Home additions

Mortgage rates may be low, but don't overlook closing costs

PHILADELPHIA INQUIRER/RON TARVER VIA KRT

In last Saturday's News 2 Use, readers learned how they can refinance or apply for a first mortgage using online services made available by banks and mortgage companies.

With low mortgage rates and rising property values enticing many borrowers, there doesn't appear to be a big downside to investing in your own picket fence.

But there are some costs associated with obtaining a first mortgage or refinancing that you shouldn't overlook. Mortgages still come chock-full of fees, surcharges and closing costs.

So consider these factors before you take the plunge:

■ Private Mortgage Insurance, or PMI. The average down payment on a home by first-time buyers is about 10 percent of the purchase price, according to Freddie Mac. And whenever a down payment is below 20 percent, a buyer must pay PMI, with principal and interest payments. That can add another $100 to $150 to your monthly payment, and it is not tax deductible.

■ The PMI on any mortgage issued after July 1999 automatically cancels when you reach 22 percent equity in your home, in accordance with the Homeowners Protection Act of 1998. You can also request in person to stop paying it when you hit the 20 percent threshold. The homeowners act specifies that lenders must notify homeowners when their equity reaches 20 percent on loans after July 1999; before that, it's up to the homeowner to remain vigilant.

■ Closing at the start of a month. With any mortgage, you pay interest starting with the date you close on your home. But it's conventional in the mortgage business to set up interest payments in arrears, to coincide with complete calendar months. That means any time between your closing date and your first full monthly payment is extra time, and you'll pay interest on those days upfront at closing. You won't save money by closing later, but you will pay less upfront.

■ Consumers often qualify to borrow much more money with an adjustable-rate mortgage, or ARM, than with a fixed-rate mortgage. But they may not realize that these loans, which have extra-low, fixed interest rate for a short, set period of time, may balloon significantly although each ARM has a rate cap.

■ Broker fees may be negotiable. The law says mortgage brokers must disclose what they make in commissions in a good-faith estimate before you sign on the dotted line. But if you're willing, there is room for negotiation. On a standard-sized loan, a reasonable markup ranges between 1 percent and 1.5 percent.

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