

## What's the Best Rate for Me?

Selecting the most appropriate interest rate is one of the greatest challenges borrowers face during the mortgage process. Most people feel they should get a rate as low as possible. However, rate should be an economic-not emotional-decision.

We use the term "rate selection" because reputable mortgage companies offer borrowers a range of rates from which to choose. The most economically beneficial rate is not always the lowest rate.

For example, suppose a borrower could get a \$100,000.00 Loan at 8.00% with no origination fee or discount points. The payment would be \$733.76. Instead, however, the borrower chooses an alternative rate and pays a 1% origination fee and one discount point for a total of \$2,000.00 in extra closing costs. The payment drops to \$699.21, a monthly savings of \$34.55. It takes about 58 months for the monthly savings to offset the increased closing costs. Beginning in the 59<sup>th</sup> month, the borrower will realize an actual savings of \$34.55 a month. However, if the loan is paid prior to the 58<sup>th</sup> month, the borrower has spent the money unnecessarily.

Particularly noteworthy is the fact that, in this case, the 7.5% had a lower APR associated with the loan. Hence, using APR as the sole criteria for selecting a rate is unwise. In comparing APR's you must consider how long you intend to have your mortgage.

Some borrowers use discount points as part of their overall tax strategy. Discount points are typically deductible in the year they are paid (see your tax advisor for detailed information), so they reduce the current year tax liability while providing a lower payment for the life of the loan. Don't forget, however, the lower rate will affect future tax savings.

A similar tax strategy is the use of a buy-down which is a temporary reduction of the interest rate. By paying points you can reduce the initial interest rate and payment for a specific period of time in the first few years of a mortgage.

Sometimes the selection of a lower interest rate is driven more by the amount of the mortgage payment the borrowers can afford (qualify for) than the economic value. Another equally important consideration.

A conscientious Loan Officer who remains up-to-date with various mortgage alternatives is an invaluable resource for any home buyer. Ensure the Loan Officer you select has both the ability and desire to provide you with competent service and current information.

This information was provided by Dirk Hinga of American Home Mortgage Co. To contact Dirk, call him at his Port Charlotte office: 941-625-3833.