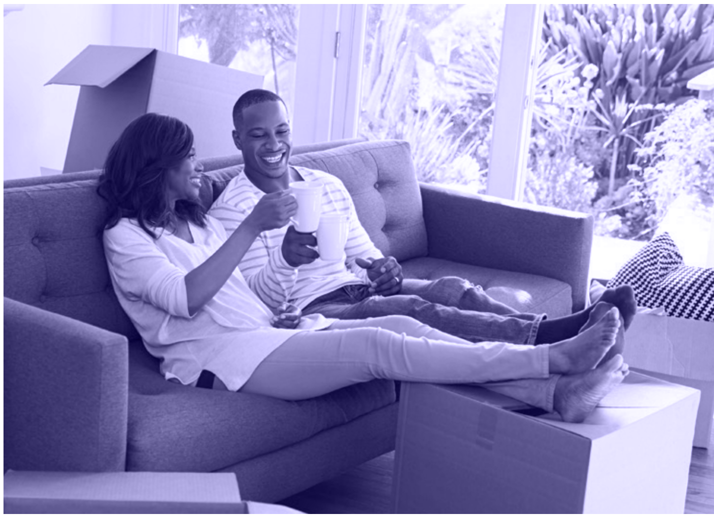
YOUR GUIDE to buying and financing your first home

MidWestOne Bank



YOUR GUIDE
to buying and financing your first home

PURCHASING A HOME IS A BIG STEP that can be stressful and overwhelming.

First there's the matter of finding the perfect home. And after that, there are countless steps that have to be completed: getting finances in order, setting a budget, selecting a mortgage, preparing for the hidden costs and much, much more.

In this booklet, you'll find a collection of our most useful tips from MidWest*One* mortgage bankers. These simple and actionable articles are designed to empower you to make the best possible decisions as you plan your home purchase. With the right information and guidance, you can more readily enjoy the homebuying process.

For questions regarding buying your first home, please contact a MidWest*One* banker for customized advice and guidance.

Happy reading!

MidWest*One* Bank®

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RENT OR BUY

5 questions to ask when deciding whether to rent or buy a home

KEY TAKEAWAYS:

- Your current credit score and debt play a large part in what home you can afford.
- Consider the many expenses that come with buying as opposed to renting.
- When considering whether to rent or buy, you'll need to look at how many years you'll live there.

Owning a home has always been a part of the American Dream and one that many people are willing to work hard for.

First-time homebuyers have much to consider when making the decision to rent or buy a home: interest rates are steadily rising along with housing prices as the economy continues its steady upwards move.

Nonetheless, deciding whether to buy a home or rent an apartment can be a complicated decision. How do you know what's right for you? Potential buyers should ask themselves several key questions before making this important decision.

1 What will monthly costs be, and can I afford the payments?

Keeping your home-related payments under 30 percent of your monthly income is a good rule of thumb. This includes your mortgage payments as well as principal, interest, taxes, insurance and private mortgage insurance, if required. If you can't keep mortgage payments below that, you may be better off renting for a while.

2 What other debt do I have?

Total rent or mortgage payments plus credit obligations (such as car loans, student loans or credit card payments) should not exceed 43 percent of your gross monthly income according to the Consumer Financial Protection Bureau.

3 What is my credit score? Can I qualify for a good interest rate?

A high credit score indicates strong credit worthiness, and that qualifies you for better interest rates on a mortgage. For example, someone with a credit score of 740 and above is going to have less in closing costs. Lower interest rates also mean lower monthly payments. If your credit score is low, you may want to delay buying a home until you can improve your score.

4 How much will taxes, monthly maintenance or other fees cost?

Owning a home means you'll have to pay real estate taxes and other costs like insurance and maintenance. Most lenders will require an escrow account for these expenditures.

Don't forget that the upkeep of a home is often more expensive than an apartment. Whereas a landlord is responsible for snow removal, lawn upkeep and general everyday maintenance, being a home owner means those items are your responsibility.

5 How many years will I stay here?

Generally, the longer you plan to live in one location, the more it makes sense to buy. You'll build equity in your home and its value may increase over the years.

These are just a few of the many important questions to consider before deciding to purchase a home. You can also refer to the Rent vs. Buy Calculator developed by the American Bankers Association. The calculator compares the cost of renting versus the real cost of buying a home.

If you have additional questions about the homebuying process, contact your local MidWest*One* banker for more information.

Prep your finances for purchasing a home

KEY TAKEAWAYS:

- Before buying a home, you should work to reduce any debt and increase your credit score.
- A budget will be essential to deciding how much home you can afford.
- Once you know how much you can spend, you'll have to gather a variety of financial documents including tax returns for the past two years and your recent paystubs.

One of the best ways to reduce the anxiety that often comes with buying your first home is to be organized and prepared.

Follow these five simple steps and you'll be fully prepared to start the homebuying process.

1 Request and review your credit report.

Your credit history will not only dictate whether you will receive a loan – it will also determine the interest rate for the loan. As a result, it's important to review your credit before you begin the homebuying process, so you are able to address any potential issues as quickly as possible.

The Fair and Accurate Credit Transaction (FACT) Act allows you to get one free copy of your credit report every 12 months from each of the three nationwide credit reporting agencies –Equifax, Experian and Trans Union. To get your free annual credit report, go through the FTC's website at www.annualcreditreport.com, call (877) 322-8228 or write: Annual Credit Report Request Service, PO Box 105281, Atlanta, GA, 30348-5281.

Once you have your report, review the information and ensure it is accurate. If there are any issues, take the steps to fix them immediately.

2 Reduce your debt.

When you apply for a mortgage, one of the things the lender will look at is the amount of debt you are carrying and how that compares to your gross work income. This is referred to as your debt ratio. In other words, the lender will want to make sure your debt does not exceed a certain percent of your income. (This percentage is typically around 38 percent.)

As you prepare to purchase a home, focus on reducing your debt as much as possible. Continue to make loan payments on time, pay down large balances on your credit cards and avoid taking on any additional debts.

3 Review your budget.

Your lender will want to have a clear picture of your monthly income and expenses to help them determine exactly how much money they will be able to loan you. More importantly – a budget will help you determine how much you can afford on a monthly mortgage cost.

Review your budget and get a concise picture of how much money you have coming in and going out. If you haven't created a budget, now's the time. Here's how you set one up:

- Determine your fixed expenses.
- Compare your income to your expenses.
- Determine your variable expenses.
- Determine your income.
- Adjust as needed.
- Evaluate your budget.

4 Get your down payment together.

The more money you are able to put down when you buy a home, the better your interest rate and the lower your overall monthly payment will be. Using your budget, determine how much money you will be able to use as a down payment for your new home.

Many experts recommend a down payment of 20 percent of the purchase price. However, not everyone has that much cash available. Don't worry; your lender may be able to identify other options for you.

Nevertheless, the fact remains that the more you put down, the lower the mortgage. Low mortgage balances carry low mortgage payments.

As you're going through this process remember that you don't want to utilize all your savings towards a down payment. In addition to money for every day expenses, make sure you have at least two months' worth of living expenses remaining to cover emergencies that may arise.

5 Gather financial documents.

Start pulling together the documents your lender will want to review during the loan pre-approval process. These include:

- Two years of Federal tax returns and W-2s.
- Two months' worth of bank and 401(k) statements and other assets.
- Most recent month's worth of pay stubs.

With these five steps completed, you'll be ready to schedule an appointment with your local MidWest*One* banker to get the credit approval process started.

Budgeting for your first home

KEY TAKEAWAYS:

- When purchasing a home, it's important to evaluate your future plans and costs.
- Account for property taxes and insurance when deciding what you can afford.
- Estimate your monthly budget to help determine your price range for buying a home.

Once you've made the decision to purchase a home, the next big step is figuring out exactly how much you can afford.

This is extremely important, because the dream of home ownership can quickly turn into a nightmare if you buy a home you cannot truly afford.

Establishing a budget for your mortgage helps protect your financial interests down the road. Take the time to consider the following steps:

Evaluate your financial situation.

Take stock of your finances and determine how much money you'd like to provide as a down payment on your home. Make sure you are not completely depleting your savings. In addition to money for everyday expenses, it is recommended you have at least two months' worth of living expenses remaining to cover emergencies that may arise.

Consider the future.

Taking your current financial situation into consideration is important – but there's more to it. Your future goals and potential life changes also play a large role in budgeting for a mortgage. Do you plan to start a family soon? Do you plan to continue your education with a master's degree? Do you plan on replacing a car in the years to come? Do you anticipate any changes in your employment situation?

Also, consider potential future maintenance costs when evaluating a home. Will you need to fix the roof in a few years? Will you need to replace the windows, the heating and air conditioning system, or kitchen appliances? Those are some major cost factors in owning a home, and if you need to do any of the major projects within a few years of buying your home, this could impact your monthly budget.

Give yourself a safe buffer by choosing to take out a mortgage that will accommodate potential changes in your future.

Review your monthly budget.

Calculate your gross monthly income, which is your income before taxes and deductions. For example, if your salary is $40,000, your gross monthly income is roughly $3,333, or your salary divided by 12. Bankers will use this amount as part of qualifying you for a mortgage.

Next, figure out what your income is after taxes and deductions. Then, add your debt commitments, including loans and credit card debt, and subtract it from your net income. Also, subtract your down payment and the amount of money you will retain in your savings for living expenses and an emergency fund. Divide this number by 12 to determine the amount that is available for your mortgage payment.

Factor in additional costs.

Once you actually begin looking at properties, keep in mind that your monthly mortgage payment consists of more than just the principal and interest charges. In addition, you must factor the following into your monthly mortgage payments:

- Real estate taxes - If you have your eye on a certain home, divide the home's annual property tax amount by 12 to estimate the amount you need to pay or set aside each month. For example, if the property taxes are $4,200 per year, the monthly amount is $350.
- Homeowners insurance – Talk to your real estate agent or call an insurance agent to receive an estimate on this cost.
- Private mortgage insurance, often referred to as PMI. PMI kicks in when you put down less than 20 percent of the home's value towards your home purchase and is designed to protect the lender.

It's important to keep all these factors in mind when you are determining your monthly mortgage budget. To help you with these calculations, take a look at the mortgage payment calculator on the MidWest*One* website.

Compare your estimated monthly cost with your income. Once you have determined a monthly cost for home ownership, divide that amount by your monthly gross income. This will result in the percentage of your income. Many lenders will require that percentage to be no more than 28 percent.

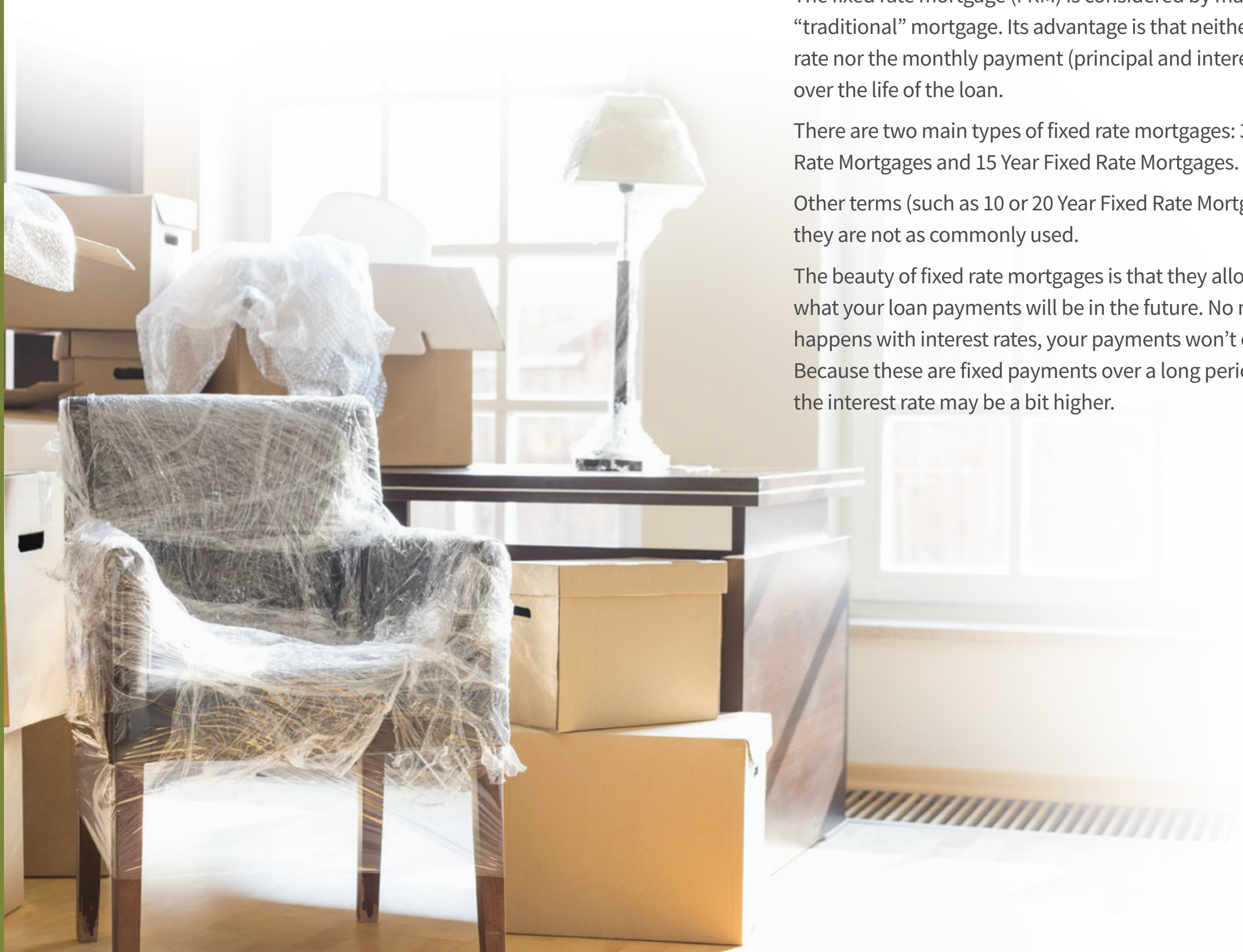
These tips will help you as your set your budget for your first home and take the next steps towards purchasing your home.

Mortgage 101

KEY TAKEAWAYS:

- Understanding key facts about mortgages will help you determine the best way for you to finance the purchase of your home.
- There are two common types of mortgages – fixed rates and adjustable rates.
- When deciding your mortgage, look closely at the interest rate.

Picking a mortgage may be the most important financial decision you will make.



Mortgage lenders offer a variety of loans under different names with different interest rates, up-front costs and fine print terms. Take your time to learn about all your options to ensure you receive a mortgage that best fits your needs at a competitive price.

What is a mortgage?

Likely the largest debt you'll ever take on, a mortgage is a loan to finance the purchase of your home.

Your mortgage consists of a "life" of the mortgage and a "term" for the interest rate that you choose. The life of the home mortgage is commonly 15, 20 or 30 years. This represents the length of time in which your home will be paid off (if you pay regularly and with the specified amount).

You will also have a term for the interest rate that you pay on your home mortgage. In effect, this is the time period over which you've agreed to pay at a particular rate of home mortgage interest (either locked in or floating).

There are many different types of mortgages available on the market, including, fixed rate, adjustable rate, combination, graduated payment and others.

Fixed rate mortgages

The fixed rate mortgage (FRM) is considered by many as the "traditional" mortgage. Its advantage is that neither the interest rate nor the monthly payment (principal and interest) changes over the life of the loan.

There are two main types of fixed rate mortgages: 30 Year Fixed Rate Mortgages and 15 Year Fixed Rate Mortgages.

Other terms (such as 10 or 20 Year Fixed Rate Mortgages) exist but they are not as commonly used.

The beauty of fixed rate mortgages is that they allow you to predict what your loan payments will be in the future. No matter what happens with interest rates, your payments won't change. Because these are fixed payments over a long period of time, the interest rate may be a bit higher.

WHAT IS A MORTGAGE?

Adjustable rate mortgage

If you plan to move or refinance in three to five years, an adjustable rate mortgage (ARM) might be the better choice for you. With an ARM, the interest rate can – and probably will – change periodically during the life of the loan, depending on interest rates in financial markets. It's a trade-off. You get a lower rate with an ARM in exchange for assuming more risk.

You should review how long you intend on living in this particular property and weigh the advantage of the lower payment at the beginning of the loan against the risk that an increase in interest rates would lead to higher monthly payments in the future, assuming you still own the property.

With most ARMs, the interest rate and monthly payment are fixed for an initial time period such as one year, three years, five years, seven years or 10 years. After the initial fixed period, the interest rate can change every year. One of the most popular mortgages is 5/1 ARM. The interest rate will remain fixed, at the initial rate for the first five years, but has the ability to change every year after the first five years.

Most ARM interest rate changes are tied to changes in an index rate. This provides you with assurance that rate adjustments will be based on actual market conditions at the time of the adjustment. If the index rate rises, your mortgage interest rate may as well, and you will probably have to make a higher monthly payment. On the other hand, if the index rate goes down your monthly payment may decrease.

One feature of ARM that can help protect the borrower is interest rate caps.

An interest-rate cap places a limit on the amount your interest rate can increase or decrease, at any adjustment period. As you can imagine, interest rate caps are very important since no one can predict what will happen in the future.

While there are numerous mortgage products available these are some of the most common ones. Don't hesitate to work closely with your local MidWest*One* banker to learn about all your options.

Hidden costs of buying a home

KEY TAKEAWAYS:

- Closing costs are a commonly overlooked item that you should budget for when buying a home.
- Expect maintenance costs for both new and old homes including appliances, utilities and more.
- Don't forget to set aside some money for furnishing your new home.

As if the homebuying process isn't overwhelming enough, there are many hidden costs of purchasing a home that you should account for in your overall mortgage budget.

We've pulled together a quick overview to help you ensure you don't overlook any hidden costs.

Closing costs

Closing costs are the various fees charged by those involved with the home sale. As a rule of thumb, closing costs run about 2 to 4 percent of the purchase price. They typically include:

Appraisal – Your lender will typically expect you to pay for an appraisal to ensure the purchase price of the property is equal to or less than the value of other homes in the marketplace of the same size and type.

Credit report – You'll be expected to pay for the costs associated with pulling your credit report (and potentially your partner's report) so the lender can identify the liabilities that you have and pay on a monthly basis, which in turn will aid in determining the interest rate for your loan.

Title fees and searches – In order to determine the legal ownership of a property and the liens or judgments that may be attached to the property, a title search is performed by a third party. An attorney identifies any items that must be resolved in order to convey a clear and clean title to you. The lender will then have the title guaranteed by the state you'll reside in to insure against errors and omissions. As the buyer, you may be responsible for both of these costs.

Attorney fees – In most states, attorneys are required to be part of the homebuying process.

Recording fees – These are the costs for recording the deed to the property with the county, showing you as the new owner and the mortgage, showing that there is a lien against the property for the mortgage loan.

Inspections

A home inspection is a complete and detailed inspection that examines and evaluates the mechanical and structural condition of a property. As a buyer, you'll want to make sure you complete an inspection before you move into escrow. You should estimate roughly $400-$500 for a thorough home inspection.

Adjustment costs

Depending on when your purchase actually closes, the seller may owe you for taxes that you will be paying in the future on this home. In some states, the property taxes are paid in arrears. When the seller sells their home to you, they need to pay their proportionate share of the upcoming tax bill, which reflects the taxes that were incurred while they were living in the property.

Private mortgage insurance (PMI)

If your down payment is less than 20 percent, you will likely have to pay PMI. This added cost is usually rolled into your monthly mortgage payment and may remain even after 20 percent equity is reached unless you choose to refinance.

Insurance

Don't forget about your homeowners insurance. Also, depending on the location of your new home, you may also be required to purchase flood insurance and other weather-related insurances.

Maintenance costs

Many people don't think about short-term maintenance costs when buying a home, but they should. Whether buying an older home or a newly constructed home, major home systems like furnaces or water heaters can break down. By adding this into your monthly budget upfront, you will be able to address these costs when they occur.

New furnishings and other related expenses

This is a hidden cost that many people overlook – especially when it's your first time buying a home. Will you need to purchase new furniture, appliances, window coverings or other items for the home? Make sure you account for these in your budgeting process.