GUIDE TO CLOSING COSTS

Comparing Loan Costs

Comparing APRs may be an effective way to shop for a loan. However, you **must compare similar loan products for the same loan amount**. For example, compare two 30-year fixed rate loans for $100,000. Loan A with an APR of 8.35% is less costly than Loan B with an APR of 8.65% over the loan term. However, before you decide on a loan, you should consider the up-front cash you will be required to pay for each of the two loans as well.

Another effective shopping technique is to compare identical loans with different up-front points and other fees. For example, if you are offered two 30-year fixed rate loans for $100,000 and at 8%, the monthly payments are the same, but the up-front costs are different:

Loan A - 2 points ($2,000) and lender required costs of $1800 = $3800 in costs.

Loan B - 2 1/4 points ($2250) and lender required costs of $1200 = $3450 in costs.

A comparison of the up-front costs shows Loan B requires $350 less in up-front cash than Loan A. However, your individual situation (how long you plan to stay in your house) and your tax situation (points can usually be deducted for the tax year that you purchase a house) may affect your choice of loans.

Lock-ins. "Locking in" your rate or points at the time of application or during the processing of your loan will keep the rate and/or points from changing until settlement or closing of the escrow process. Ask your lender if there is a fee to lock-in the rate and whether the fee reduces the amount you have to pay for points. Find out how long the lock-in is good, what happens if it expires, and whether the lock-in fee is refundable if your application is rejected.

Tax and Insurance Payments. Your monthly mortgage payment will be used to repay the money you borrowed plus interest. Part of your monthly payment may be deposited into an "escrow account" (also known as a "reserve" or "impound" account) so your lender or servicer can pay your real estate taxes, property insurance, mortgage insurance and/or flood insurance. Ask your lender or mortgage broker if you will be required to set up an escrow or impound account for taxes and insurance payments.

Transfer of Your Loan. While you may start the loan process with a lender or mortgage broker, you could find that after settlement another company may be collecting the payments on your loan. Collecting loan payments is often known as "servicing" the loan. Your lender or broker will disclose whether it expects to service your loan or to transfer the servicing to someone else.

Mortgage Insurance. Private mortgage insurance and government mortgage insurance protect the lender against default and enable the lender to make a loan which the lender considers a higher risk. Lenders often require mortgage insurance for loans where the downpayment is less than 20% of the sales price. You may be billed monthly, annually, by an initial lump sum, or some combination of these practices for your mortgage insurance premium. Ask your lender if mortgage insurance is required and how much it will cost. Mortgage insurance should not be confused with mortgage life, credit life or disability insurance, which are designed to pay off a mortgage in the event of the borrower's death or disability.

You may also be offered "lender paid" mortgage insurance ("LPMI"). Under LPMI plans, the lender purchases the mortgage insurance and pays the premiums to the insurer. The lender will increase your interest rate to pay for the premiums -- but LPMI may reduce your settlement costs. You cannot cancel LPMI or government mortgage insurance during the life of your loan. However, it may be possible to cancel private mortgage insurance at some point, such as when your loan balance is reduced to a certain amount. Before you commit to paying for mortgage insurance, find out the specific requirements for cancellation.

Flood Hazard Areas. Most lenders will not lend you money to buy a home in a flood hazard area unless you pay for flood insurance. Some government loan programs will not allow you to purchase a home that is located in a flood hazard area. Your lender may charge you a fee to check for flood hazards. You should be notified if flood insurance is required. If a change in flood insurance maps brings your home within a flood hazard area after your loan is made, your lender or servicer may require you to buy flood insurance at that time.