

# FINANCIAL MATTERS



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# FINANCIAL MATTERS

## 3 tips that first-time home buyers should know

REAL estate has garnered considerable attention since 2020, and for good reason. Though speculators and real estate professionals may point to a number of variables that have affected the market for homes in recent years, the pandemic certainly was among those factors. Real estate prices and mortgage interest rates increased significantly during the pandemic and have remained well above pre-pandemic levels ever since.

The spike in home prices and interest rates

has had a significant impact on young home buyers, some of whom feel as though their dream of home ownership may never be realized. And data from the National Association of Realtors indicates the median age of home buyers is now significantly higher than it was two decades ago. In 2023, the median age of buyers was 49, which marked an increase of 10 years compared to the average buyer age 20 years ago.

First-time home buyers may face a more challenging real estate market than they would

have encountered just a half decade ago. The following three tips can help such buyers successfully navigate the market as they look to purchase their first home.

1. Expect to move quickly. Inventory remains very low, which means buyers are in heated competition for the few homes that are on the market. In late 2023, NAR data indicated the rate of home sales were the lowest they had been in 13 years, so buyers will likely need to move quickly and make an offer if they see a home they like, as chances are the

property won't be on the market too long before it's sold. In fact, the NAR noted that homes spent an average of just 23 days on the market in October 2023.

2. Apply for mortgage preapproval. The competitive nature of the market for buyers means it's in their best interests to arrange financing prior to beginning their home search. A mortgage preapproval can be a competitive advantage, as it indicates to sellers that buyers won't be denied a mortgage or lack financing after making an offer. The financial

experts at NerdWallet note that buyers will be asked to provide details about their employment, income, debt, and financial accounts when applying for mortgage preapproval. Gather this information and clear up any issues, such as credit disputes or delinquent accounts, prior to applying for preapproval.

3. Set a realistic budget and expect to offer over asking price. A financial planner and/or real estate professional can help first-time buyers determine how much they should be spending on a home. In the current

market, buyers should know that they will likely need to pay more than asking price for a home. For example, the NAR reports that 28 percent of homes sold for above list price in October 2023. With that in mind, first-time buyers may do well to look for homes that are under budget in anticipation of offering more than list price after seeing a property.

The real estate market remains competitive for buyers. First-time buyers can utilize three strategies to increase their chances of realizing their dream of home ownership.



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## What buyers can do to get the best mortgage rate

**M**ORTGAGE interest rates have been headlining financial news segments for several years running. Much of that news has been met with less than open arms, as rates have risen dramatically in recent years, an increase that is related to the ripple effect of the COVID-19 pandemic.

Mortgage interest rates did not immediately spike after the World Health Organization declared a global pandemic in March 2020. In fact, data from the lender Freddie Mac indicates mortgage rates were still well below 4 percent on January 1, 2022. However, those rates hovered around 7 percent by the end of that year, and were still around that level at the start of 2024.

With such high interest rates, it's understandable if prospective home buyers feel helpless. However, there's much buyers can do to help themselves as they seek to secure the lowest mortgage interest

rate possible.

- Read your credit report and improve your score, if necessary. Many prospective home buyers save up for years in anticipation of the day when they will purchase their own home. During this period, buyers can read their credit reports and address any discrepancies while taking steps to improve their credit scores. Lenders consider a host of variables to determine an applicant's credit worthiness, and credit history and credit scores bear significant influence. The higher an applicant's credit score, the more favorable mortgage rate he or she is likely to get.

- Take control of your debt-to-income ratio. Debt-to-income (DTI) ratio refers to what you owe in relation to how much you earn. The lower your DTI, the better you look to lenders. According to Bankrate, lenders typically want to avoid issuing mortgages to individuals if the monthly payment will exceed 28 percent of their

gross monthly income, and people who may be near that threshold for a given home may be denied a mortgage if their DTI is high. Prospective home buyers currently carrying significant debt, including consumer debt like credit cards and/or student loan debts, should make a concerted effort to pay down that debt prior to applying for a mortgage. Prioritize paying off consumer debt before applying for a mortgage.

- Maintain a strong employment record. Steady employment and consistent earnings make mortgage applicants more attractive in the eyes of lenders. If you are currently shopping for a home or about to make an offer, now might not be the best time to switch jobs. Self-employed individuals and freelancers working multiple jobs can still qualify for a good mortgage rate, but they may need to provide more extensive documentation that indicates their earnings going back several years.

Individuals who have been working full-time for the same company for years may only need to provide W-2 forms from the two most recent tax years.

- Shop around for rates.

Rates may not fluctuate much between lenders, but it's still worth shopping around for mortgage rates. A study from Freddie Mac found that the benefits of shopping around

for a mortgage rate were especially notable in 2022 compared to the decade prior, saving borrowers who took the time to shop for rates substantial sums of money.



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## What to know about mortgage preapproval

**S**HOPPING for and ultimately purchasing a home can feel like a day at an amusement park. Much like a ride on a roller coaster, buying a home can be both exciting and a little scary, and those peaks and valleys have been even more profound in recent years, when the real estate market has been as tough as ever to navigate due to low inventory and high prices.

Though the real estate market has changed significantly in recent years, some conventional home buying wisdom still holds true. The importance of

mortgage preapproval is one such notion, and it's even likely that being preapproved for a mortgage before making an offer on a home is more significant now than it was as recently as half a decade ago.

### What is mortgage preapproval?

Mortgage preapproval essentially confirms to sellers and sellers' agents that a given buyer has qualified for a mortgage they can use to purchase a property. In a competitive real estate market like the current one, mortgage preapproval can set buyers apart from the competition, increasing

the likelihood that their offers will be accepted over ones submitted by buyers who have not been preapproved.

### What is prequalification?

Some buyers may hear the term "prequalification" and assume it's the same thing as preapproval. However, the lending experts at LendingTree report there is a notable distinction between the two terms. Prequalification is less formal and based on a casual conversation with a lender that may or may not involve details about a buyer's credit history, income, monthly

expenditures, and other pertinent financial information. Preapproval is a formal examination of a buyer's finances and financial history that is conducted after documentation such as W-2s and bank statements are provided. A lender also will conduct a credit inquiry through three major credit bureaus during the preapproval process.

### How do I get mortgage preapproval?

Mortgage preapproval is a simple process and it's a service offered by most mortgage lenders. A simple phone call or email to a lender can get the process started, and it does not take long for a lender to decide if an

applicant qualifies for preapproval. However, insufficient documentation or misleading information can slow down the preapproval process (and potentially cause a lender to deny an application), so prospective home buyers are encouraged to provide ample and honest documentation of their finances.

### Does mortgage preapproval expire?

It can take buyers a long time to buy a home in a competitive market with low inventory. So it's important that prospective buyers recognize mortgage preapproval has a shelf life of around 60 to 90 days. The preapproval

letter a lender provides will indicate an expiration date for the preapproval. If that date comes and goes without buyers purchasing a home, they will have to reapply for preapproval.

### Must I borrow from the lender who preapproved me?

Buyers also should know that a mortgage preapproval does not bind them to the lender who preapproved them. Buyers can still shop around for a mortgage once they make an offer on a home.

Mortgage preapproval is a vital part of the home buying process and can be especially useful in a competitive real estate market.

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## A guide for how to become a landlord

**P**EOPLE may pursue being a landlord as a means to ensure a steady source of income. Though that is a reality for most landlords, there are other benefits to owning rental properties, including potential tax deductions and long-term security.

Investing in residential rental property can be a lucrative way to increase wealth, but it's also a lot of work. It's important that prospective landlords do not overlook the risk involved in such a pursuit, as tenants are not always reliable. As with any investment, it's best for people to do their home-

work and weigh all of the information accordingly before moving forward.

### What is a landlord?

Before becoming a landlord, it's best to get a broad picture of the role. A landlord is a private individual or company who owns a property. In turn, that landlord rents out the property to people at a profit. It is believed the concept of "land lording" began in the early 1800s due to overcrowding in the United States. Landlords bought property to let out to people in need of shelter, and realized they could make money by renting homes and apartments to others.

### How much do landlords make?

Unlike a full-time job with a set salary, it is not possible to nail down one figure for income on a rental. That's because many variables go into the equation. Real estate professionals notes that rental property income varies based on the property's location, whether the landlord chooses to live on the property, and whether a person is a full-time or part-time landlord, to name a few factors. One thing that landlords have going for them right now is property appreciation. According to Forbes, housing prices

have increased 4.5 percent per year since 1975.

### Costs of being a landlord

Potential landlords should understand that buying rental property requires an initial, and potentially sizable, financial investment. It's important to know some of the potential costs involved.

- Cost to buy a property
- Landlord insurance
- Advertising the property
- Attorney fees
- Tenant background check fees
- Maintenance and repair needs
- Loss of income if ten-

ants fail to pay

- Loss of income between tenants
- Cost involved in hiring a property manager

### Learn the rental laws

Landlords should know federal laws and local rules and regulations that pertain to rental properties. Most laws involve making "reasonable accommodations in rules, policies and practices or services if it is necessary should a tenant become disabled." There are building codes specific to rentals, and it's wise to know what is involved in squatters' rights. A skilled real estate attorney can

help landlords navigate legal issues.

### Keep accurate records

Record keeping is vital for any good landlord. If a person believes that this is beyond the scope of his or her skill set, hiring a bookkeeper or accountant can be a wise investment. In addition, keep track of tenant background checks and credit checks. Receipts and records are essential.

Becoming a landlord has its pros and cons. However, it can be a worthy endeavor for those with the time, money and work ethic.



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## The basics of financial literacy

A financial safety net can help people navigate the ups and downs of life. Developing that safety net requires a measure of financial literacy that anyone can nurture.

### What is financial literacy?

The United States Department of Education defines financial literacy as an understanding of how to earn, manage and invest

money. That recognition can increase the chances that individuals make sound financial decisions, thus setting them up for long-term success and stability.

### What makes financial literacy so important?

The benefits of financial literacy are not limited to theoretical notions such as the ability to understand money makes individuals more likely to make

sound decisions regarding their finances. Indeed, the Financial Industry Regulatory Authority (FINRA) notes that financial literacy has been proven to produce positive results. In its National Financial Capability Study released in 2022, the FINRA found that respondents who exhibited higher financial literacy were more likely to make ends meet than those without such knowl-

edge. Sixty-five percent of respondents with higher financial literacy were able to set aside three months' of emergency funds at higher levels than respondents with lower literacy levels. The study also linked financial literacy to long-term stability, as more than half of respondents (52 percent) with higher financial literacy calculated their retirement savings needs, an important step that fewer than one in three (29 percent) with lower literacy levels had taken.

### What are some additional benefits of financial literacy?

Individuals are often

confronted with a host of options when making financial decisions. That includes choices regarding bank accounts and credit cards, which are two variables related to financial literacy that individuals encounter every day. Individuals with financial literacy can pick a bank account that most suits their needs, whether that's standard accounts like checking and savings or something more unique like a high-yield savings account. Knowledge of financial basics also can prepare individuals to choose the right credit card, which can be a more difficult decision than

choosing a bank account given the number of different cards available. Low-APR, no-APR, travel rewards, cash-back cards, and balance transfer cards are some of the options consumers can choose from when picking a credit card. Financial literacy increases the chances consumers pick the card that best suits their short- and long-term needs.

Financial literacy can help people navigate challenges that periodically arise during the course of everyone's life. Taking time to learn some financial basics can set people up for long-term economic health.

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## Different types of insurance products

**F**INANCIAL security is vitally important for adults and their families. Recognition of that reality is evident in the efforts individuals make to secure their financial futures, which include investing in education, retirement planning and saving.

Insurance is another way individuals protect their financial security and the safety of their families. Insurance products run the gamut from auto insurance policies to annuities. It can benefit anyone to refresh their memories about the significance of various insurance products that can

help them protect their financial freedom and manage unforeseen life events that much more easily.

### Annuities

The Office of the Insurance Commissioner of Washington State notes that annuities are a type of contract between a consumer and an insurance company. When individuals purchase an annuity, they may pay a large, single premium or make a number of payments over a designated period of time. In exchange for those payments, annuity holders guarantee a future income. Money in an annuity grows on a tax-deferred basis. When an

annuity reaches maturity, money can be withdrawn in a lump sum or withdrawals can be arranged on a fixed payment system, which is why annuities are often characterized as means to ensuring income later in life. Insurance companies typically offer various types of annuities, so individuals can speak with an agent to determine which vehicle is best for them.

### Life insurance

It's easy for young adults to overlook the importance of life insurance. After all, few individuals in their twenties or thirties think about providing for their families upon their

passing. But life insurance is vital to securing the long-term financial security of your family, even for those individuals who have yet to start a family of their own. In addition, monthly premiums on life insurance policies tend to be lower the earlier a policy is opened, which provides another benefit to looking into life insurance at a young age.

### Travel insurance

The utility of travel insurance took center stage during the pandemic, when millions of individuals across the globe were forced to cancel or postpone travel plans due to travel restrictions at home

and abroad. Before purchasing travel insurance, it's vital to read policies carefully, as individuals want to be sure the policy they're purchasing will protect them if they are forced to cancel a trip. Policies differ, so some might offer protection against variables like a pandemic, while others may not. The main reason to purchase travel insurance is to secure protection against financial loss if you're forced to cancel, delay or interrupt a trip.

### Natural disaster insurance

Homeowners and even renters are urged to carefully read their existing

homeowners' or renters' insurance policies to confirm what level of coverage, if any, their policy provides against natural disasters. Some policies specifically note certain coverage is not provided. For example, residents in coastal areas may have policies indicating flood protection is not part of their coverage. However, many companies will offer separate coverage against natural disasters. Such supplemental coverage is worth investigating as the effects of climate change become more and more apparent in the coming years.

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## Tips to educate young adults to be smart about credit

**C**REDIT is a necessary component of doing business in the modern world. The credit reporting agency Experian defines credit as the ability to borrow money or access goods or services with the understanding that a person will pay later. Various creditors grant credit based on their confidence that a borrower will repay what is owed.

Many adults learn about credit through trial and error. Financial literacy is not taught in many schools, although lots of people feel it merits space alongside literature, math, science, and other subjects. A recent NextGen study found only one in six high school students are required to take a personal finance class in the United States. In addition, a survey conducted in 2018 by Chase bank found only one-third of Americans were taught what a credit score is by their parents.

It is essential that guardians share information about credit with young adults to help them be financially solvent and successful later in life. Here are some ways to help young adults learn about credit.

### Start with credit basics

Speak generally about credit and how it is used.

Then explain credit scores, credit bureaus and credit reports. A credit history and credit score is important information for young adults to have early on and check frequently, as having good credit improves the chances they will qualify for loans and earn acceptable terms in the future.

### Help them build credit

Having one or more credit accounts can help a person establish and build credit by making payments on time. Credit card companies often advertise student and secured credit card accounts that come with small or managed credit limits. Making purchases on the cards and paying them in full every month is the best way to improve a credit score or maintain a good one, says the Consumer Financial Protection Bureau. Another way teens can build credit is through their student loans. Making small payments on the principal while in school can help establish a strong credit history.

### Check their credit reports

The Federal Trade Commission recommends checking a child's credit score around the age of 16 or 17. This will help families figure out if there are any anomalies that may indicate identity

theft or inaccurate credit issues.

### Know the formula for good credit

Forbes says there are five categories that add up to good credit:

1. Payment history (35 percent): Always pay bills on time.

2. Amounts owed (30 percent): Borrow a low amount compared to the total lines of credit. This also is known as credit utilization.

3. Length of credit history (15 percent): Keeping accounts open for a long time is a win.

4. New credit (10 percent): Do not apply for too much new credit too often.

5. Credit mix (10 percent): Having a balance of different types of credit, such as car loans, credit cards and other types of debt, is advantageous.

### Share your own experiences

Sometimes the best way to teach about credit is to be honest about what a parent or another adult did wrong with his or her finances, and use that as a "what not to do" scenario.

It is important for young adults to learn about credit so they can make smart choices that will positively affect their future. Although talking finances may be uncomfortable, it is vital for families to have these discussions.