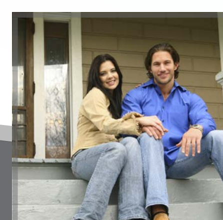
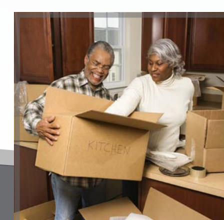
PROSPERITY

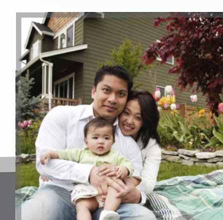
HOME MORTGAGE, LLC

Home Buyer's Guide

Learn what to expect about the home loan process.







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Prosperity Home Mortgage, LLC
Where technology and lending merge to create the ultimate customer experience.

Introduction

About Us

Prosperity Home Mortgage, LLC, is a full-service mortgage banker specializing in residential purchase and refinance loans. We offer very competitive interest rate pricing and a wide range of mortgage products, including fixed and adjustable rate mortgages, jumbo loans, Federal Housing Administration (FHA), Veterans Affairs (VA) loans, and renovation financing.

We understand the important role your home plays in your life, and that is why we are committed to providing information that will help you make well-informed decisions about your home financing. Understanding the many factors that come into play when you work with your mortgage consultant is important to determining the right home financing for you.

Here are a few of those factors to keep in mind:

- 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.

The Basics of Buying

Knowing what to expect – and having a knowledgeable team of real estate and mortgage-lending professionals to assist you – can help make finding and financing your home an exciting and rewarding experience. Here is a basic overview of the home buying process:

1. Obtain a mortgage preliminary approval before you begin house hunting.

- Learn how much home you can purchase.
- Strengthen your bargaining position with sellers.

2. Work with your real estate agent to find the right home.

- Determine your needs and create a wish list of desirable features.
- Take notes as you preview homes.

3. Make a purchase offer on a home you like.

- Your real estate agent presents your offer to the seller, who will then choose to accept, counter or reject the offer.
- When the price is settled, you and the seller sign a Purchase Agreement, defining the terms of the sale.

4. Complete the loan application process.

If you have already obtained a mortgage preliminary approval, contact your lender and let them know you have a contract on a home. Your mortgage consultant will update your loan application and help you to proceed with the home financing process.

5. Have the home inspected.

If you choose to have a home inspection, hire a professional home inspector after the offer has been accepted to provide an in-depth look at the basic systems of the house, to reveal any safety hazards and give you a chance to reconsider the deal.

6. The home will be appraised.

An appraisal, required by your mortgage lender, is a formal, written estimate of the home's current market value.

7. Obtain title insurance. (where applicable)

Title insurance guarantees the property you are purchasing is free of liens or confusion in rights of ownership, and it also insures against any losses to the property that result from defects in the title or deed.

8. Close on the property.

- A closing agent coordinates and distributes all the paperwork and funds.
- Ownership of the property is transferred.

And you become the proud owner of your new home! Remember, we are here to help! Your local mortgage consultant is ready to help you understand your financing options and work with you each step of the way.

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Common Mortgage Terms

Here is a list of common mortgage terms you may hear throughout the home financing process. Use this list as a reference, and feel free to ask your mortgage consultant to clarify these terms or others that do not appear on this list.

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

Amortize – The process of paying off a debt by regularly scheduled payments that include both principal and interest. As payments are made over time, the principal balance is reduced until the entire loan is repaid.

Annual Percentage Rate (APR) – The cost of credit expressed as a yearly rate. The APR includes the prepaid interest rate, points, fees, and other credit charges that the borrower is required to pay, and is therefore a more complete measure of a loan's cost than the interest rate alone. The loan's interest rate, not its APR, is used to calculate the monthly principal and interest payment.

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

Closing Costs – Money paid by the borrower in connection with the closing of a mortgage loan. This generally involves an origination charge, discount points, and fees required for third party services, taxes and government recording fees.

Closing Disclosure – A form used at closing that provides a statement of final loan terms, projected payments, closing costs and a summary of the transaction.

Commitment Letter – A formal, written offer by a lender stating the terms under which it agrees to loan money to a borrower.

Debt-to-Income Ratio (DTI) – Compares a borrower's anticipated monthly mortgage payment to their gross (pre-taxed) monthly earnings and their monthly debt requirements. Monthly debt includes credit cards, car loans, student loans, consumer loans plus other financial obligations such as child support and alimony. DTI is also known as the **back-end ratio**.

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

Escrow Account – The segregated trust account in which escrow funds are held.

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

Housing Expense Ratio – Compares a borrower's anticipated monthly mortgage payment to their total household gross monthly income (pre-taxed). The housing expense ratio is also known as the **front-end ratio**.

Loan Estimate – A form provided when applying for a home loan that outlines the terms, projected payments, and estimated closing costs of the loan.

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

Mortgage Insurance Premium (MIP) – The consideration paid by a mortgagor (borrower) for mortgage insurance -either to the FHA or to a private mortgage insurer.

PITI (Principal, Interest, Taxes, Insurance) – The most common components of a monthly mortgage payment.

Pre-qualification – The process of determining how much money a prospective home buyer may be eligible to borrow before applying for a mortgage loan.

Pre-paids – Closing costs related to the mortgage loan which are collected at loan closing - including per diem interest and initial deposits of monthly escrows of taxes and insurance.

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

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

Title – The legal evidence of ownership rights to real property.

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

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Frequently Asked Questions

What is a mortgage?

A mortgage is a loan secured by real estate. You borrow money to buy a home and promise to pay it back over a specified period, for a specified cost. Repayment typically happens through monthly mortgage payments, which reduces the principal balance over time until the entire loan is repaid. This process is also known as amortization.

What does a mortgage payment include?

Every mortgage payment includes principal and interest. If your down payment is less than 20% of the home's purchase price, lenders may also collect payments for property taxes, homeowners insurance and mortgage insurance, which are held in escrow and paid on your behalf.[1]

How do lenders determine if I qualify for a mortgage loan?

To determine if you qualify for a mortgage loan, lenders must use minimum underwriting standards to confirm your ability to make your monthly mortgage payments and repay your loan according to the loan terms. Lenders look at your credit score, the cash you have available for a down payment and closing costs, your income, and your existing debt and financial obligations.

All lenders are required to:

- Make a reasonable and good faith determination that customers have the ability to repay the loan according to its terms.
- Verify and document, through independent third-party records, the information used to make a credit determination.

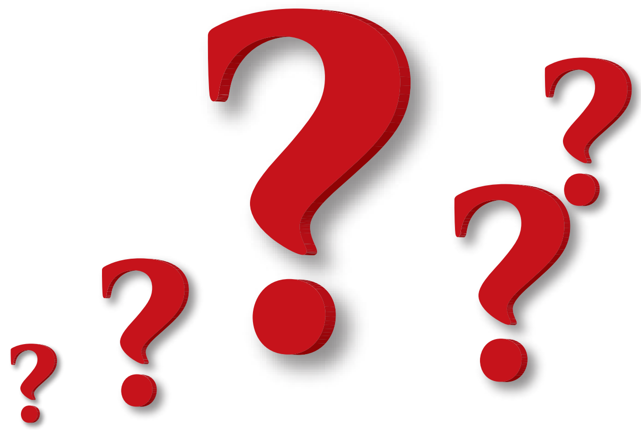
We are committed to promoting sustainable homeownership to borrowers who meet our credit policies and underwriting standards. If you qualify for a mortgage, you will be issued a commitment letter, which is a formal offer stating the terms under which the lender agrees to loan money to you. Final loan approval, however, will be contingent upon obtaining an acceptable appraisal and title commitment, and additional documentation may be required.

1. Use of an escrow account to pay for taxes and insurance is optional, as long as you have at least 20% for down payment. If you choose this option, or you have less than a 20% down payment, your monthly payment to your lender will include property tax and homeowners insurance.

What are the parts of a mortgage payment?

- **Principal**: The principal part of your monthly payment pays off the loan amount you initially borrowed to buy your home.
- **Interest**: In return for providing the funds you need to buy a home, lenders charge monthly interest on the principal balance you owe.
- **Taxes**: Property taxes may be collected by your lender on a monthly basis and held in an escrow account to be paid on your behalf as they come due. The good news is: property taxes are usually fully deductible at income tax time. Consult a tax advisor for details.
- **Homeowners Insurance:** Homeowners insurance provides financial protection in the event of losses that are the result of fire, wind, natural disasters or other hazards. Most mortgage lenders require you to have a homeowners insurance policy and may also be collect these funds to hold in an escrow account to pay your insurance company.
- **Mortgage Insurance**: Mortgage insurance protects the lender against financial loss if a customer fails to repay the loan.
    - ◆ FHA-insured loans require a mortgage insurance premium (MIP)
    - ◆ VA loans require a funding fee
    - ◆ Conventional loans can be insured with private mortgage insurance (PMI)

  If mortgage insurance is applicable to your loan, that part of your payment is forwarded to the agency providing the insurance.



How do I know how much money I can borrow to buy a home?

Your mortgage consultant can help you apply for a preliminary approval that states the maximum loan amount you can borrow. It is based on our preliminary review of credit information only and is not a commitment to lend. We will be able to offer a loan commitment upon verification of application information, satisfying all underwriting requirements and conditions, and providing an acceptable property, appraisal and title report. It is subject to change or cancellation if a requested loan no longer meets applicable regulatory requirements, and is not available on all products. Make sure to talk with your mortgage consultant for details. Add your preliminarily approved maximum loan amount to the amount you plan to use for your down payment, and you will know your home purchase price range.

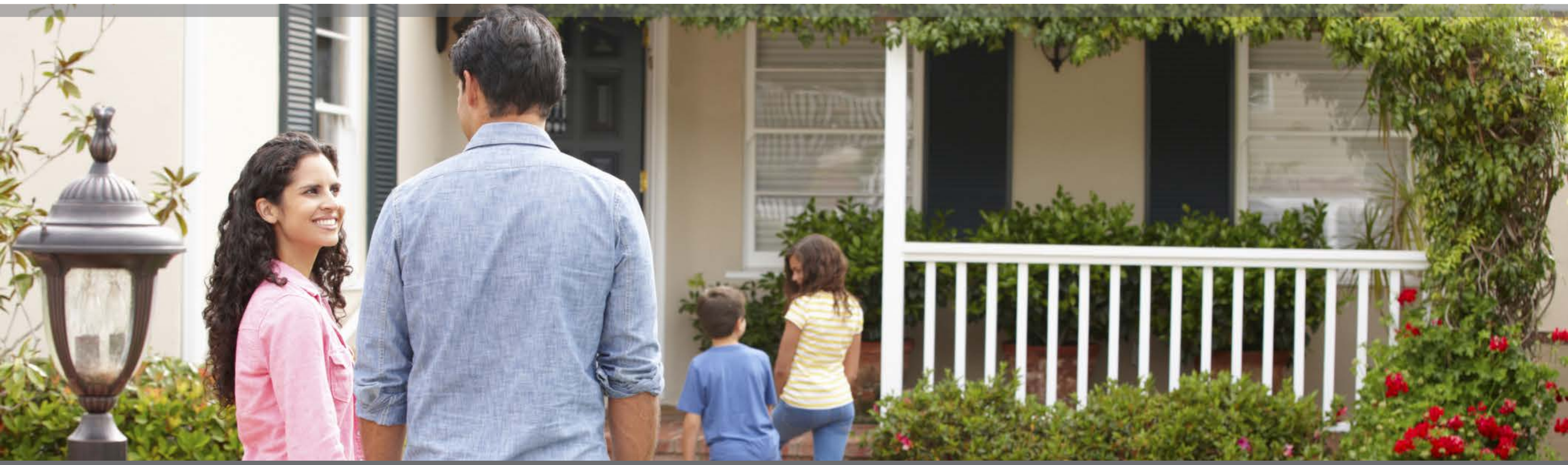
What are closing costs?

In addition to the sales price of a home, you'll need to pay for the services of various real estate and lending related professionals who are required to complete a purchase transaction. Depending on your lender, the mortgage you choose, and the location of the home, these "closing costs" can add up to several thousands of dollars. You will get a better idea of the amount soon after you apply for a mortgage, when you receive a Loan Estimate that details the estimated costs you will pay on or before your loan closing. You may be able to add your closing costs to your loan amount to limit how much out-of-pocket cash you will need to close.

What other costs should be considered?

While homeowners do not have to pay rent, they do have to manage expenses — beyond mortgage payments — that renters never face:

- ***Homeowners' association/condo fees:*** If you buy a home within a community represented by a homeowners' association or condominium association, you may be required to pay fees on a monthly, quarterly or annual basis to help cover the cost of maintenance to community structures, amenities and grounds. These may be included as part of your mortgage payment. If not, you'll need to budget for them.
- ***Maintenance, updates & repairs:*** Keeping a property in top condition can be costly. This is particularly true of older homes, where system and appliance warranties may have expired. Home warranty plans provide repair or replacement coverage for certain built-in appliances and major home systems for a specific length of time. They cost a few hundred dollars a year, depending on your mortgage size and where you live.
- ***Utilities:*** Budgeting for heating, cooling, electricity, natural gas, water/sewage, and trash removal are some of the expenses homeowners may face on a monthly basis. Before buying a home, consider asking the seller for a record of the last 12 months of utility bills for the home.
- ***Personalization:*** An expense that catches many buyers off-guard is the cost of updating elements of the home to meet your needs or personal taste. New furniture, window treatments and lawn care equipment are examples of costs that can quickly add up. Try to make a list of items you need, and then create a budget to help keep costs under control.



What if I do not wish or am not able to make a 20% down payment?

We have multiple mortgage products and programs that can help qualified buyers achieve their goals with less available cash. Just remember, if you make less than a 20% down payment, you may be required to purchase mortgage insurance (MI), which can add to the cost of your loan and increase your monthly payment. If you know you are not ready now, but want to become a homeowner someday, it's never too early to start building up your personal savings.

Are there tools to help me save for a down payment?

Your bank may have online budgeting and savings tools to help you identify need-to-haves, cut back on nice-to-haves, and put aside money you'll need to buy a home. Some may also help you set up a separate "first home" savings or investment account and have a set amount directly deposited into it every month. The set amount will be automatically deducted from the account where you deposit your paycheck or other income. Ask your banker for more details.

Can I use gifted money to help make my down payment?

Some loan program guidelines do allow you to use monetary gifts from family or friends as part of your down payment. Keep in mind:

- You will most likely be required to provide written proof that the funds are truly a gift and not a personal loan.
- There are limits on how much gift money you can receive per year without increasing your tax obligations.

Speak with a financial advisor, tax accountant, and your mortgage consultant to learn more about how these options can impact your overall home financing plans and future goals.

Are there any other down payment sources I may be able to use?

Not-for-profit down payment assistance programs (DAPs) provide funds to qualified home buyers to help with down payments and closing costs. Many DAPs don't require repayment, if you meet their guidelines. Groups like Habitat for Humanity and Homeownership Alliance of Nonprofit Downpayment Providers (HAND) can also be sources of help. Your mortgage consultant can help you find out which programs are available in your area, explain their details, and see if you qualify.

What is a credit score?

The three credit reporting agencies — Experian, TransUnion and Equifax — are a clearinghouse for information on the credit rating of individuals and firms. "Credit score" is a term often used to refer to credit bureau risk scores. It broadly refers to a number generated by a statistical model which is used to objectively evaluate information that pertains to making a credit decision (i.e. credit cards, car loans, student loans, etc.) that includes:

- Your payment history
- The total amount you owe
- The amount of time you've had available credit
- Whether you have any judgments entered against you
- Whether you have filed for bankruptcy
- The number of times potential lenders have reviewed your credit

Information in the agencies' reports is evaluated and interpreted into a "credit score," which help lenders make loan decisions. Credit scores range from 350 to 850, and yours may determine whether you are approved for a loan, the terms of the loan, and the interest rate.

Note: *Making large purchases with a consumer loan or credit card just before applying for a mortgage may impact your ability to qualify. Consider needs and priorities carefully.*

What can I do to manage my credit score?[1]

- Pay down revolving debt. Don't move debt around between credit cards.
- Make bill paying automatic. Set up electronic withdrawals from your checking or savings accounts to help you make timely bill payments.
- Don't open a lot of new accounts. Instead, hang on to and maintain your older accounts.
- Contact your creditors if you are having trouble. Most creditors are willing to work out a payment schedule rather than see you fall delinquent and not pay at all.

1. This list is only to be used as a guide and is not all-inclusive. Should events arise requiring changes to your credit, income or assets, your mortgage consultant can discuss how these changes may affect your loan application process. Prosperity Home Mortgage, LLC is not a credit counselor. Information displayed is not credit advice and should not be relied upon or interpreted as such.

What documents will I need to provide to apply for a mortgage loan?

The following is a list of documents you may be asked to provide during the mortgage application process. The documents listed here are general and may not include all documents specific to your home mortgage financing situation. Your mortgage consultant will inform you of any additional documentation that you may need.

Income Information

- ❑ 30 days' most recent pay stubs with year-to-date information for all jobs and for each borrower
- ❑ Federal tax returns for the 2 most recent years (1040's)
- ❑ W-2 forms for the 2 most recent years
- ❑ Written explanation if employed less than 2 years or gap in employment in the last 2 years

Credit Information

- ❑ Most recent 2 months asset statements listed on the application — all pages to each statement even if blank (Example: checking account, savings account, CDs, money market accounts, IRA, 401k, etc.)
- ❑ If applicable: landlord name, phone number, and address
- ❑ If you have any obligations due to legal action, for example child support, lawsuit judgment, bring in any judicial decree
- ❑ If applicable: complete Bankruptcy papers including discharge papers — also provide documentation supporting circumstances leading up to the bankruptcy, if able
- ❑ If applicable: credit explanation letter for any late payments, collections, judgments or other derogatory credit items
- ❑ Documentation for any large deposits outside payroll or gift fund deposits shown on asset statements
- ❑ If applicable, previous payments for the following:
  - » Public utilities
  - » Phone company
  - » Cable
  - » Car insurance

Special Information, if applicable

- ❑ Last 3 years' complete Federal tax returns (both personal and business returns)
- ❑ Year-to-date profit and loss statement
- ❑ List of all business debts

How can I help the financing process go more smoothly?

After receiving your home loan approval, simply understanding issues that can impact the financing process is important. The following topics address potential challenges that may delay your closing date or even impact your ability to obtain a mortgage. Follow these tips for a smoother financing process:[1]

- **DON'T** hesitate to inform your mortgage consultant before making changes to your employment.
- **DON'T** stop making payments on existing accounts.
- **DON'T** make major purchases with credit, co-sign another loan, or max out existing credit cards.
- **DON'T** assume closing existing lines of credit or paying off collections or charge-offs will improve your credit score.
- **DON'T** deplete savings to pay off credit debts.
- **DON'T** make large deposits into your bank account(s).
- **DON'T** change bank accounts or transfer funds within existing accounts.
- **DON'T** hesitate to contact your mortgage consultant if you are concerned something will impact your loan.

Individual circumstances will vary. Any one of the above mentioned activities may or may not impact the financing process.
Contact your mortgage consultant for more details about your individual situation.

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What is the difference between a conventional loan and a government loan?

- A conventional loan is a conforming or nonconforming mortgage product that meets Federal Home Loan Mortgage Corporation (FHLMC) and Federal National Mortgage Association (FNMA) standards and may require a down payment.
- A government loan is a mortgage product whose requirements are established by a government agency such as the Federal Housing Administration (FHA) or U.S. Department of Veterans Affairs (VA). Government loans typically have lower down payment requirements than conventional loans. Be certain to ask your mortgage consultant to help you compare the overall costs of all products, including the monthly and long-term costs and conditions of any required mortgage insurance. In some instances, you may find FHA to be a more expensive financing option. Thoroughly evaluate and consider each of the available product options that meet your credit qualifying and financial needs.

What is the difference between a conforming mortgage and a nonconforming mortgage?

- A conforming mortgage has a loan amount and underwriting guidelines that follow standards set by the Federal National Mortgage Association (FNMA) and Federal Home Loan Mortgage Corporation (FHLMC).
- A nonconforming mortgage has a higher loan amount or underwriting guidelines that differ from standards set by the FNMA and FHLMC.

How do I know what kind of mortgage to choose?

There are many types of mortgages available. The chart below shows some that buyers may choose. The list of loan types shown is not all inclusive, and other programs are available. Your mortgage consultant can help you understand your options, so you can make informed decisions.

Loan Type	Features	Who may benefit?
Fixed-rate mortgage The interest rate stays the same for the life of the loan.	• Predictable monthly principal-and-interest payments • Protection from rising rates	Often chosen by buyers who plan to stay in their home for a long period of time
Adjustable-rate mortgage (ARM) The interest rate may go up or down on pre-determined dates to reflect market conditions.	• The initial interest rate is usually lower than that of a fixed-rate mortgage • The initial interest rate can be locked in for different introductory periods • After the introductory period, the interest rate may adjust at pre-determined intervals based on the terms of the loan	Often chosen by buyers who think they might sell/move or refinance within a few years, or those who think they can make larger monthly payments if the rate adjusts upward
FHA loan	• Low 3.5% minimum down payment requirement • Gift funds may be allowed for all or a portion of a down payment and/or closing costs • Financing can be assumed by qualified buyers when the home is sold	Often chosen by buyers looking for a low down payment
VA loan	• Low or no down payment requirement • A wide range of rate, term, and cost options • Gift funds may be allowed for all or a portion of closing costs • Financing can be assumed by veteran and non-veteran buyers when the home is sold	Available to active-duty or veteran military service members
Jumbo loan	• Fixed-rate and ARM options • Higher loan amounts exceeding conforming loan limits • 80% loan-to-value (LTV) amounts up to $3 million • Financing for a primary residence or a second/vacation home	Often chosen by buyers planning to purchase a higher priced property
Renovation loan	• Covers the home's purchase price, plus all the costs of needed repairs, upgrades or renovations • Buy a home, make improvements right away, and pay for them over the life of your mortgage • One application, one loan approval, one closing and one monthly mortgage payment	Often chosen by buyers looking to purchase a home in need of repair

This table is only to be used as a guide and does not include all loan types or loan features. Not all loan types are available to all borrowers. Borrowers will be subject to qualification and must satisfy all underwriting requirements and conditions. Not all borrowers will qualify. Speak with your mortgage consultant and carefully consider each of your home financing options so you can determine the home loan that is right for you.

Your Mortgage Resource

We hope you find this guide to be useful as you progress through the home financing process, so that you are able to take an informed, hands-on approach to achieving your homeownership goal. It is important to note, the information in this guide is general and may not include all steps specific to your home financing situation. Your mortgage consultant will advise you of any differences that may apply to your specific mortgage and circumstances. Certain state requirements may also apply and impact the steps specific to your mortgage.

We are dedicated to providing you with an outstanding experience.

Our mortgage consultants are trained to pay attention to your goals, help you understand your options, and clearly explain how different loan programs work, so you can make informed decisions.

Our wide range of products serves a large variety of home financing situations. Count on us to provide help and information each step of the way.

Feel free to contact your mortgage consultant if you:

- Want to refinance to change your rate or term.
- Want to access your home's equity.
- Are moving or buying a vacation home or investment property.
- Have a friend or family member who needs home financing — your mortgage consultant may also be able to help them finance a home.

For post-closing mortgage service questions, concerns, issues, or an inability to make a mortgage payment(s), please contact your mortgage servicer, whose information can be found on your monthly mortgage statement.

Please do not hesitate to make us aware of any questions, issues or concerns you may have so we can address them right away.

We value your feedback.

Shortly after closing on your home mortgage, you will receive a survey regarding the level of service you received throughout your home financing experience. We would appreciate you taking the time to complete and return it. Our goal is to provide outstanding levels of service that result in you wanting to use us again in the future and recommend us to friends and family!