

The Savage Truth on Money: Mortgage rates at 5 percent or lower, but be careful refinancing

by Terry_Savage

In the midst of all the bad news about mortgages and home foreclosures, there is really some very good news for qualified borrowers. If you're purchasing a new home, or if you've decided to refinance, you can now lock in some enticing low rates, thanks to the Federal Reserve's determination to bring mortgage rates down and get the economy growing.

According to Bankrate.com, the national average for a 30-year, fixed-rate mortgage has fallen to 5.06 percent. Choose a 15-year fixed-rate, and you can pay as little as 4.76 percent.

This time around, everyone knows how important it is to do your homework on the mortgage you are being offered. This time around, lenders are being very careful to check on your income, your credit score and the current appraised value of the home.

You'll get the best deals and the lowest rates if you have at least a 20 percent down payment and good credit. But there are loans available with lower amounts down if you know where to search and whom to trust!

Step 1: Figure out what type of mortgage works best for you

I have forever advised sticking with a 30-year fixed-rate mortgage, and paying extra on the principal every month to pay it down more quickly. Yes, the rate will be slightly higher, and you'll get a lower rate on an adjustable mortgage. The adjustable is tempting if you plan to move within a few years. But you might also get caught in a trap of an upward rate adjustment brought on by future inflation even more likely now that the Fed is literally "printing money" to get the economy going.

A 15-year mortgage comes with lower rates and slightly higher monthly payments that will save you a fortune in interest if you plan to stay in your home. But if you want flexibility, you can get the same advantage by making extra principal payments on a 30-year loan.

Step 2: Understand fees, costs

While most people focus on the interest rate, your true cost must include all fees and charges. When comparing deals, you'll need to make sure you're comparing all the costs. Some brokers proclaim there are "no closing costs." But you can be sure they're not working for nothing!

Instead, they've rolled these costs — appraisals, title search and legal fees — into the interest rate you're paying. So a loan with a 5.25 percent fixed rate and no closing costs might not be as attractive as a loan at a lower rate with modest closing costs. A lender should give you a "good-faith" estimate of all costs.

You can pay "points" upfront to lower the interest rate. Each point is equal to 1 percent of the loan amount. So on a \$100,000 loan, one point is equivalent to \$1,000. If you pay "points" to get a discount on your interest rate, that amount may be tax deductible. Given today's volatile mortgage market, it's probably not advisable to pay points to reduce your rate. If you decide to refinance at a lower rate in the future, you'll have "wasted" the money you paid for the points on your old loan.

At www.Interest.com, you can find many calculators to help you make mortgage decisions, including how much mortgage you can "afford" on your income, and the break-even time for buying down your interest rate by paying points.

Step 3. Start your search

The radio advertisements are coming back — promising easy deals, no costs and low rates. But how will you know you're getting a good deal if you don't do some comparison shopping? That's easier than ever today with online tools.

Just remember that every website makes money in some way by getting credit for your business. Some want you to register so mortgage brokers can contact you. Others are a source of "leads" for just one mortgage company. You'll probably have to give some personal information to get a quote. But don't give out your Social Security number until you are ready to make a deal.

On a national basis, your best place to start is at www.Bankrate.com. There you can search by type of loan and by city/state to find out what deals are being offered in your area. Some will be rates quoted by well-known local banks, while others will come from online services such as Quicken Loans.

There is an aggressive new online mortgage service that has received high marks from users. At www.GuaranteedRate.com, you can compare deals and speak directly with a mortgage broker to lock in a rate. They actually offer a \$500 guarantee of having the lowest rate on fixed-rate loans on a given date.

Of course, you'll want to check with your local bank for comparisons. And don't forget that mortgage deals offered by a credit union, if you are a member, tend to be very competitive.

Step 4: Get it in writing!

Each lender should make a firm rate commitment, good for at least 30 days. And they should give you a "good-faith" estimate of all costs and fees. It's a little late to reiterate this advice, but if you're thinking of getting an adjustable rate mortgage, ask for a written example of how high the monthly payment could go, and when, if interest rates escalate in the future! If you have any questions, get the answers in writing. And if you're doing a re-fi, check the wording of your original loan to make sure you are not subject to penalties for prepayment. As always, if you're in doubt, consult an attorney who specializes in real estate law.

Despite all the bad news about foreclosures, the American Dream is not gone. In fact, it is suddenly more affordable than ever — if you qualify. And that's The Savage Truth!

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