

FINANCING YOUR HOME



Five Tips To Make Cheap Mortgages Pay

(NAPSA)—Time to buy a home or refinance your mortgage? With rates at their lowest levels in 36 years, the challenge is not just finding the best rate but finding the best terms, experts agree.

Many lenders are offering nominal rates dropping below six percent. However, the total cost of the loan—the annual percentage rate (APR)—will be higher depending on how much you pay in origination fees and other costs to get the loan. The rough rule of thumb is that costs equal to one percent of the loan amount add 0.25 percent to the stated loan rate. So, if your stated rate is 6.45 percent and your lender charges you a one percent origination fee, your APR would be about 6.7 percent.

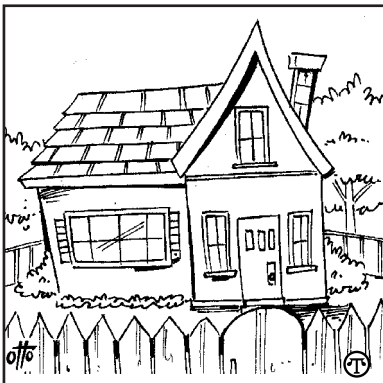
A \$150,000 30-year fixed-rate loan with a nominal rate of 8.5 percent in May 2000 (and an APR closer to 8.8 percent) may now cost you as little as 6.2 percent with the APR at just under 6.5 percent.

This knocks the principal and interest payment down from \$1,253 to \$919, a drop of \$235 a month.

Small wonder refinancing accounted for up to 75 percent of all loan business in 2001. How to get the best deal? Here are some tips according to Charlie Blaine, managing editor of personal finance for MSN Money:

- Do some serious shopping and pay attention to costs and the APR. The best mortgage deal balances the rate against the costs. Your lender may be prepared to offer less of a rate cut in exchange for lower costs. It's one thing to get a 6.1 percent loan—but the lender may charge an origination fee equal to two percent of the loan and related costs, boosting your APR to 6.6 percent. If you're borrowing \$150,000, that's \$3,000 in additional costs, payable now. At 6.4 percent, it might not cost you anything except the filing fees.

- Make sure you know how long the lender will guarantee the rate. Lenders will typically lock in loan rates for 30 days, sometimes



Mortgage rates are going down—is refinancing a money-saving option for you?

60 days. What you want is a “float down” option. That means that if you commit to take a loan at 6.4 percent and rates fall to 6 percent, you can get the lower rate.

- Play hardball if rates fall after you've locked in. Call the lender and make him a deal—even if you've put up money to start the mortgage process. The thousands you save over the life of the loan will easily offset giving up a few hundred dollars.

- Calculate how long it will take to earn back the costs of refinancing. On the \$150,000 loan, let's say your rate is dropping two percentage points or so and saving you \$230 a month—but the costs are two percent of the loan amount. It will take just under 13 months to recover the costs of the new loan from the lower monthly payment. If your loan rate is dropping just a percentage point, it may take closer to three years to recover the costs.

- Don't forget taxes. If you cut your interest costs by \$2,000 a year the interest saved becomes taxable income.

For more information on managing your finances to purchase a home, visit CNBC on MSN Money (<http://www.money.msn.com>) or use the planning tools within Microsoft Money software to help you prioritize and reach your home-buying goals.