Have an income stream with peaks and valleys (commissioned, seasonal or high-bonus jobs), allowing them to pay only interest during the valleys and pay down principal in large chunks during the peaks.
- Want to reduce the amount of their required monthly payments by making lump-sum principal payments. This is not the case with regularly amortizing fixed-rate mortgages, for which the extra principal paid reduces the term of the mortgage, but not the amount of the required monthly payments.
- Want lower monthly payments during the initial period more than they want to build equity.
- Expect to sell the home at or before the end of the interest-only period.

What are the drawbacks?

- At the end of the interest-only period, you must begin paying principal in addition to interest, increasing the amount of your monthly payment. Since your principal is now being paid over fewer years, the monthly amount may be substantially higher than if you had made principal payments all along.
- You will not reduce your principal balance if you make only the interest payments, so the only way to build equity is if the market value of your home increases.

Q: What are balloon payments?

A: A feature on certain mortgages that keeps monthly payments lower, but requires the customer to pay the entire remaining principal on the mortgage at the end of a predetermined number of years.

- For example: Monthly payments on a 40-year fixed-rate mortgage are lower than a 30-year fixed-rate mortgage because the amount of the payment is calculated as if spread out (amortized) over 40 years.
- However, the 40-year fixed-rate mortgage may have a lump-sum balloon payment due at the end of 30 years. The lump sum can be paid in cash, through a new refinance, or through the sale of the home.

Who benefits? Customers who:

- Need lower monthly payments to qualify and anticipate moving before the balloon payment due date.
- Are sure they will be able to refinance or otherwise will have the funds required to pay off the balance of their mortgage in a lump-sum payment at the time the balloon payment is due.

What are the drawbacks?

- Since the payments made during the initial period are not enough to pay off the entire mortgage balance, the balloon payment may be 50% or more of the original principal, depending on your mortgage.
- If you are unable to make the large lump-sum balloon payment at once, you must refinance or sell your home before the balloon payment is due.
- Falling real estate prices and/or rising interest rates can impact your ability to refinance.
- You may pay more interest over your mortgage term than with regular principal and interest payments.

Q: What are prepayments?

A: Prepayments can be either the payment of extra principal during the mortgage term or payment of full principal before the term is up, usually at the time of a refinance or home sale. Prepayments fall under two categories:

- **Prepayments with no penalty or fee**, available on most conventional mortgages, allow you to pay off some or your entire mortgage amount at any time without cost. For Wells Fargo Home Mortgage products you can:
  - Make extra principal payments at any time during the mortgage term in any amount online, by check, in person, or through automatic withdrawals. ***(see pages 21-22)***
  - Sell your home or refinance at any time and pay off your mortgage without a penalty.
- **Prepayments with a penalty or fee** are associated with certain products, typically home equity or nonprime products. ***(see page 12)***
  - The penalty is an additional lump-sum fee that must be paid if you pay your mortgage off by selling the home or refinancing prior to a specific date—typically the first two to three years of the mortgage.

Wells Fargo Home Mortgage **does not** currently provide mortgages that have a penalty for prepayment.

Who benefits? Customers who:

- Have no prepayment fee have complete freedom to prepay their mortgage at any time.
- Need higher-priced nonprime financing to qualify may be able to get the lowest interest rate available to them by accepting a prepayment penalty. By not prepaying during the initial period, they will save money.

What are the drawbacks?

- If you have a prepayment penalty or fee and sell or refinance your home during the prepayment penalty period, you may have to pay the penalty or fee.

Q: What payment options does Wells Fargo NOT offer?

A: Wells Fargo Home Mortgage **does not** provide "option ARMs" or "payment option ARMs" which generally begin with a low teaser rate, resulting in extremely low payments. Each month the homeowner has the option of making a principal and interest payment, an interest-only payment, or a minimum payment that may not cover the interest owed.

If the homeowner continues to make only the minimum payment each month, "negative amortization" may result and the additional interest owed is added to the principal balance. Eventually, a new payment schedule is calculated and the new monthly payment may increase significantly. The homeowner may owe more than originally borrowed and may no longer be able to afford the mortgage payments.

SECTION 7: *How Mortgage Features Impact Payments And Equity*

The table below provides illustrations of several mortgage choices and what your monthly payments and home equity might look like at various points in the future. The illustrations are based on buying a $300,000 home with a 10% down payment and a $270,000 mortgage. They assume no change in the market value of the home in order to illustrate how the mortgage type itself impacts the homeowner's ability to build equity.

These numbers are only examples. Your balance and monthly payment will depend on the type of mortgage, the interest rate and how often the interest rate changes.

Please note the following:

- Mortgage types 1, 2, and 3 require principal and interest (PI) payments from the outset; mortgage types 4 and 5 are interest-only (IO) mortgages for the first 10 years. As a result:
  - Column F shows that, by year 10, the mortgage principal remains at the original amount of $270,000 for mortgage types 4 and 5, which have required only interest payments through this period.
  - Column G shows an increase in equity beyond the original $30,000 down payment for mortgage types 1, 2, and 3 in year 10, and no additional equity for mortgage types 4 and 5.
- Mortgage type 2 builds less equity over 10 years than types 1 and 3 because of its 40-year term.
- The adjustable-rate mortgages (ARMs) in mortgage types 3 and 5 start with a rate lower than the fixed-rate mortgages. These ARMs could see a rate increase of up to 5% in year 6, making the payments higher than those required by a fixed-rate mortgage.
- Column C shows that principal and interest payments could rise even if the ARM's index rate (the market rate used as the basis for rate adjustments) is the same as it was 5 years earlier, at the mortgage's inception. This is true for an ARM closed with an initial rate that was discounted. In the example below, the discount on the mortgage rate for the first 5 years was assumed to be 1.25%, and no longer applies at the mortgage's first reset.
- Column E shows that the monthly principal and interest payment on mortgage type 3 could jump from $1,576 in year 5 to a maximum of $2,410 in year 6.
- For mortgage type 3, Columns F and G assume the highest possible interest rate path in years 6 through 10. Lower rates would generate a lower outstanding balance and additional home equity.

	Monthly Payment Principal and Interest (PI) or Interest-Only (IO)					
A. Mortgage type	**B. During year 1**	**C. During year 6 even with constant index rate**	**D. During year 6 with 2% rate increase**	**E. Maximum possible and effective years**	**F. Balance owed after 10 years**	**G. Equity in year 10 with $30,000 down payment**
1. Traditional fixed-rate • 30-year term • 6.375% interest rate	$1,684.45 PI	$1,684.45 PI	$1,684.45 PI	$1,684.45 PI, 1 – 30	$228,173	$71,827
2. Traditional fixed-rate • 40-year term • 6.75% interest rate	$1,629.06 PI	$1,629.06 PI	$1,629.06 PI	$1,629.06 PI, 1 – 40	$251,167	$48,833
3. Traditional 5/1 hybrid ARM • 30-year term • 5.75% interest rate for 5 years • Then becomes 1-year ARM	$1,575.65 PI	$1,770.18 PI	$1,891.78 PI	$2,409.64 PI, 6 – 30	$237,349	$62,651
4. Fixed-rate interest-only • 30-year term • 6.5% interest rate • Interest-only first 10 years • Principal payment begins in year 11	$1,462.50 IO	$1,462.50 IO	$1,462.50 IO	$2,013.05 PI, 11 – 30	$270,000	$30,000
5. 5/1 interest-only hybrid ARM: • 30-year term • 5.75% interest rate for 5 years • Then becomes 1-year ARM • Interest-only first 10 years • Principal payment begins in year 11	$1,293.75 IO	$1,575.00 IO	$1,743.75 IO	$2,741.12 PI, 11 – 30	$270,000	$30,000
	These monthly payments exclude any homeowners insurance, taxes, and Private Mortgage Insurance (PMI) that may be due.				*No home price changes are assumed.*	

SECTION 8: *How You Make Your Mortgage Payments*

Q: What other charges are included in my regular monthly payment?

A: Principal and interest are included with each "regular" amortizing mortgage payment.

- Additionally, homeowners are responsible for paying:
  - Property taxes
  - Homeowners insurance (sometimes known as hazard insurance)
- Some homeowners are also required to pay for:
  - Private mortgage insurance (PMI), if the down payment or equity is less than 20%
  - Flood insurance, if the property is in a government-designated flood plain
  - Condominium, association, maintenance or other fees, if the home is a condo, co-op, PUD or townhouse
  - Second mortgage payments if they have a home equity loan or line of credit
- **Escrow payments.** You may want to, or be required to, include taxes and insurance and some of the other above costs in your monthly payment to Wells Fargo Home Mortgage. The funds to cover these costs go into an escrow account — a holding account Wells Fargo Home Mortgage establishes on your behalf. You can monitor your escrow account activity online at yourwellsfargomortgage.com.
  - Typically, you prepay some of these funds at closing to open your escrow account.
  - Every month Wells Fargo Home Mortgage collects a portion of the funds needed annually for taxes and insurance, along with your principal and interest payments.
  - On specific due dates Wells Fargo Home Mortgage makes tax, insurance, private mortgage insurance (PMI), and other payments on your behalf.
  - Once a year, Wells Fargo Home Mortgage evaluates your escrow account.
  - In some instances, we might have collected too much, and will return that money to you.
  - In other instances, the money we paid out for your taxes, insurance, or other fees may have been higher than the amount in your escrow account. In that instance, we'll work with you to help you repay the money you owe.
- If your mortgage does not require escrow and you don't want Wells Fargo Home Mortgage to make these payments for you, they are your responsibility under your mortgage terms. That's why it's important to budget accordingly.
- It's also important to remember that once your mortgage is paid in full, you are still responsible for your taxes, homeowners insurance and other fees that may be associated with your property.

Q: Are there different ways to make my mortgage payments?

A: Yes. Wells Fargo Home Mortgage provides multiple ways for you to make on-time payments. They're based on your needs — convenience, security, ease in managing your household budget, or your desire to build equity and pay off your mortgage sooner.

Who benefits? All our customers. Because Wells Fargo Home Mortgage offers so many ways to make mortgage payments, you have the opportunity to select the option that best meets your individual needs:

- Free, automatic *Preferred Payment Plan*℠ withdrawals from one or more bank accounts, with or without additional principal:
  - Weekly – ¼ payment amount on the weekday of customer's choice
  - Biweekly – ½ payment amount every other week on the weekday of customer's choice
  - Semi-monthly – ½ payment amount on the 15th and 1st of each month
  - Monthly – full payment amount due, typically on the 1st through 5th day of each month
- One-time last-minute payments via phone or online ***(see page 22)***
- Online via *Wells Fargo Online*® Bill Pay or transfers, with or without additional principal
- By check, with or without additional principal

What are the drawbacks?

- Although your regular on-time payment methods are free, rush payments are fee-based, and late payments are subject to a late fee.
- If you choose to use a service from *outside* Wells Fargo, you could be assessed fees from that company.
- Wells Fargo Home Equity and Wells Fargo Financial have different payment options.

Q: How can last-minute payments be made?

A: With the *Wells Fargo Easy Pay*[SM] option, Wells Fargo Home Mortgage customers can make same-day or next-day payments online at yourwellsfargomortgage.com or by calling 1-800-678-7986. The funds are posted within 24 hours.

Who benefits? Customers who:

- Do not use automatic payment methods, have forgotten the payment, or are away from home.
- Need extra time right before the due date to accumulate the funds for the monthly payment.
- Want to avoid a late fee that would have been charged due to postal delays.

What are the drawbacks?

- *Wells Fargo Easy Pay* has a fee that varies by payment method.

Q: What if a payment or payments can't be made?

A: At Wells Fargo, we know circumstances may arise that impact our customers' ability to make one or more payments. It's in our customers' best interests to call our servicing team as soon as they doubt their ability to make one or more payments. We are committed to helping you any way we possibly can.

Who benefits? Customers who:

- Call us early, before their circumstances are dire.
- Can be helped with a variety of tools, providing alternatives to the worst-case scenario of foreclosure.

What are the drawbacks?

- Many customers can be helped, but there are exceptions.
- Legal or investor constraints may limit available options.

Q: If I'm late making a payment, is there a fee?

A: Late fees differ by mortgage type and state. The late fee for your mortgage is on your Mortgage Note. The best way to show how late fees work is to provide an example, which does not apply for every mortgage type:

- Let's say a customer has a mortgage with payments due on the 1st of the month, with a 15-day grace period.
- Although the payment is considered late after the 1st of the month, we allow additional time for the customer to send us the payment due.
- If we receive payment on or before the 16th of the month, no late fee will be charged.
- If we receive payment after the 16th, a late fee will be charged.

If you have any questions about the information in this guide, please call your Wells Fargo Home Mortgage consultant.

Legal note: *Because the home office of Wells Fargo Bank is located in the state of South Dakota, the laws of that state will apply to your mortgage and home equity financing for all interest, fees and other amounts (including prepayment penalties) charged or accruing thereon that are considered "interest" charges by applicable law. Other rights and remedies of your mortgage and home equity financing are governed and interpreted by federal law and the consumer protection laws of the state where your property is located excluding any state laws that are preempted by federal law.*

Note on refinancing a "special subsidized mortgage": *If you are already a homeowner and have a "special subsidized mortgage" on your current home, please notify Wells Fargo as soon as possible. We want to ensure that refinancing provides you with a benefit. For clarification, a "special subsidized mortgage" means that it was originated or subsidized through a state, local or tribal government or nonprofit organization. This mortgage may have a below-market interest rate, an interest recapture provision,*

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