ARKANSAS FEDERAL MORTGAGE

Guide to Buying a Home

EQUAL HOUSING LENDER | NMLS: 418494

Table of Contents

Table of Contents 2

The Home Loan Journey 3

Benefits of Being a Homeowner 4

Expenses of Homeownership 5

Finding Your Perfect Loan 8

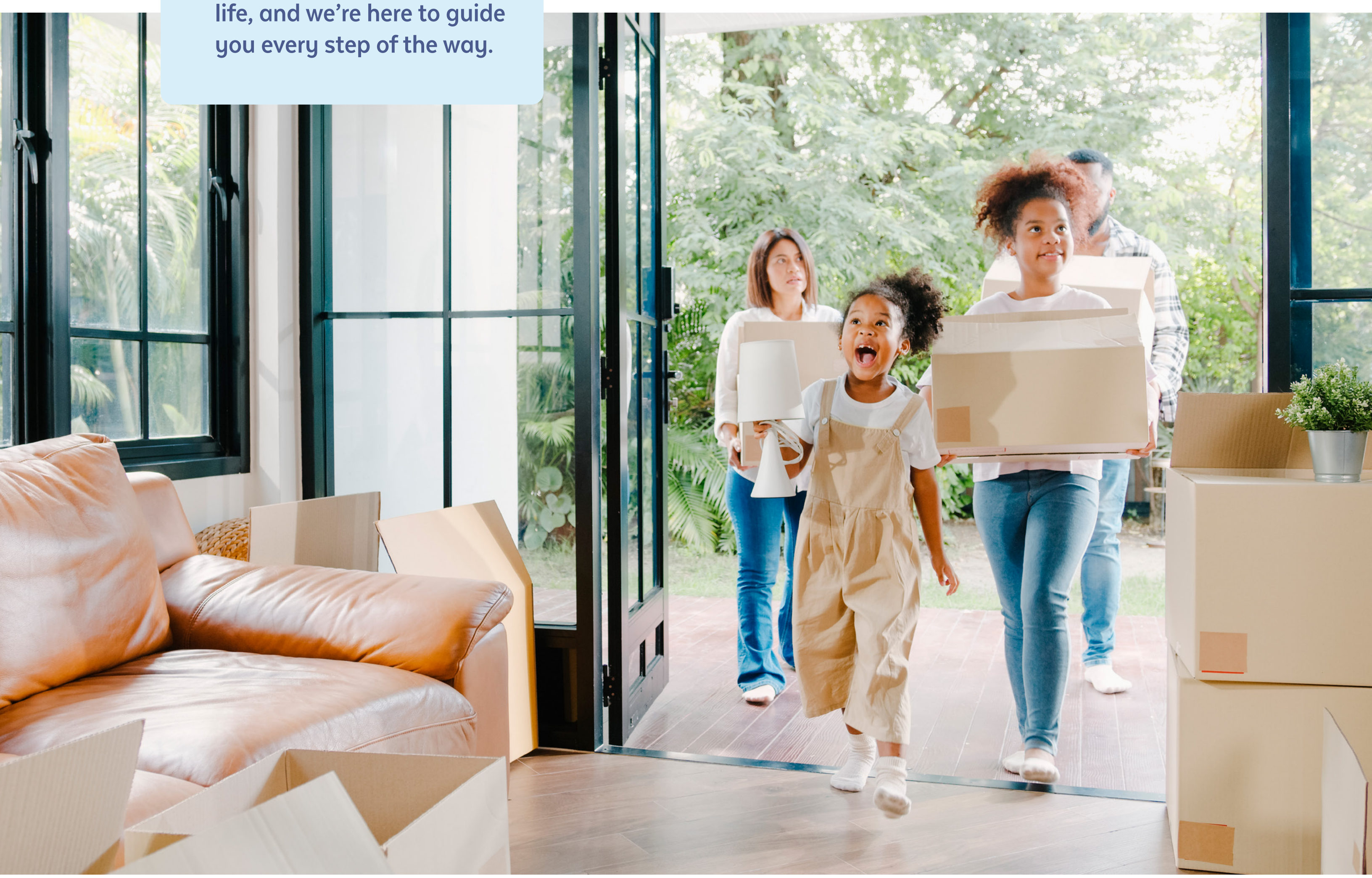
Getting Mortgage Ready 10

Why Arkansas Federal Mortgage? 17

Get Your Docs in a Row 18

Hey Future Homeowner!

Buying a home is exciting and life-changing. You're about to make what is likely one of the biggest financial decisions of your life, and we're here to guide you every step of the way.



The Home Loan Journey

While every path to homeownership can be different, most follow a similar route. And the more you know, the easier it will be for you to become a homeowner. So, here's a general idea of what to expect during your loan process:

Benefits of Being a Homeowner

Homeownership provides peace of mind, along with many other benefits. It truly is a goal worth working towards.

Freedom

Want to paint the walls a dark, moody color? Or rip out a patch in the backyard lawn to install a garden? The possibilities are endless.

Home Equity

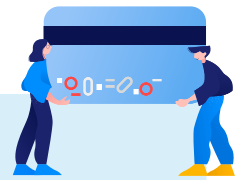
Payments on a home are an investment in your future. Typically, the value of your home appreciates, and the amount you owe on your mortgage decreases over time. This is called equity. Equity can act as a built-in savings plan, giving you more leverage and refinancing options in the future.

Tax Advantages

There can be many tax advantages when owning real estate, such as mortgage interest deductions, mortgage point deductions, mortgage insurance deductions, tax-free profits on home sales, energy credits, and more. The exact benefits you qualify for may vary. So, talk to a tax advisor.

Expenses of Homeownership

We won't sugar-coat it—buying a home can be expensive. There are many expenses every step of the way, from pest control to title searches. Costs vary by location and vendors, but **the key is to be aware of these costs before you sign on the dotted line.**



Expenses Before You Buy

Outside of your down payment, the following expenses are the buyer's responsibility, whether or not the deal goes through. So, make sure you have enough cash to cover these costs before even searching for a home.

Credit Report

$10-$100

You'll pay a one-time fee for the lender to pull a copy of your credit report. This may be a part of your closing cost fees, but we thought we'd let you know early on.

Survey

$150-$1,000

A survey isn't always required, but it can help you understand where the property boundaries are. This one-time fee is paid at the time of purchase.

Home Inspection

$200-$1,000

You'll need to pay for the home inspection, which ensures the home is safe and secure.

Home Appraisal

$450-$750

A home appraisal is a requirement for nearly all loans.

Pest Inspection

$75-$300

Your lender must ensure your home is safe from pests, especially termites. Having a professional pest inspector look at the home provides peace of mind.

Down Payment

0%-20% of Home Price

We've already mentioned the down payment earlier, but you must save up for a down payment unless you have a zero-down loan option.

Expenses **During** the Homebuying Process

Origination Fees

0.5%-2% of the Loan Amount

This one-time fee covers processing the loan and any associated administrative costs.

Title Insurance

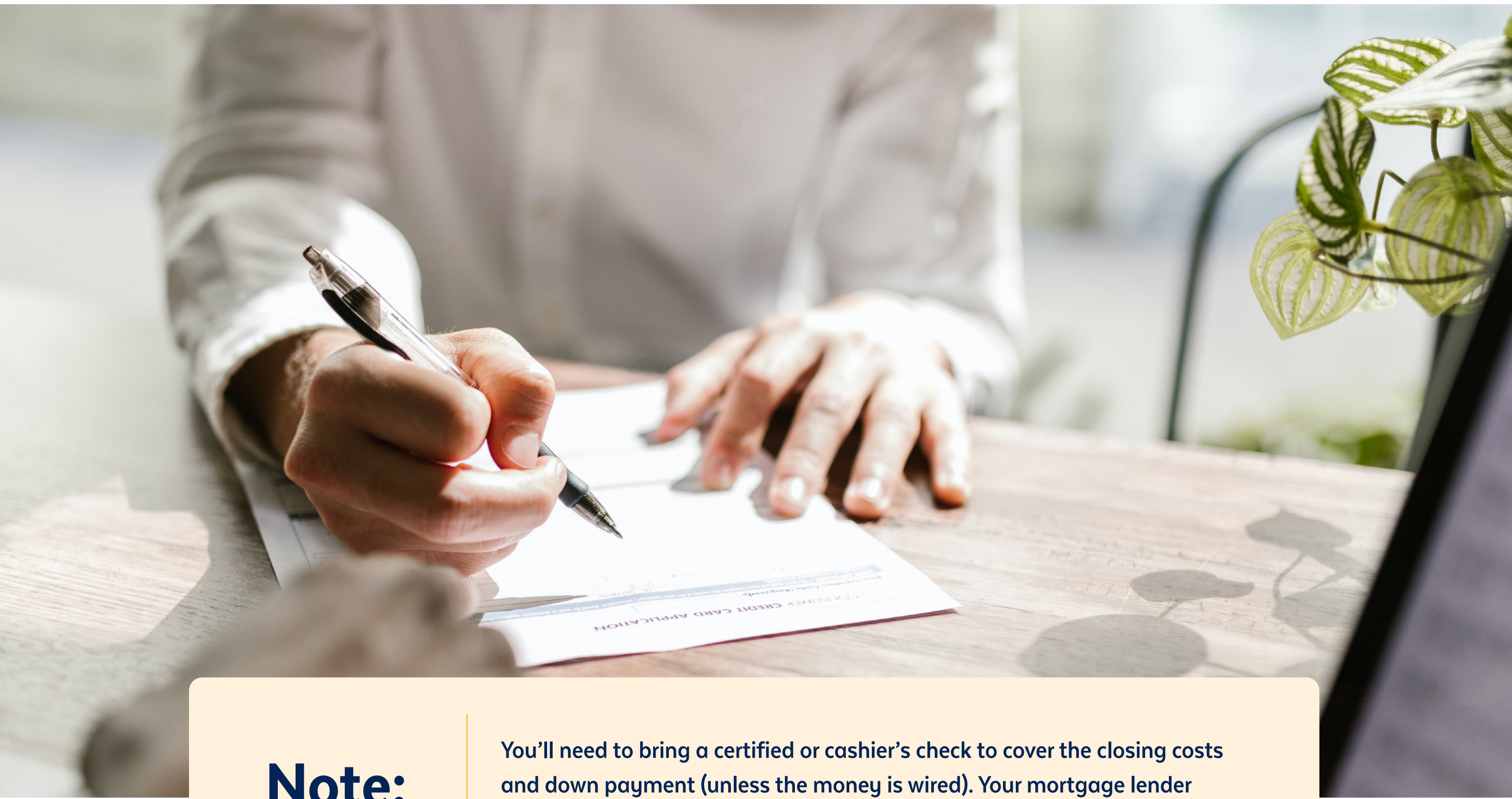
$500

Title insurance is sometimes included in the closing costs and typically runs around $500.

Closing Costs

2%-6% of Home's Purchase Price

Closing costs is a more general term that encompasses all of the fees you have to pay at closing, such as appraisal fees, survey fees, title insurance, attorney fees, and settlement fees.



Note:

You'll need to bring a certified or cashier's check to cover the closing costs and down payment (unless the money is wired). Your mortgage lender should advise you on the best way to transfer funds for your closing.

Expenses **After** You Buy

Now that you've closed, there are still some costs to consider, but these will vary greatly depending on the size of your home and your needs.

Moving Costs

Moving costs will vary greatly depending on the size of your home and the distance you're moving.

Escrow

The term escrow can be confusing as it's used in two ways. During the process of buying/selling, a third-party "escrow" account holds all the money and documents that make you a property transfer until the sale is complete to protect the buyer and seller. However, once the sale is complete, escrow refers to the funds you must pay your lender and the monthly P&I for real estate taxes and hazard insurance.

Private Mortgage Insurance (PMI)

If your LTV ratio is greater than 80%, lenders usually require a private company's mortgage insurance to protect the lender against losses if a loan defaults.

Homeowners Insurance

This is an ongoing monthly payment that covers property and liability insurance. Your lender often requires it, which is usually included in your monthly mortgage payment.

Utilities

You'll pay these monthly costs for expenses like electricity, gas, water, and sewer.

Maintenance & Repairs

These are ongoing costs associated with the routine upkeep of your home. Experts suggest you set aside 1% of the total purchase price of your home for yearly maintenance. So, a $250,000 home would require you to save $2,500 annually.

Lawn Care

You may need to pay ongoing costs to maintain your lawn and exterior of your home. Estimate $100 or more each month.

Pest Control

You'll need to budget for termite inspections and routine pest control. Pest control services usually do routine checks every quarter. The cost can vary from company to company.

Finding Your Perfect Loan

When determining which financing option is right for you, it's essential to consider the different types of mortgages, rates, and terms. Even more important is getting to know the mortgage lender you'll be working with so that they can guide you about the types of loans offered and help find the right one for you.

Rates

Generally, there are two ways to go—fixed or adjustable.

Fixed-rate mortgages have interest rates that remain the same throughout the life of the loan. This is an excellent option if you can lock in a low rate, and it will protect you against rising interest rates.

Adjustable rate mortgages (ARM) have interest rates that will increase or decrease in correlation with economic trends. The advantage of an ARM is that the initial rate is typically lower than the fixed-rate mortgage by a quarter point to two points or more. Still, this rate will periodically adjust within set cap limits specified by the loan terms.

Terms

Typically, there are two ways to go with your terms: 15 or 30 years.

15

A **15-year loan** will generally have a slightly lower interest rate than a 30-year loan so that you will pay less interest over the life of the loan. However, your monthly payments will be higher as you pay the mortgage in half the time.

30

A **30-year loan** generally comes with a slightly higher interest rate than a 15-year loan, but your monthly payments will be lower since you have longer to pay off the loan.

If none of these terms or types of rates fit your needs, other options exist, such as 25-year loans, 10-year loans, and even balloon loans. Reach out to your lender to learn about your options.

Mortgages

Arkansas Federal Mortgage offers many loan products to fit your situation and budget. We pride ourselves on our commitment to understanding your unique situation, answering every question, and helping you find the perfect loan. Explore some of the products we offer, and if you have any questions, we'll be happy to explain in more detail.

Conventional Loans

Conventional loans have a moderate interest rate and are the most common type. Lenders typically require a credit score of **620 or higher and a down payment of at least 3%.**

LEARN MORE

VA Loans

VA loans offer **$0 down payment options** for U.S. veterans, active-duty military members, and members of the National Guard. The federal government backs them and have **lower credit score requirements and interest rates.**

LEARN MORE

USDA Loans

USDA loans are a no-money-down option for low-income borrowers looking to buy in rural areas and typically come with **lower interest rates.**

LEARN MORE

FHA Loans

The federal government backs FHA loans and has **lower credit scores and down payment requirements.** A first-time homebuyer with a credit score 580 can put down as little as 3.5%.

LEARN MORE

Jumbo Loans

A jumbo loan is just about like it sounds. If you need a **higher loan amount of $726,200 or more,** a Jumbo Loan may be what you need.

LEARN MORE

Manufactured Home Loans

Yep, we also have loans for manufactured homes. We've got you covered from new and used factory-built homes and even refinances.

LEARN MORE

Construction Loans

We have loan options if you're looking to build, too—from groundbreaking to move-in.

LEARN MORE

Physician Loans

If you're a physician, then this loan is designed just for you with fewer restrictions and requirements than a traditional mortgage.

LEARN MORE

Land/Lot Loans

Not ready to build just yet, but found the land? No problem. We have land loans, too, so you can buy your property today and build the home of your dreams when you're ready.

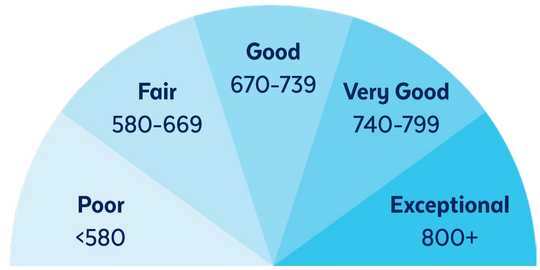
LEARN MORE

Getting Mortgage Ready

Know Your Credit Score

Credit matters! Not only does it help determine if you qualify for a loan, but also determines your rate. One of our mortgage loan originators can help you check your credit to see where you stand, or if you're a member of Arkansas Federal, you can check it yourself for free using Credit IQ found within Digital Banking.

Credit Score Ranges



Source: FICO

Learn About Down Payments

A down payment is the money you pay upfront when financing a property. It is separate from your closing costs, which are paid at the end of the transaction, but more on that in the next section.

While a 20% down payment has historically been the gold standard, certain loans require as little as 3% or even 0% down. Depending on your situation, putting less money toward the down payment may make sense. Ultimately, the amount of down payment will depend on the loan type you choose and your financial goals. Here are some potential benefits of a higher and lower down payment:

HIGHER
DOWN PAYMENT

Lower monthly payments

Lower interest rates, meaning less paid over the life of the loan

May be able to bypass PMI

LOWER
DOWN PAYMENT

Quicker entry into the market

More money left to pay off other debt

More money on hand for savings or emergency repairs

Did you know?

Down payment funds can come from savings, family gifts, or retirement account withdrawals.

Get Pre-Qualified & Pre-Approved

Once you've created a budget and started saving, you'll want to get pre-qualified and then pre-approved.

These two terms can be confusing because they're often used interchangeably, even though they mean very different things.

Pre-Qualification

Though it may sound stressful, pre-qualification is quick and easy and, in most cases, can be done in less than a day. During pre-qualification, you'll provide your lender with some basic information, such as your income, monthly expenses, and credit score. They'll use this information to offer a general idea of how much you could borrow.

Pre-qualification isn't a guarantee of the loan, though. It simply gives you a rough estimate of the loan amount you'll likely qualify for based on the verbal information you provide at the time. While pre-qualification is not required, it can help you narrow your home search at the beginning of the process.

Pre-Approval

Before actively searching for a home, you'll want to get pre-approved. Pre-approval is a much more formal step than pre-qualification and requires the lender to dive deeper into your finances. This is also the time that your lender will provide an estimate of the interest rate you'll be charged.

Lenders will typically require in-depth financial records, including:

- Pay stubs
- Bank statements
- Proof of employment
- Tax returns
- W-2s

In addition, lenders will run a hard credit check and verify that you have enough money for a down payment.

While it may sound overwhelming, it's worth the effort. Home sellers want pre-approved buyers because it shows they're serious about buying. In a competitive market, this can make all the difference.

NOTE: It's important to remember that getting pre-qualified and pre-approved doesn't guarantee you'll be approved for a home loan. If your income changes, your debt level rises, or your credit score takes a hit, there's a chance your loan could be denied. That's why it's essential to make financial wellness a top priority during the homebuying process.

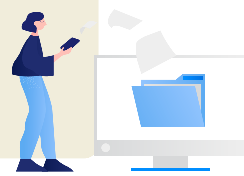
You've worked hard towards homeownership. Follow these tips to ensure a smooth loan transaction.

Don't

- Take on new debt
- Close any credit accounts
- Co-sign on a lease
- Change jobs
- Run repeat credit inquiries
- Discard any financial statements or document
- Incur any overdraft charges on any accounts
- Make any unusual withdrawals or deposits

Do

- Pay bills on time
- Save all pay stubs throughout the loan process
- Save bank statements during the process
- Submit documents quickly
- Communicate with your mortgage loan originator
- Notify your loan originator of any changes



Set a Budget

Before falling in love with homes on the market, you need to determine how much house you can afford, and this starts with your budget.

To get a rough estimate:

- Determine what your household income is.
- Add up all your current monthly payments (credit cards, car payments, student loans, groceries, etc.) and subtract the total from your income.
- Determine how much you want to save each month for other needs and subtract that, too.
- Whatever you have left over is a ballpark figure of what you can afford to pay monthly for your mortgage payment—including taxes and insurance.

You may also want to consider the 28% rule. This common-sense adage states that home-related costs should never exceed 28% of your gross (pre-tax) income.

Key Terms to Know

Appraisal
This is an analysis of the subject property from a market valuation perspective. An appraiser analyzes and inspects the property and compares it to at least three other properties similar in size, style of construction, and proximity to the property sold within the past year, roughly in the same price range.

Closing Costs
A variety of fees that come at the end of the closing of a home loan. Some of these are related to the loan, like the origination fee, but most are third-party fees tied to the home purchases, such as the appraisal, title insurance, property taxes, recording fees, etc.

Debt-to-Income Ratio
The ratio expressed as a percentage that results when a borrower's monthly payment obligation on long-term debts is divided by their gross monthly income (total monthly costs ÷ gross monthly income = debt-to-income ratio).

Escrow
The term escrow is used in two ways. During the process of buying/selling, a third-party account holds all the money and documents that make you a property transfer until the sale is complete. This protects both the buyer and the seller during this time. However, once the sale is complete, the term escrow refers to the funds you must pay your lender and the monthly P&I for real estate taxes and hazard insurance.

Final Closing Disclosure
This document is provided to borrowers at least three business days before closing. It will detail the loan amount, the loan term, the interest rate, the closing costs, and all the transaction principals, including the lender, loan officer, realtors, and title company.

Flood Insurance
Just like it sounds, flood insurance covers loss to your property caused by flooding. Typically, homeowners are not required to purchase flood insurance unless you're in a flood zone area.

Home Inspection
This is an inspection of the property performed by a licensed inspector. Typically, the inspector will check the condition of the HVAC system, foundation, roof, windows, plumbing, siding, etc. If any problems are found, the inspector will outline any necessary repairs or problem areas.

Homeowners' Insurance
You'll be required to purchase homeowners' insurance to protect your property's structure (and its contents) against loss from fire and other hazards.

Interest Rate

Your lender is undertaking a risk by lending you money. In return, you'll pay back the balance you borrow plus an additional amount calculated based on the interest rate.

Loan Commitment Letter

This letter is often (but not always) used to inform borrowers that their loan is fully approved and cleared to close.

Loan Estimate

A form a lender issues to a loan applicant after applying for a mortgage to communicate how much to expect to pay for the loan if both parties agree to move forward. It typically includes estimates of the loan amount, interest rate, monthly payment, closing costs, and other loan charges.

Loan-to-Value (LTV) Ratio

This refers to the amount of money you are financing in relation to the new home's value. For example, if you put $10,000 down on a property worth $100,000 (financing the remaining $90,000), your LTV is 90%.

Mortgage

"Home loan" and "mortgage" are often used interchangeably, but "mortgage" is a legal term for the specific document used by a borrower to pledge their property as security to obtain a loan.

Origination Fee

This fee covers the time and services rendered in preparing the loan. Some lenders use the origination fee as a blanket term that includes an application fee, an appraisal fee, fees for any follow-up work, and other costs associated with the loan.

P&I

This is the monthly principal and interest payment required when repaying a mortgage.

Pest Inspection

Your lender will probably also order a professional pest inspection to make sure it's free from pests, especially termites.

Preapproval Letter

Once you're preapproved for a loan, your lender can prepare a letter informing the realtor, seller, and seller's agent that the lender has run a credit report, has verified income and assets, and is approved subject to an acceptable appraisal.

Principal

The principal is the actual balance of a mortgage loan, excluding the interest. It also refers to the amount of the monthly mortgage payment that's applied to the actual balance.

PMI (Private Mortgage Insurance)

If the LTV ratio is greater than 80%, lenders will usually require a private company's mortgage insurance to protect the lender against losses if a loan defaults. Sometimes referred to as "private mortgage insurance," it's simply a way for the lender to mitigate the extra risk of some loans.

Property Taxes

These are taxes based on the assessed value of the home. The homeowner pays these costs for community services and local government, sometimes as part of the monthly mortgage payment.

Rate Lock
An agreement that locks your rate for a certain period of time, meaning your rate won't go up or down.

Survey
A survey may be required to help you understand where the property boundaries are.

Title Company
A third-party company that manages the closing of your home, ensuring ownership rights and checking for liens on the property.

Title Insurance
Your lender must ensure the property is clear of any liens that could jeopardize the loan. Therefore, lenders require borrowers to get title insurance on the property, which provides research to ensure the home is unencumbered and acts as an insurance policy in case something is missed.

Underwriting
The process a lender uses to take an in-depth look at your credit and financial background to determine if you're eligible for a loan.

Start Saving

Depending on the type of home loan and what programs you qualify for, you may need to save up for a down payment, and the larger the down payment, the less you'll have to borrow. And let's face it—less debt is always a good thing. Plus, a greater down payment means you'll pay less per month because you're borrowing less, reducing your principal and interest payments. Win-win!

If you're finding the money for a down payment hard to come by, you're not alone. So here are a few money-saving tips to accelerate saving for your home purchase:

No Spend Days

Ease into saving by designating specific days of the week or month you spend $0. With practice, you can increase the frequency each month and set that money aside for your savings goals.

Save on Purpose

Do you find yourself trying to save whatever's left over at the end of the month? Instead, mark your savings as an expense in your budget. Pay yourself at the beginning of the month when you pay the rest of your bills.

Pause to Save

Before you spend on things you want but don't really need, keep a running list of potential purchases. Then, hold off on buying them for a certain period to see if they are still important to you when that time is up.

Plan Ahead

Don't let unexpected costs derail your saving goals. Pull out your calendar and look at everything—from upcoming birthdays to child sports uniform fees and more—and make a note of each item in your budget. This will help you plan ahead so you're not caught off guard.

Sell Unused Items

So, that treadmill that is now being used as a clothes hanger in the corner…. get rid of it. Sell it and put the funds you make from it to the side to help with a down payment or closing costs.

Pay yourself at the beginning of the month when you pay the rest of your bills.

Why Arkansas Federal Mortgage?

You have a lot of choices when choosing a lender. Here are a few reasons why you should go with us.

Local Lenders, Local Decisions

We are one of the largest and most trusted lenders in Arkansas—currently ranked as a Top 10 Mortgage Lender by Arkansas Business. Plus, with local lending and servicing from start to finish, we are with you every step of the way—from your first questions to your last payment.

Great Local Relationships

Since we're local, we're connected to local real estate agent, title companies, and settling agents.

Ease of Access

Easily get in touch with the people handling your loan. There's no need to call a contact center. You'll have direct access to your mortgage loan originator and team.

Product Variety

We offer multiple loan products to suit your situation and needs, and we take the time to discuss your options with you.

90-Day Rate Lock

Once approved, you can lock your rate up to 90 days before closing. So there's no need to worry about rising rates.

$0 Application Fee

There's no cost to apply, and it's easy.

Competitive Rates

Arkansas Federal Mortgage offers competitive interest rates so you can get the best loan program for you.

Options

We're a full-service mortgage lender that provides a wide range of mortgage options.

Your Loan Stays With Us

We retain the servicing on all of our conforming loans, so you don't have to worry about your loan being sold to another servicer.

Ready to get started?
It's easy.

Scan QR code with your phone's camera!

Have questions?

Call us at **800.456.3000**

or visit your local branch.

Get Your Docs in a Row

Here's a list of common items requested by lenders. Make sure you have these handy to speed up your loan process. If you have a cosigner, make sure that you gather these documents for both of you.

Pre-Approval

- ☐ **Photo identification**
- ☐ **Tax returns** (last two years)
- ☐ **Pay stubs** (from last 30 days)
- ☐ **Bank statements** (up to six months for all accounts and all pages)
- ☐ **W-2s or 1099s** (last two years)
- ☐ **Sources of income** (any disability, pension, etc.)
- ☐ **Loan obligations** (student loans, auto loans, credit cards, etc.)
- ☐ **If you currently own a home your mortgage statement, insurance declaration page, and most recent tax statement for all owned properties**
- ☐ **Cash assets** (including current totals in your checking/savings accounts and any other investments)
- ☐ **Divorce decree and separation agreement, if applicable**
- ☐ **Explanation for any inquiries on your credit report**
- ☐ **Explanation of any deposits** (other than normal pay) **over $1,000 into any bank account**
- ☐ **Gift letter** (if needed from friends and family)

Closing Table

- ☐ **Photo ID**
- ☐ **Closing costs -** Certified or cashier's check made out to the title company
- ☐ **Down Payment -** Certified or cashier's check made out to the title company
- ☐ **Copy of purchase agreement**
- ☐ **Proof of homeowners insurance on new home**

What Am I Signing at Closing?

The most common documents you'll need to sign are:

- ☐ **Deed** - To officially transfer the property from the seller to you
- ☐ **Mortgage Note** - A legal document where you promise to pay off the loan amount
- ☐ **Title insurance -** To protect the buyer and the lender from potential problems with the home