Information for First-time Home Buyers

An overview of the mortgage process, from application to closing.

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Advantages of Homeownership

Before you decide to buy a home, you should determine if owning a home is right for you. Once you have considered the pros and cons, only you can honestly decide whether or not buying a house makes sense for your specific situation.

- A home is a place to call your own; it helps you become a part of the community and make a difference in the area where you live.
- While rent payments typically increase each year, you can choose a loan program with monthly principal and interest payments that will remain the same for the life of your loan. This helps you budget better and plan for the future.
- Most homeowners realize significant tax benefits[1] from homeownership.
- A home is a personal investment involving your time and money — one that has the potential to increase in value.

[1]Consult your tax advisor

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Disadvantages of Homeownership

- There are no guarantees that a home will appreciate in value.
- Homeownership usually costs more than renting.
- You will be responsible for all repairs and maintenance of your home, which can be costly.
- If you move frequently because of your job, owning a home may be more of a burden than you want.
- If you own a home and do not keep up with your monthly mortgage payments, the mortgage lender could foreclose on your mortgage. That means you could lose your home and any equity you've established.

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How much can you afford?

- Many experts use a basic, easy formula to roughly determine how much someone can afford to pay for a house.
  - The formula provides that you should multiply your pre-tax, or gross, annual income by two and a half.
  - For example, if you have a total household income of $60,000, you should be able to buy a house worth $150,000.
- However, your buying power will ultimately depend on two things:
  - How much you have available for the down payment and closing costs.
  - How much a lending institution will agree to lend you.

Borrowing Power – Down Payment

Most mortgage loan programs require a borrower to make a down payment from their own cash when purchasing a home.

- Down payment size determines mortgage loan amount:

$230,000	Purchase Price
- 11,500	5% Down Payment
$218,500	Mortgage Loan Amount

- Type of loan program determines required down payment amount
- Down payment size affects whether or not you need mortgage insurance. For loan amounts with less than a 20% down payment, mortgage insurance will be required, in most instances.

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Borrowing Power – Closing Costs

Homebuyers usually pay other fees associated with the closing of their loan.

- Average costs are between 4% and 10% of the mortgage loan amount.
- Closing costs usually include fees charged by the mortgage lender for originating and processing your loan, as well as other expenses charged by third parties for items such as surveys, inspections, title insurance and settlement services.
- There are also fees charged by your local government, which is one of the reasons why geography can play a major role in how much your closing costs will be.
- Typical closing costs may include: loan origination costs, appraisal fee, credit report fee, flood certification fee, attorney's or closing fee, state and local transfer fees and title insurance.

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Borrowing Power – Loan Amount

Your lender will consider these primary factors in determining how large a loan to grant you:

- Your income
- Your existing debt
- Your credit history and credit score
- The property value of the prospective home

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Borrowing Power – How to Maximize

Ways to increase your borrowing power:

- Reduce your credit card bills and existing long-term debt.
- Improve your credit score by paying your bills on time and obtain a copy of your credit report each year to verify its accuracy.
- Apply for a mortgage when your income increases.
- Find a financing option that results in a lower down payment or a lower monthly mortgage payment.
- If you are a low-to-moderate income homebuyer, ask your loan officer about special loan programs that provide grants to reduce the amount you would need to borrow.

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Types of Mortgage Loans

There are different kinds of mortgages available for different kinds of borrowers. Your SunTrust Mortgage Loan Officer will help you determine which one is the best fit for your individual needs and goals.

- Fixed Rate mortgage versus Adjustable Rate mortgage (ARM)[1]
- Length of repayment term
- Fully Amortized versus Interest Only[2]

Be sure to understand the differences and how they may impact your monthly expenses and property equity during your repayment period.

1 ARM products have interest rates which are subject to increase after consummation.
2 Monthly payments of interest only will not reduce the principal owed.

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Buying a Home

The steps to getting a mortgage loan for your new home:

- Pre-qualifying[3]
- Applying
- Processing
- Closing

3 Pre-qualification is based on non-verified information and is not a commitment to make you a loan by SunTrust Mortgage, Inc. Loan approval will be subject to, but not necessarily limited to, verification of all income, asset and liability information provided by you, satisfactory property appraisal, compliance with SunTrust Mortgage's loan program guidelines and all required closing conditions such as survey and title examination.

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Buying a Home – Pre-Qualifying[3]

If you haven't identified the "home of your dreams," your lender can evaluate your loan application and credit report and provide you with a Pre-qualification Letter that you can share with your real estate agent as you search for your property.

- The pre-qualification process begins with the completion of the application.
  - Once you have completed the application, your lender will request a credit report and review this information against the requirements of the loan program you are pursuing.
- Based on the information you provide on the application, the data on the credit report and the loan program requirements, your lender will be able to determine very early in the process approximately how large a loan amount you can qualify for.
  - It's important to note that this is not a pre-approval, as the pre-qualification is based on non-verified information and does not constitute an official commitment on behalf of your lender.
  - Your pre-qualification Letter is valid for 60 days.
- The pre-qualification process is:
  - An informal way to determine how much you may be able to borrow for the purchase of your new home.
  - Simple and quick. Pre-qualification can be provided once the application is completed– even over the phone with no paperwork.
  - A great way to receive a letter indicating the terms[4] for which you qualify that you can provide to your real estate agent as you shop for your home -- your agent will know that you are a "serious" buyer

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4 Terms to include: Anticipated Sales Price, Loan Program, Loan Amount, Term, Interest Rate Used for Pre-qualification, Loan to Value Ratio.

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Buying a Home – Applying for a Loan

After the seller has accepted the purchase contract, you must apply for your loan. What happens during loan application?

- Your Loan Officer will help you choose a loan product and, when you decide the time is right, will lock-in the current interest rate for that particular product.
- Your lender will provide you with certain disclosures about your loan, such as the Good Faith Estimate and the Truth in Lending Disclosure, and other forms for you to review and sign.
- Should you decide to proceed with your mortgage financing, you will sign forms authorizing your mortgage lender to verify your information such as employment, account balances, rental payment history, and other credit references
- You will pay for your credit report and property appraisal[5]

Be sure to ask your SunTrust Mortgage Loan Officer about anything you don't understand!

5 Subject to applicable state law restrictions.

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Buying a Home – Processing the Loan

What's next?

- Your lender will verify the information on your application, including your current and previous employment, income, bank accounts, rental payment history and other credit references.
- A mortgage loan coordinator will be assigned to assist with the processing of your loan and will be your main contact during this phase.
- Your credit report and appraisal will be ordered, and the verification request forms will be sent. It may take some time for your lender to receive these completed items.
- You may be requested to provide documentation not collected at application.
- You will be notified in writing of the final decision on your loan.

During this time, you should choose the settlement agent or attorney who will handle your loan closing. You should also make arrangements to obtain your homeowner's hazard insurance policy.

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Buying a Home – Closing the Loan

How should I prepare?

- Prior to closing, your settlement agent or attorney will notify you of the amount of money/funds you will need to bring to closing; you will need to bring these funds in the form of a cashier's or certified check (personal checks are not acceptable.)
- Closing usually takes place in the office of the settlement agent or attorney, where they will review and explain all of the closing documents before you sign them.
- Upon closing, you will receive copies of the closing documents and the keys to your new home – Congratulations, you're a homeowner!

There are many forms that you are asked to sign and understand at closing. The more familiar you are with these forms, the more comfortable you will be on the day of closing. Ask questions!

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Homeownership Responsibilities

Components of your monthly mortgage payment:

- Principal – the amount of money that you borrowed
- Interest – fee that you pay the lender for using its money
- Escrow – additional amount that covers your real estate taxes, homeowner's hazard insurance and, if applicable, flood insurance and mortgage insurance; your lender holds these amounts and pays the bills/premiums when they come due. In some areas, this is called "an impound."

The monthly principal and interest payment is referred to as P&I. When real estate taxes and insurance are included in the monthly payment, it is referred to as PITI.

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Homeownership Responsibilities

As a homeowner, you need to take the steps necessary to protect your investment, not only by caring for the property itself but also by making timely payments on your loan.

- Your monthly mortgage payment is due on the first day of each month
- If you choose not to sign up for automatic monthly deductions to make your mortgage payment, you will receive monthly billing statements after loan closing
- A “First Payment Letter” will be included in your settlement package in the unlikely event that your first monthly billing statement doesn’t arrive prior to your first payment being due

Making the payment of this obligation a priority can help you avoid costly late charges and maintain a good credit history.

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Mortgage Glossary

Glossary of loan terms:

- **Adjustable Rate Mortgage (ARM):** A mortgage in which the interest rate is adjusted up or down periodically based on a pre-selected index; also known as a variable rate mortgage. ARM products have interest rates and payments that may increase after consummation.
- **Amortization:** Repayment of mortgage debt with periodic payments of both principal and interest, calculated to pay off the loan obligation at the end of a fixed period of time.
- **Appraisal:** A formal written estimate of the current market value of a home and land. It also refers to the process by which a value estimate is obtained.
- **Closing (Settlement):** The delivery of a Deed, the signing of the Note, the Mortgage or Deed of Trust and other documents, followed by the collection and disbursement of funds necessary to complete the sale or loan transaction.
- **Closing Costs:** Fees paid at the closing of a loan, such as origination fee, discount points, title and insurance fees, survey fees, and attorney's fees.
- **Credit Report:** A report to a prospective lender on the credit standing of a prospective borrower, used to determine creditworthiness.
- **Credit score:** A measure of credit risk derived from a statistical program and based on information contained within a credit report that lenders use to determine a borrower's creditworthiness.
- **Delinquency:** Failure of a borrower to make timely payments as required by the Note and the Mortgage or Deed of Trust.
- **Discount Points:** A one-time charge imposed by the lender to lower the interest rate at which the lender would otherwise offer the loan. Each point is equal to one percent (1%) of the mortgage amount.
- **Down Payment:** The difference between the sales price of real property and the mortgage amount.

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Mortgage Glossary - Continued

Glossary of loan terms:

- **Equity:** The difference between the current market value of a property and the amount of a homeowner's outstanding mortgage loan debt on the property.
- **Escrow:** Money collected by a lender as a part of the monthly mortgage payment and used for the purpose of paying the real estate taxes and the hazard insurance premium.
- **Fixed Rate:** A mortgage with an interest rate that remains the same for the term of the loan. Monthly principal and interest payments are fixed in amount.
- **Foreclosure:** A procedure in which a mortgaged property is sold to pay the outstanding debt in case of default.
- **Good Faith Estimate:** An estimate of the closing costs given or mailed to the borrower within three (3) business days after the lender receives a completed loan application.
- **Homeowner's Hazard Insurance:** A policy insuring against multiple perils, commonly called a package policy, and made available to owners of private dwellings. There are wide variations in the coverage of such policies, which generally insure the dwelling and its contents.
- **Interest Only:** A loan option that allows a borrower to make monthly payments of only mortgage interest, instead of both principal and interest, during a set period of time. After the initial interest-only period expires, monthly payments increase to pay off the existing mortgage debt in full over the remaining loan term. Monthly payments of interest only will not reduce the principal owed.
- **Mortgage:** A legal document that pledges a property to the lender as security for payment of a debt.
- **Mortgage Insurance:** A policy that allows mortgage lenders to recover part of their financial losses if a borrower defaults on a loan.
- **Truth-in-Lending Act (TILA):** A federal statute that requires the disclosure of the Annual Percentage Rate and other important information to homebuyers shortly after they apply for a loan. The actual disclosure form is sometimes referred to as the TIL.

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We’re here to help.

The journey toward homeownership is very exciting, but if you’ve never bought a home before you probably have more questions than answers. With trusted resources like your SunTrust Mortgage Loan Officer to provide you guidance along the way, you’ll get the facts you need to make solid decisions about your future.

If you ever have any questions, or would like to find out how to get started on the path to homeownership, contact me today.

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