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FAMILY FINANCES

GETTING THE BEST HOME LOAN IS WORTH THE TIME AND EFFORT

Here's a step-by-step guide to negotiating a mortgage in today's changing market.

Inflation fears have sent interest rates on home loans soaping and borrowers with adjustable-rate mortgages scurrying to refinance.

The challenge is finding an affordable loan. Just as rates have risen, home prices have declined and credit standards have been tightened, making it difficult for anyone but borrowers with pristine credit histories to get a reasonable rate, experts say.

How should individuals seeking to buy a home — or refinance one — negotiate today's mortgage market?

Here's a step-by-step guide.

Step 1: Check your credit: Although loan rates differ by lender, loan size, state and equity in the home, almost all lenders offer different rates for different risks. Even a relatively small change in a credit score can make a considerable difference in the interest.

http://www.mortgage-x.com/library/credit_grade.htm is a good source of information.

The differences in rates can add up to thousands of dollars over the life of a loan. For example, a 6.5 percentage would cost \$14,873 less over 30 years than a 6.75 percent rate.

It's often easy to boost your credit score by a few dozen points, ensuring a better rate.

Sometimes all it takes is paying off a credit-card balance or two, correcting errors in your credit report and ensuring that you have no outstanding late payments.

Step 2: Create a budget

With foreclosure rates rising, it's increasingly clear that many borrowers failed to figure out how much they could afford before signing. It's not just the mortgage payment — and certainly not just the initial payment with an adjustable-rate mortgage. Home buyers also need to consider property taxes, insurance, home maintenance, repairs and utilities. In Texas, property taxes are likely to around 2 percent of your home's value each year. Figure on adding \$1,000 for property insurance for a \$250,000 home, and an additional \$500 for repairs. The bigger the yard, the more you should budget for water and a garden. The list goes on. Add those expenses to the monthly payment onto the estimated mortgage to see whether you can afford it. And, if you're considering an adjustable-rate mortgage, make sure you calculate what the payment is likely to be after the first adjustment and what it would be at the loan's maximum interest rate.

Step 3: Pick a loan type

There are dozens of loans, from the safe and simple 30-year fixed-rate to the flexible but complex "option" adjustable-rate mortgage. The best choice will depend on market conditions and personal preferences. Right now, many experts recommend sticking with fixed-rate loans. That's because they're safe and they're not much more expensive than

the riskier offerings. For instance, at www.Bankrate.com a 30-year fixed-rate mortgage was going for 6.84 percent June 14, while a so-called 5/1 adjustable loan (in which the interest rate is fixed for five years and then adjusts once a year after that) was quoted at 6.67 percent — 0.17 of a percentage point less. McBride said it's hard to argue that the 0.17 percentage point break is worth losing the security of having your payment stay the same.

Step 4: Compare offers

Spend the time to get offers from several lenders, then figure out all the costs of each mortgage you're considering: rates, points and fees. Your lender or mortgage broker should be willing to help with the math.

For each offer, look at:

- The interest rate.
- The annual percentage rate, which includes other financing fees, such as points.
- The frequency and maximum size of rate changes, if it's an adjustable loan.
- Whether there is a pre-payment penalty— a fee you must pay if you want to pay off the loan early. If there is one, how much is the fee and how long does it last? (Typically, these fees apply only if the loan is repaid less than five years after it was taken out.)
- Whether the interest rate offered is “locked” and, if so, for how long. A rate lock gives you a guarantee that your interest rate won't rise while you wait for loan approval and funding. Make sure to get these details in writing. The lender should be willing to give in writing the loan approval, the rate lock and a “good faith estimate” of your closing costs. If not, look elsewhere.

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