WHAT YOU
SHOULD KNOW
MORTGAGE FAQS

The answers you need to secure
the mortgage you want

Whether you're looking to buy your first home, eager to find your next or just want to know if you should consider refinancing an existing mortgage, this e-book will supply you with answers while preparing you to take the next step. Let's get started!

HOW DO I CHOOSE THE **RIGHT LENDER?**

Start with your bank. You may just find that your existing accounts qualify you for a mortgage discount, such as a reduction on your closing costs. Just as most insurance companies provide rebates for bundling multiple coverages, many banks will offer mortgage savings to their current clients.

> The bottom line? While banks tend to offer the same interest rates, it's always a good idea to shop around on closing costs.

Not happy with your current bank? Get quotes on closing costs from other banks in your area. Some banks are less interested in remaining competitive within the space, and will charge higher processing fees than others.

Still, searching for a mortgage is about more than finding the best deal. If you feel comfortable working with a particular bank, show them the most competitive mortgage offer you've received and allow them the chance to provide you with a better one. That way, you end up with a great rate from a lender you trust.

If you need a referral, talk with your realtor as well as family and friends who have worked with banks in your area.

For more suggestions on improving your credit score, contact your neighborhood ECB representative today.

YOUR CREDIT SCORE AND **HOW TO IMPROVE IT**

It's no secret – your credit score can impact your loan eligibility, as well as the interest rate you're able to receive. Most banks use your FICO credit scores, which are accessible via myfico.com or with help from your local bank.

If you have concerns that your credit score may prevent you from receiving a loan you want, work to improve it before applying for a mortgage.

Here are just a few of the ways you can do so:

Make sure to pay all of your bills on time

Resolve any delinquent payment or collections issues before submitting your application

Try to reduce your overall debt as much as possible

Avoid taking on any new debt by keeping credit purchases minimal

Review your credit history and report any inaccurate information so that it may be corrected

BUYING **VS** RENTING

Consider renting a home if:

You rent is significantly lower than your would-be mortgage payment

You want to avoid the upkeep associated with owning a home

You anticipate moving someplace else in the near future

You prefer access to amenities that might be difficult to afford on your own, such as a large in-ground swimming pool

You're worried that you may have to invest in home repairs over the course of ownership

Consider buying a home if:

You're interested in the financial benefits that are a part of home ownership, including the ability to borrow money against your home and potential tax deductions

You want more freedom and less restrictions. No more rules governing what pets you can and can't own, what remodeling you can and can't perform, etc.

You're seeking an investment you can leverage to bolster your retirement savings, credit score and more

You not only desire a home that you can pay off indefinitely, you want a payment guaranteed never to increase, something a fixed-rate mortgage can offer that your current landlord cannot

You're looking to take advantage of the lowest interest rates offered in years on the mortgage term of your choosing

BUYING A **HOME**

If buying a home is the right path for you, follow the steps below to make what can seem like an overwhelming process easy.

Prepare yourself

Buying a home is one of the most important financial decision of your life. Some of the first steps you should take are checking your credit, accessing your finances, and setting a budget. These steps will put you in a better position to make the best choice in buying a home.

Action Steps

- Assess your annual free credit report at www.annualcreditreport.com
- Review your current spending habits
- Budget for new expenses including homeowners insurance, property taxes, utility costs, general maintenance.
- Establish a comfortable down payment amount
- Determine a price range for the new home
- Build a network of advisors

Shop around

Do not wait until you find the home you want before considering the financing. Explore all the options you have available so you are confident when you are ready to make a offer on that perfect home.

Action Steps

- Learn about loan options available to you
- Lean about typical loan costs
- Contact multiple banks
- Complete and gather application and paperwork for banks
- Get a prequalification letter
- Select the appropriate loan that fits your situation

Compare loan offers

Once you find the right home for you, it is time to go back to the banks you shopped and request loan estimates. This will allow you to compare the offers available to you.

Action Steps

- Request loan estimates from banks you feel comfortable
- Review and compare the loan estimates
- Negotiate the loan offers if necessary
- Choose the best offer

Prepare to close

You have a contract on the perfect home and a lender who is working hard to finance it. There will be decisions you need to make throughout the process. Watch for requests from your lender. There will be several third-party service providers involved in appraising and inspecting your soon to be new home.

Action Steps

- Maintain communication with your lender
- Schedule a home inspection
- Shop for homeowner's insurance
- Shop for Title Insurance and other closing services
- Review documents before closing
- Close the deal

Visit the Consumer Finance Protection Bureau at www.consumerfinance.gov for "Your Home Loan Toolkit" which will guide you through this process.

SHOULD I GET **PREQUALIFIED?**

Yes. Prequalification on a mortgage helps answer the question, "How much house can I afford?" In addition, getting prequalified for a loan provides you with the peace of a mind that comes from knowing you've found a lender who views you as a qualified applicant.

Even better, sellers see a buyer who has already been qualified as an attractive one. It is important to remember that a prequalification does not guarantee a loan, nor is it a commitment by you to a specific bank.

HOW DO I SELECT THE **RIGHT MORTGAGE TERM?**

Now may be the time to lock in a lower interest rate and longer payment term, as financial experts predict federal interest rates will rise sometime in the next 5-10 years.

Keep it simple. Base your decision around your current financial standing, as well as your projected family situation in the next 5-10 years.

If you're a newly married couple who plans on having children, a 30-year mortgage gives you the security of a longer loan term and a lower payment. You still have the ability to make larger payments to pay down the loan faster.

If you are financially secure and have the ability to make larger payments, a shorter term loan may be right for you.

DO I HAVE TO PUT
20% DOWN?

Fortunately for home buyers, the number of down payment options for a conventional mortgage have grown in recent years. In fact, some banks are currently offering as much as 95% financing. Even the remaining 5% can come in the form of a gift from friends and family members, meaning you don't need to have a large amount saved to buy a home in today's market.

With federal interest rates expected to rise in the not-so-distant future, right now may be the right time to refinance.

WHY **REFINANCE?**

Most refinancing occurs on a "needs basis." Some refinance in order to access the equity in their home and use it to pay for remodeling, wedding costs or unexpected expenses. Others refinance in response to a drop in interest rates.

If you're considering refinancing your mortgage, the most important step requires you to examine whether a lower interest rate is worth the closing costs you will incur. To do this, simply weigh the estimated closing costs against the amount you would gain over the remaining life of the loan as a result of having a new, lower interest rate. Many financial experts suggest following the "1% rule," which suggests that you wait until you are able to gain at least one full percentage point in interest before refinancing.

Other factors to consider:

How far are you into your current loan? If you've already paid off a large portion of your mortgage, it may not be worth the closing costs required to refinance.

WHAT CAN **HOME EQUITY** DO FOR ME?

Equity in your home can be a valuable asset when it comes to meeting future expenses, such as renovation projects or college tuition. Mortgages with shorter terms allow buyers to pay off their loans more quickly, and as a result, build equity quicker. However, more important than building home equity is maintaining a monthly mortgage payment you can afford both now and in the future.

Home Equity Calculator

Just follow these quick steps to determine the amount of equity available in your home.

Your Homes' Appraisal Value	$__________
Multiplied by 90%	
Total	$__________
Subtract current amount owed	$__________
Amount of Equity Available you may be eligible for	$__________

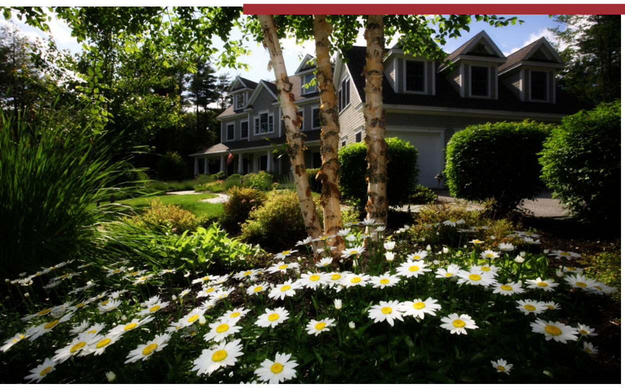
WHAT ARE MORTGAGE POINTS AND **WHY SHOULD I CARE?**

While your interest rate is determined by factors like your credit score and loan-to-value percentage, mortgage or "discount" points allow you to secure a lower interest rate in exchange for a larger upfront payment.

To determine whether or not a greater upfront fee is worth the mortgage interest you'll save in return, have your lender calculate the potential savings over the life of the loan. If that savings is substantial enough to consider investing in the upfront mortgage points.

Of course, if you sell or refinance your home before you "break even" on the cost of the mortgage points, it will not have been a worthy investment.

WHAT IS AN **ESCROW ACCOUNT?**



An escrow account is a feature of mortgage loans that builds the cost of your annual property taxes and homeowners insurance into your monthly mortgage payment. This way, you're not in for an unpleasant surprise when tax season leaves you with a bill for several thousand dollars.

Most banks require the use of an escrow account for any mortgage where the loan-to-value ratio is 80% or above.

WHAT DO I NEED TO **BRING TO THE BANK?**

Most lenders will suggest you bring the following with you to the bank when applying for a mortgage loan:

- Two months of recent bank statements
- Signed purchase contract (if available)
- Two recent year W-2s
- Photo ID
- Two recent year federal tax returns
- One month of recent pay stubs (if applicable)
- Proof of retirement or disability income (if applicable)

IS THERE ANYTHING I SHOULD **WATCH OUT FOR?**

While the existence of certain fees and insurance products will vary by bank, you'll want to keep an eye out for lenders that include or require any of the following in their mortgage contracts:

Prepayment or "early payment" penalties – While they're illegal in select states, including Illinois, prepayment penalties charge home owners a fee for paying off their mortgage loan early.

Upfront costs – Upfront costs like points or RD fees are paid in exchange for something. For example, all USDA RD loans have an upfront free, currently 2.75% of your loan amount, in exchange for 100% government secured financing. Upfront costs can be appealing to certain people, just make sure you understand what you are paying for.

Private mortgage insurance – Private mortgage insurance, or "PMI" as it is commonly referred, is an insurance option that lenders require on higher loan-to-value loans. Typically if a conventional loan is written at more than 80% loan-to-value, the lender will require PMI. PMI can be cancelled when the loan reaches 78% of the original value through amortization. It is important to understand that PMI is not a mortgage life insurance nor a homeowner's insurance. It is strictly a protection to the lender for loaning you more money than 80% of the home's value.

ANY OTHER **ADVICE?**

Research the property tax rates in the areas where you are interested in buying a home, as some municipalities require you pay a much larger amount in annual property taxes than others.

Don't rush into a house or loan you are not comfortable with. A mortgage is a long-term commitment that can be rewarding if it is done right.

Be a savvy borrower. Review all paperwork and costs associated with a new loan.

After you have submitted an application don't get spend happy and incur additional debts that could affect your eligibility at closing.

Lastly, secure home and mortgage insurance quotes ahead of time so that you're not caught off guard.

WE ARE HERE **TO HELP**

Edgar County Bank & and Prospect Bank has played a key role in the growth and development of Central Illinois since 1873. At Edgar County Bank & Prospect Bank, we take great pride in providing our friends and neighbors with personal, one-on-one service throughout the mortgage loan process.

Our Difference

With us, shopping for a mortgage is never stressful. We understand you have questions and concerns, and we're here to help, even if you're months away from buying a home.

Not only will we work to get you pre-qualified for a mortgage loan, we'll sit down with you, ask the right questions, help you identify a budget and advise you on next steps.

Our loans are written locally by people who understand the communities we serve

We provide local loan servicing

We offer convenient payment options, including automatic payment

Our Offerings

Fixed Rate Mortgage – You receive a predictable monthly payment that won't change, so setting your long-term budget is easy.

Adjustable Rate Mortgage – You enjoy lower initial payments that may rise or fall, as adjustable rate loans are subject to market changes. If you're optimistic about the market's future or anticipate a move in the next few years, this mortgage may be right for you.

Rural Development Loan – If the property you're interested in lies within the boundaries of a designated USDA Rural Development area and you meet certain income standards, you can receive a mortgage loan with little-to-no money down.

Construction/Permanent Loan – A short-term construction loan can deliver the financing you need to build the custom home of your dreams. Upon completion of the construction process, we can help you secure a permanent mortgage.

ABOUT **THE AUTHOR**

Since our founding, Edgar County Bank & Prospect Bank have worked to help the communities and people of central Illinois bank smarter. We're committed to service. Our mission, our vision, and the work we do for individuals, families, and businesses stands as proof. To learn more, visit **EdgarCountyBank.com** and **ProspectBank.com**.