

# HOME BUYER'S GUIDE

Information and tips on how to purchase the house of your *dreams*.



... Come Home



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# INTRODUCTION & TABLE OF CONTENTS

Congratulations! You are thinking about buying a home. You have taken the first of many steps in the process. Whether this is your first purchase of a home, or you are already a current homeowner, the process can be overwhelming at times. Rest assured that all of us at The Farmers National Bank want to make the process as smooth as possible. Purchasing a home is one of the biggest financial decisions of your life and we want to make your dream become a reality.

There is a great deal of planning involved in purchasing a home. This booklet has been designed to assist and guide you through the process from start to finish. In addition to this booklet, your local Farmers National Bank mortgage loan officer is a great resource to assist you.

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# ...TYPES OF MORTGAGES



## What is a Mortgage?

A mortgage is a type of loan for the purpose of purchasing a home or property. Since mortgages are generally for a large sum of money, the loan is usually paid back over a longer term of 10, 15, 20 or 30 years. There are various types of mortgages offered. Your mortgage loan officer can help decide what the best option is for you.

## Conventional Mortgage

- Most common type of loan
- Rate and term decided at application, and locked in for life of the loan
- Term of loan can be from 10 to 30 years
- Principal and interest payment remain the same for life of loan

## ARM (Adjustable Rate Mortgage)

- Rate locked for short term (usually 5 or 7 years)
- Rate will adjust after initial term
- With rate adjustment, payment may increase

## Construction Loan

- For purpose of constructing a primary residence
- Construction period of 6 months with interest only payments
- Converts to fixed loan after construction period
- General contractor required for construction
- Funds paid out at completion of each phase

## 2nd Mortgages or 'Piggy Back' Loan

- Offered in limited situations
- Utilizes a second loan to cover a portion of the down payment
- Second loan has a shorter term and higher interest rate

## USDA Loan (US Department of Agriculture Rural Development Rural Housing)

- Government loan program available to low and moderate income buyers
- Usually for 1st time homebuyers
- May be able to finance 100% of the purchase price and closing costs
- Additional qualification requirements apply





## How MUCH CAN YOU AFFORD?

Knowing how much you can afford in a mortgage payment will help you determine what price range of homes to look at.

You will need to take into account what debt you currently have. For example: monthly credit card bills, student loans, car payments, installment loans, etc., count as current debt.

The standard qualifying debt to income ratios are 28% and 36%.

**28%** = the monthly mortgage payment (principal, interest, taxes, and insurance) divided by the borrower's gross monthly income. (Formula 1)

**36%** = the monthly mortgage payment plus all monthly installment and revolving payments divided by your gross monthly income. (Formula 2)

Here are two ways to determine what you can afford:

### Example:

Gross Monthly Income	\$3,263.64
Total Monthly Payments	\$ 261.00

### Mortgage Payment:

Principal and Interest	\$ 722.07
Real Estate Taxes	\$ 100.00
Hazard Insurance	\$ 30.00
Private Mortgage Ins	\$ 61.75 (if applies)
Total	\$ 913.82 Monthly Mortgage Payment

**Formula 1:** (Total monthly mortgage payment divided by gross monthly income)

$$\$913.82 / \$3,263.64 = 28\%$$

**Formula 2:** (Total monthly mortgage payment plus current monthly installment debt payments divided by gross monthly income)

$$\$913.82 + \$261.00 / \$3,263.64 = 36\%$$

# HOW TO ESTIMATE YOUR PAYMENT



Use the chart below to find your payment factor based upon the loan interest rate\*. It estimates how much you will have to pay in principal and interest each month for every \$1,000 you borrow.

	4.50%	5.50%	6.00%	6.50%	7.00%	7.50%	8.00%
10 Years	10.37	10.86	11.10	11.36	11.61	11.87	12.14
15 Years	7.65	8.17	8.44	8.71	8.99	9.27	9.56
20 Years	6.33	6.88	7.17	7.46	7.76	8.06	8.37
30 Years	5.07	5.68	6.00	6.32	6.66	7.00	7.34

\*Rates shown are for examples only.

Using the chart, you can then figure your approximate monthly principal and interest payment. For example:

Purchase Price \$50,000 – 20% down; for a 30 year term @ 6.5% interest rate

Purchase Price		\$50,000
20% down		<u>-10,000</u>
Amount borrowed	=	\$40,000
Interest rate factor from chart	=	\$6.32 (6.50% for 30 Years)
Amount borrowed divided by 1000	=	<u>40.00</u>
(\$6.32 x 40 = \$252.80)		
 Principal and Interest payment	 =	 \$252.80/month

If your taxes are \$1,000 annually, and homeowners insurance is \$400 annually, this is an additional \$1,400 each year. Take the \$1,400 and divide by twelve months, which gives you \$116.67 a month.

Your total principal and interest plus taxes and insurance:

$$\$252.80 + 116.67 = \$369.47$$

This equals your total monthly mortgage payment. If you put less than 20% down, your payment may increase to include PMI\*\* or the additional loan amount, if you did a 'piggy back' loan.

\*\*PMI is an insurance policy that allows the bank to recover a percentage of the loan amount if the borrower defaults. PMI enables the borrower to purchase a home with a down payment of less than 20%. PMI charges may vary based on the type of loan.



## ::: OTHER COSTS TO EXPECT

Along with figuring your monthly mortgage payment amount, you should also be aware of some additional costs that you may incur when purchasing a home. The following is a small list of items that you may be responsible for paying. There may be other costs involved, which are not listed here.

### Down payment

- This is your first investment in the home.
- The amount is typically 20 percent depending on the type of loan.
- A down payment is extremely beneficial to have saved when applying for a loan.
- The more money down in the beginning equals less you have to pay back over long term.
- If you do not have 20% down, you may be required to obtain Private Mortgage Insurance (PMI).

### Closing costs

- These are paid for at loan closing.
- The costs will include bank processing fees, transfer taxes, recording fees, etc.
- The costs will vary depending on your loan terms.
- A good estimate of closing costs is 5% of the purchase price.

### Escrow

- Funds held to pay your annual homeowners insurance and property taxes.
- The total amount due annually divided into 12 equal payments.
- This is added into your monthly mortgage payment.
- This figure may change each year if your taxes and/or insurance amounts change, which would reflect a change in your payment.

### Moving costs

- Do you need to rent a moving service or van?
- Are there any deposits required for the home utilities?
- Are there any appliances or furniture immediately needed?
- Are there any immediate repairs needed on the home?

### Private Mortgage Company Insured

- An insurance policy that allows the bank to recover a percentage of the loan amount if the borrower defaults. PMI enables the borrower to purchase a home with a down payment of less than 20%. PMI charges may vary based on the type of loan.

# THE LOAN PROCESS



## Preparing For the Loan

- Use your credit wisely. Your credit score and payment history are very important!
- Save money for a down payment.
- Talk with a mortgage lender to see how much house you can afford and the type of loan program that meets your needs.
- Choose a good realtor to help you through the home buying process.

## Getting Started

- Make an offer on a home and sign contract for purchase.
- Make an appointment to complete an application with mortgage lender or visit our website and apply online at <http://www.farmersnb.com/mortgages>.
- Be sure to bring all the required documents and information with you at time of application. Not having the necessary information will hold up the loan process.
- The mortgage lender will review your credit history and income.
- The mortgage lender will help identify the loan amount necessary and the loan type depending on the resources you have to work with.
- You will then receive preliminary approval based on credit and income guidelines.

## Processing

- Application information is verified by lender.
- Make check for appraisal, credit and documentation fee.
- Appraisal is ordered by lender.
- Receive preliminary loan disclosures by mail.
- Arrange for any needed inspections.
- Arrange for insurance coverage.
- Allow 4-6 weeks for processing.
- Receive final loan decision / approval.

## Closing

- The commitment letter with instructions will be sent to you and the closing agent.
- You will need to make an appointment with the closing agent to sign loan documents.
- The remaining fees and down payment will be collected by the closing agent.
- The sale of the property is completed and deed is transferred by the closing agent.

## Managing Payments

- Your first payment will be due within 30-45 days of closing – usually due the 1st of month.
- Be sure to set up automatic payments from your checking account to assure the payment is made on time each month.
- Be sure to escrow taxes and insurance as an easy way to be sure these are paid annually.



## DOCUMENTATION YOU WILL NEED

Before scheduling an appointment with a mortgage loan officer, please be sure to have the following ready. Having these items will expedite the process of your application and loan:

- Valid driver's license or state identification
- Social Security number
- Name(s) in which the deed is to be held
- W-2's for the last two years. Also, last two years of Federal tax returns, including business tax returns (if self employed)
- Two months of current pay stubs
- Name of employer, local address and phone number. If you have been at your job for less than one year, previous employment information will be needed.
- Proof of other income (if used to qualify):
  - Alimony and child support (copies of divorce decree and settlement agreement, proof of receipt for the last twelve months.)
  - Rental income (copies of current leases at least one year in length).
  - Retirement, social security, and disability (copies of award letter, latest check and end of year statement).
  - Income from notes held
- Previous three months of bank statements for checking, savings, mutual funds and brokerage accounts
- Most current statement(s) on 401K, IRA and/or retirement account.
- If currently renting: landlord name, address and phone number (2yrs history)
- List of all debts: name, account number, balance and minimum monthly payment
- List of all assets (cars, boats, real estate)
- Proof of your source of down payment and closing costs.
- Purchase: Signed sales agreement
- New Construction: Signed plans and specs, survey, executed contract with the builder and lot sales agreement or HUD-1 from lot purchase

# OTHER IMPORTANT INFORMATION



## Choose a good realtor

- A good realtor can offer homes and explain the sales contract.
- There is usually a commission fee involved for using a realtor.
- You should work with someone you are comfortable with.
- You are not required to use a realtor, but it can be helpful.

## Employment History

- You must be able to show 2 years of stable employment history.
- The employment should be continuous.

## Income Verification

- Verified using your recent pay stubs and/or tax returns.
- All other income must be verified (child support, pension, social security, etc.)
- Must show sufficient income for your existing debts as well as new mortgage payment

## Credit History

- Must demonstrate past ability and willingness to meet debt obligations.
- Any delinquency or collection accounts may effect outcome of new loan.
- A higher credit score will usually merit a lower interest rate.
- You are eligible to receive a free copy of your credit report annually. Visit [www.annualcreditreport.com](http://www.annualcreditreport.com)

## Money down/closing costs

- A down payment is typically required for purchase.
- Closing costs may be shared by buyer and seller, or paid fully by buyer.
- One year homeowners insurance required to be paid at closing.
- A portion of your annual taxes is typically paid at closing.

## Gifted Money for Down Payment

- Must have a signed statement from the donor for the amount of money being gifted.
- Money will need to be deposited into a Farmers National Bank account prior to closing.

## ::: QUESTIONS TO ASK



The following are some good questions to ask when looking for a mortgage:

- How long does the approval process take? The closing process?
- How much are the closing costs (estimated)?
- How much money will I be required to put down for the loan?
- Can the payment be taken directly from my bank account?
- How much of my costs, if any, are required to be paid up front?
- Will my loan be serviced by this bank, or will the servicing be sold to another financial institution?
- Do you require escrow on the mortgage? If escrow is required, is it for only taxes or both taxes and insurance?
- Do you offer 'piggy back' loans?
- Do you offer Government Guaranteed Programs?
- How long should I anticipate before my loan closes?
- After closing, who can I discuss any questions or problems regarding the loan with?
- Is there a penalty for early payoff?

# TERMS TO KNOW



- Appraisal:** A written estimate of the current value of the home. This is prepared by a licensed-certified appraiser and is arranged by the bank. You should not arrange to have an appraisal done without consulting the lending institution and applying for a loan.
- APR:** Annual Percentage Rate. This is the cost of your loan expressed as a yearly rate.
- Automatic Payment:** An automatic payment is when the payment for your loan is taken from your checking account on the same day each month. The money for the payment needs to be in the account before the specified date. Some loans may require an automatic payment.
- Closing Costs:** Funds required to be paid by the borrower and/or seller when the loan is closed. There is no set amount for closing costs, and the amount you pay will depend on the terms of your loan. A good estimate would be 5% of the price of the home you are purchasing. The final number may be more or less; this is just an estimate as each loan is different.
- Down Payment:** Your first investment in the home. This amount is typically between 10% and 20% depending on the type of loan. You can always put more money down, but must have at least the minimum amount required.
- Escrow:** Funds held in connection with the loan to pay your annual homeowners insurance and property taxes. The total amount of insurance and taxes due annually is divided into 12 equal amounts and is calculated into your monthly mortgage payment. The taxes and insurance are then paid out with the funds held when due. Remember also that your annual taxes and insurance may change each year, which would therefore change your total monthly payment amount paid to the bank.
- Flood Insurance:** If the property is located in a flood zone, federal law requires the homeowner acquire flood insurance on the property. The flood insurance would have to be in place before the loan closes.
- Loan to Value (LTV):** (Loan to value ratio) is the percentage of the appraised value or sales price (whichever is lower) of the property that the lender is willing to lend.
- Refinance:** Taking out a new loan to pay off an existing loan. This will generally involve new loan costs.
- Term:** The number of years it will take to pay off the loan. (Given that regular on time payments are made)
- Title Insurance:** The property you are purchasing will have a title search which verifies that there are no liens or judgments. A policy that protects the purchaser and/or lender against loss due to problems with the title. The Title Search is verification that the title to the property you are buying is clear of any claims from other persons.
- Underwriting:** Guidelines the lender uses to determine if a borrower qualifies for a loan.
- Home Owners Insurance:** Insurance covering the dwelling and contents against fire, damage or theft. Homeowners insurance is required to be in place for any home loan.
- Private Mortgage Insurance (PMI):** An insurance policy that allows the bank to recover a percentage of the loan amount if the borrower defaults. PMI enables the borrower to purchase a home with a down payment of less than 20%. PMI charges may vary based on the type of loan.

## ::: IN CLOSING . . .



Thank you for taking the time to review this packet. We hope that this information has made the process a little easier for you. The journey to becoming a homeowner is exciting, and Farmers National Bank would appreciate the opportunity to walk you through from start to finish. Please feel free to contact your local Farmers National Bank mortgage loan specialist with any questions or concerns you may have. We look forward to meeting you and assisting in making your dream home become a reality!

# NOTES

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