

Mortgage Refinance: How to Get the Best Mortgage Refinancing Deal

By BizMove Management Training Institute

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1. The Single Most Critical Factor in Getting the Best Mortgage Refinance Terms.

Once you consider applying for a Mortgage Refinance, one of the first things you need to do is shop around and choose a lender. Choosing a reliable lender that offers good rates is the single most critical factor in getting a good mortgage refinance deal.

Only by obtaining several quotes that are specific to your situation and location you will be really able to discover the best rate that is available to you. How many quotes? go for at least 3 quotes from different lenders, less than that will not do the job.

Now, usually shopping around for three quotes can be a tedious and time consuming task, however, you can make it easier and more effective by using a free online quoting service such as [Rateit-Site](http://www.liraz.com/rate-site) (If the link doesn't work, copy and paste the following URL into a browser: **www.liraz.com/rate-site**).

Rateit-Site will provide you with several competing offers from reliable lenders that offer low rates in your area thus enabling you to compare and pinpoint on the best rate that is available for your location.

2. Advantage of Refinancing Your Mortgage?

Lowering your interest rate

The interest rate on your mortgage is tied directly to how much you pay on your mortgage each month--lower rates usually mean lower payments. You may be able to get a lower rate because of changes in the market conditions or because your credit score has improved. A lower interest rate also may allow you to build equity in your home more quickly.

For example, compare the monthly payments (for principal and interest) on a 30-year fixed-rate loan of \$200,000 at 5.5% and 6.0%.

Monthly payment @ 6.0% = \$1,199

Monthly payment @ 5.5% = \$1,136

The difference each month is \$63

But over a year's time, the difference adds up to \$756

Over 10 years, you will have saved \$7,560

Adjusting the length of your mortgage

Increase the term of your mortgage: You may want a mortgage with a longer term to reduce the amount that you pay each month. However, this will also increase the length of time you will make mortgage payments and the total amount that you end up paying toward interest.

Decrease the term of your mortgage: Shorter-term mortgages--for example, a 15-year mortgage instead of a 30-year mortgage--generally have lower interest rates. Plus, you pay off your loan sooner, further reducing your total interest costs. The trade-off is that your monthly payments usually are higher because you are paying more of the principal each month.

For example, compare the total interest costs for a fixed-rate loan of \$200,000 at 6% for 30 years with a fixed-rate loan at 5.5% for 15 years.

30-year loan @ 6.0% = Monthly payment \$1,199 / = Total interest: \$231,640

15-year loan @ 5.5%= Monthly payment \$1,634 / = Total interest \$ 94,120

Tip: Refinancing is not the only way to decrease the term of your mortgage. By paying a little extra on principal each month, you will pay off the loan sooner and reduce the term of your loan. For example, adding \$50 each month to your principal payment on the 30-year loan above reduces the term by 3 years and saves you more than \$27,000 in interest costs.

Changing from an adjustable-rate mortgage to a fixed-rate mortgage

If you have an adjustable-rate mortgage, or ARM, your monthly payments will change as the interest rate changes. With this kind of mortgage, your payments could increase or decrease.

You may find yourself uncomfortable with the prospect that your mortgage payments could go up. In this case, you may want to consider switching to a fixed-rate mortgage to give yourself some peace of mind by having a steady interest rate and monthly payment. You also might prefer a fixed-rate mortgage if you think interest rates will be increasing in the future.

Tip: If your monthly payment on a fixed-rate loan includes escrow amounts for taxes and insurance, your payment each month could change over time due to changes in property taxes, insurance, or community association fees.

Getting an ARM with better terms

If you currently have an ARM, will the next interest rate adjustment increase your monthly payments substantially? You may choose to refinance to get another ARM with better terms. For example, the new loan may start out at a lower interest rate. Or the new loan may offer smaller interest rate adjustments or lower payment caps, which means that the interest rate cannot exceed a certain amount. For more details.

Tip: If you are refinancing from one ARM to another, check the initial rate and the fully-indexed rate. Also ask about the rate adjustments you might face over the term of the loan.

Getting cash out from the equity built up in your home

Home equity is the dollar-value difference between the balance you owe on your mortgage and the value of your property. When you refinance for an amount greater than what you owe on your home, you can receive the difference in a cash payment (this is called a cash-out refinancing). You might choose to do this, for example, if you need cash to make home improvements or pay for a child's education.

Remember, though, that when you take out equity, you own less of your home. It will take time to build your equity back up. This means that if you need to sell your home, you will not put as much money in your pocket after the sale.

If you are considering a cash-out refinancing, think about other alternatives as well. You could shop for a home equity loan or home equity line of credit instead. Compare a home equity loan with a cash-out refinancing to see which is a better deal for you.

Tip: Many financial advisers caution against cash-out refinancing to pay down unsecured debt (such as credit cards) or short-term secured debt (such as car loans). You may want to talk with a trusted financial adviser before you choose cash-out refinancing as a debt-consolidation plan.

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3. When is Refinancing Not a Good Idea

You've had your mortgage for a long time.

The amortization chart shows that the proportion of your payment that is credited to the principal of your loan increases each year, while the proportion credited to the interest decreases each year. In the later years of your mortgage, more of your payment applies to principal and helps build equity. By refinancing late in your mortgage, you will restart the amortization process, and most of your monthly payment will be credited to paying interest again and not to building equity.

Your current mortgage has a prepayment penalty

A prepayment penalty is a fee that lenders might charge if you pay off your mortgage loan early, including for refinancing. If you are refinancing with the same lender, ask whether the prepayment penalty can be waived. You should carefully consider the costs of any prepayment penalty against the savings you expect to gain from refinancing. Paying a prepayment penalty will increase the time it will take to break even, when you account for the costs of the refinance and the monthly savings you expect to gain.

You plan to move from your home in the next few years.

The monthly savings gained from lower monthly payments may not exceed the costs of refinancing--a break-even calculation will help you determine whether it is worthwhile to refinance, if you are planning to move in the near future.

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4. Are You Eligible for Home Loan Refinance

Determining your eligibility for refinancing is similar to the approval process that you went through with your first mortgage. Your lender will consider your income and assets, credit score, other debts, the current value of the property, and the amount you want to borrow. If your credit score has improved, you may be able to get a loan at a lower rate. On the other hand, if your credit score is lower now than when you got your current mortgage, you may have to pay a higher interest rate on a new loan.

Lenders will look at the amount of the loan you request and the value of your home, determined from an appraisal. If the loan-to-value (LTV) ratio does not fall within their lending guidelines, they may not be willing to make a loan, or may offer you a loan with less-favorable terms than you already have.

If housing prices fall, your home may not be worth as much as you owe on the mortgage. Even if home prices stay the same, if you have a loan that includes negative amortization (when your monthly payment is less than the interest you owe, the unpaid interest is added to the amount you owe), you may owe more on your mortgage than you originally borrowed. If this is the case, it could be difficult for you to refinance.

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5. How Much it Will Cost You to Refinance

It is not unusual to pay 3 percent to 6 percent of your outstanding principal in refinancing fees. These expenses are in addition to any prepayment penalties or other costs for paying off any mortgages you might have.

Refinancing fees vary from state to state and lender to lender. Here are some typical fees and average cost ranges you are most likely to pay when refinancing. For more information on settlement or closing costs, see the Consumer's Guide to Settlement Costs.

Tip: You can ask for a copy of your settlement cost papers (the HUD-1 form) one day in advance of your loan closing. This will give you a chance to review the documents and verify the terms.

Application fee. This charge covers the initial costs of processing your loan request and checking your credit report. If your loan is denied, you still may have to pay this fee.

Cost range = \$75 to \$300

Loan origination fee. The fee charged by the lender or broker to evaluate and prepare your mortgage loan.

Cost range = 0% to 1.5% of the loan principal

Points. A point is equal to 1 percent of the amount of your mortgage loan. There are two kinds of points you might pay. The first is loan-discount points, a one-time charge paid to reduce the interest rate of your loan. Second, some lenders and brokers also charge points to earn money on the loan. The number of points you are charged can be negotiated with the lender.

Cost range = 0% to 3% of the loan principal

Tip: The length of time that you expect to keep the mortgage helps you determine whether it is worthwhile to pay points up front to reduce your interest rate. Unlike points paid on your original mortgage, points paid to refinance may not be fully deductible on your income taxes in the year they are paid. Check with the Internal Revenue Service to find the current rules for deducting points.

Appraisal fee. This fee pays for an appraisal of your home, in order to assure the lenders that the property is worth at least as much as the loan amount. Some lenders and brokers include the appraisal fee as part of the application fee. You are entitled to a copy of the appraisal, but you must ask the lender for it. If you are refinancing and you have had a recent appraisal, you can check to see if the lender will waive the requirement for a new appraisal.

Cost range = \$300 to \$700

Inspection fee. The lender may require a termite inspection and an analysis of the structural condition of the property by a property inspector, engineer, or consultant.

Lenders may require a septic system test and a water test to make sure the well and water system will maintain an adequate supply of water for the house. Your state may require additional, specific inspections (for example, pest inspections in southern states).

Cost range = \$175 to \$350

Attorney review/closing fee. The lender will usually charge you for fees paid to the lawyer or company that conducts the closing for the lender.

Cost range = \$500 to \$1,000

Homeowner's insurance. Your lender will require that you have a homeowner's insurance policy (sometimes called hazard insurance) in effect at settlement. The policy protects against physical damage to the house by fire, wind, vandalism, and other causes covered by your policy. This policy insures that the lender's investment will be protected even if the house is destroyed. With refinancing, you may only have to show that you have a policy in effect.

Cost range = \$300 to \$1,000

FHA, RDS, or VA fees or PMI. These fees may be required for loans insured by federal government housing programs, such as loans insured by the Federal Housing Administration (FHA) or the Rural Development Services (RDS) and loans guaranteed by the Department of Veterans Affairs (VA), as well as conventional loans insured by private mortgage insurance (PMI). Insured loans and guarantee programs generally apply if the amount you are borrowing is more than 80% of the value of the property. Both government and private mortgage insurance cover the lender's risk that you will not make all the loan payments.

Cost ranges: FHA = 1.5% plus ½% per year; RDS = 1.75%; VA = 1.25% to 2%; PMI = 0.5% to 1.5%

Title search and title insurance. This fee covers the cost of searching the property's records to ensure that you are the rightful owner and to check for liens. Title insurance covers the lender against errors in the results of the title search. If a problem arises, the insurance covers the lender's investment in your mortgage.

Cost range = \$700 to \$900

Tip: Ask the company carrying your current title insurance policy what it would cost to reissue the policy for a new loan. This may reduce your cost.

Survey fee. Lenders require a survey, to confirm the location of buildings and improvements on the land. Some lenders require a complete (and more costly) survey to ensure that the house and other structures are legally where you say they are. You may not have to pay this fee if a survey has recently been conducted for your property.

Cost range = \$150 to \$400

Prepayment penalty. Some lenders charge a fee if you pay off your existing mortgage early. Loans insured or guaranteed by the federal government generally cannot include a prepayment penalty, and some lenders, such as federal credit unions, cannot include prepayment penalties. Also some states prohibit this fee.

Cost range = one to six months' interest payments

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6. What is "No-Cost" Mortgage Refinancing

Lenders often define “no-cost” refinancing differently, so be sure to ask about the specific terms offered by each lender. Basically, there are two ways to avoid paying up-front fees.

The first is an arrangement in which the lender covers the closing costs, but charges you a higher interest rate. You will pay this higher rate for the life of the loan.

Tip: Ask the lender or broker for a comparison of the up-front costs, principal, rate, and payments with and without this rate trade-off.

The second is when refinancing fees are included in (“rolled into” or “financed into”) your loan—they become part of the principal you borrow. While you will not be required to pay cash up front, you will instead end up repaying these fees with interest over the life of your loan.

Tip: When lenders offer a “no-cost” loan, they may include a prepayment penalty to discourage you from refinancing within the first few years of the loan. Ask the lender offering a no-cost loan to explain all the fees and penalties before you agree to these terms.

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7. How to Calculate the Break-Even Period for a Mortgage Refinance

Use the step-by-step worksheet below to give you a ballpark estimate of the time it will take to recover your refinancing costs before you benefit from a lower mortgage rate. The example assumes a \$200,000, 30-year fixed-rate mortgage at 5% and a current loan at 6%. The fees for the new loan are \$2,500, paid in cash at closing.

Example Your numbers

1. Your current monthly mortgage payment = \$1,199
2. Subtract your new monthly payment = \$1,073
3. This equals your monthly savings = \$ 126
4. Subtract your tax rate from 1 (e.g. $1 - 0.28 = 0.72$) = 0.72
5. Multiply your monthly savings (#3) by your after-tax rate (#4) = 126×0.72
6. This equals your after-tax savings = \$ 91
7. Total of your new loan's fees and closing costs = \$2,500
8. Divide total costs by your monthly after-tax savings (from #6) = $\$2,500 / 91$
9. This is the number of months it will take you to recover your refinancing costs = 27 months

Tip: Calculate the financial benefit of refinancing in one, two, or three years. Does the benefit compare with your plans for staying in your home?

If you plan to stay in the house until you pay off the mortgage, you may also want to look at the total interest you will pay under both the old and new loans.

You may also want to compare the equity build-up in both loans. If you have had your current loan for a while, more of your payment goes to principal, helping you build equity. If your new loan has a term that is longer than the remaining term on your existing mortgage, less of the early payments will go to principal, slowing down the equity build-up in your home.

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8. How to Take Advantage of Online Refinancing Calculators

Many online mortgage calculators are designed to calculate the effect of refinancing your mortgage. These calculators usually require information about your current mortgage (such as the remaining principal, interest rate, and years remaining on your mortgage), the new loan that you are considering (such as principal, interest rate, and term), and the upfront or closing costs that you will pay for the loan. Some may ask for your tax rate and the rate of interest you can get on investments (assuming you will invest your savings). Refinance calculators will show the amount you will save compared with the costs you will pay, so that you can determine whether the refinancing offer is right for you.

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9. How to Get the Best Refinance Deal

Shopping around for a home loan will help you get the best financing deal. Shopping, comparing, and negotiating may save you thousands of dollars. Begin by getting copies of your credit reports to make sure the information in them is accurate.

Talk to your current lender

If you plan to refinance, you may want to start with your current lender. That lender may want to keep your business, and may be willing to reduce or eliminate some of the typical refinancing fees. For example, you may be able to save on fees for the title search, surveys, and inspection. Or your lender may not charge an application fee or origination fee. This is more likely to happen if your current mortgage is only a few years old, so that paperwork relating to that loan is still current. Again, let your lender know that you are shopping around for the best deal.

Compare loans before deciding

Shop around and compare all the terms that different lenders offer--both interest rates and costs. Remember, shopping, comparing, and negotiating can save you thousands of dollars.

Lenders are required by federal law to provide a “good faith estimate” within three days of receiving your loan application. You can ask your lender for an estimate of the closing costs for the loan. The estimate should give you a detailed approximation of all costs involved in closing. Review these documents carefully and compare these costs with those for other loans. You can also ask for a copy of the HUD-1 settlement cost form one day before you are due to sign the final documents.

Tip: If you want to make sure the interest rate your lender offers you is the rate you get when you close the loan, ask about a mortgage lock-in (also called a rate lock or rate commitment). Any lock-in promise should be in writing. Make sure your lender explains any costs or obligations before you sign. See the Consumer’s Guide to Mortgage Lock-ins.

Get information in writing

Ask for information in writing about each loan you are interested in before you pay a nonrefundable fee. It is important that you read this information and ask the lender or broker about anything you don’t understand.

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10. Mortgage Refinancing Glossary

Adjustable-rate mortgage (ARM) - A mortgage that does not have a fixed interest rate. The rate changes during the life of the loan based on movements in an index rate, such as the rate for Treasury securities or the Cost of Funds Index. ARMs usually offer a lower initial interest rate than fixed-rate loans. The interest rate fluctuates over the life of the loan based on market conditions, but the loan agreement generally sets maximum and minimum rates. When interest rates increase, generally your loan payments increase; and when interest rates decrease, your monthly payments may decrease.

Amortization - The process of fully paying off indebtedness by installments of principal and earned interest over a specific amount of time.

Annual percentage rate (APR) - The cost of credit expressed as a yearly rate. For closed-end credit, such as car loans or mortgages, the APR includes the interest rate, points, broker fees, and certain other credit charges that the borrower is required to pay. An APR, or an equivalent rate, is not used in leasing agreements.

Application fee - Fees that are charged when you apply for a loan or other credit. These fees may include charges for property appraisal and a credit report.

Appraisal fee - The charge for estimating the value of property offered as security.

Cash-out refinancing - When refinancing, taking a loan for more than you owe on your existing mortgage. Your existing mortgage is paid off and you receive an additional payment for the balance of the new loan. You might do this if you want to make home improvements or pay for a child's education. Cash-out refinancing removes some of the equity you have built up in your home.

Closing (or settlement) costs - Fees paid when you close (or settle) on a loan. These fees may include application fees; title examination, abstract of title, title insurance, and property survey fees; fees for preparing deeds, mortgages, and settlement documents; attorneys' fees; recording fees; estimated costs of taxes and insurance; and notary, appraisal, and credit report fees. Under the Real Estate Settlement Procedures Act (RESPA), the borrower receives a "good faith estimate" of closing costs within three days of application. The good faith estimate lists each expected cost as an amount or a range.

Equity - In housing markets, equity is the difference between the fair market value of the home and the outstanding balance on your mortgage plus any outstanding home equity loans. In vehicle leasing markets, equity is the positive difference between the trade-in or market value of your vehicle and the loan payoff amount.

Escrow - The holding of money or documents by a neutral third party before closing on a property. It can also be an account held by the lender (or servicer) into which a homeowner pays money for taxes and insurance.

Good faith estimate - An estimated breakdown of the costs of a mortgage loan. The Real Estate Settlement Procedures Act (RESPA) requires your mortgage lender to give

you a good faith estimate of all your closing costs within 3 business days of submitting your application for a loan, whether you are purchasing or refinancing a home. The actual expenses at closing may be somewhat different from the good faith estimate.

Interest - The rate used to determine the cost of borrowing money, usually stated as a percentage and as an annual rate.

Interest rate - The price paid for borrowing money, usually stated in percentages and as an annual rate.

Loan origination fees - Fees charged by the lender for processing a loan; often expressed as a percentage of the loan amount.

Lock-in agreement - A written agreement guaranteeing a homebuyer a specific interest rate on a home loan provided that the loan is closed within a certain period, such as 60 or 90 days. Often the agreement also specifies the number of points to be paid at closing.

Mortgage - A contract, signed by a borrower when a home loan is made, that gives the lender the right to take possession of the property if the borrower fails to pay off, or defaults on, the loan.

Negative amortization - Occurs when the monthly payments in an adjustable-rate mortgage loan do not cover all the interest owed. The interest that is not paid in the monthly payment is added to the loan balance. This means that even after making many payments, you could owe more than you did at the beginning of the loan. Negative amortization can occur when an ARM has a payment cap that results in monthly payments that are not high enough to cover the interest due or when the minimum payments are set at an amount lower than the amount you owe in interest.

Payment cap - A limit on the amount that your monthly mortgage payment on a loan may change, usually a percentage of the loan. The limit can be applied each time the payment changes or during the life of the mortgage. Payment caps may lead to negative amortization because they do not limit the amount of interest the lender is earning.

Points (also called discount points) - One point is equal to 1 percent of the principal amount of a mortgage loan. For example, if a mortgage is \$200,000, one point equals \$2,000. Lenders frequently charge points in both fixed-rate and adjustable-rate mortgages to cover loan origination costs or to provide additional compensation to the lender or broker. Points are paid usually on the loan closing date and may be paid by the borrower or the home seller, or split between the two parties. In some cases, the money needed to pay points can be borrowed, but doing so will increase the loan amount and the total costs. Discount points (sometimes called discount fees) are points that the borrower voluntarily chooses to pay in return for a lower interest rate.

Prepayment penalty - Extra fees that may be due if you pay off your loan early by refinancing the loan or by selling the home. The penalty is usually limited to the first 3 to 5 years of the loan's term. If your loan includes a prepayment penalty, make sure you

understand the cost. Compare the length of the prepayment penalty period with the first adjustment period of the ARM to see if refinancing is cost-effective before the loan first adjusts. Some loans may have a prepayment penalty even if you make a partial prepayment. Ask the lender for a loan without a prepayment penalty and the cost of that loan.

Principal - The amount of money borrowed or the amount still owed on a loan.

Refinancing - The process of paying off an existing mortgage by taking out a new mortgage.

Term - The period from the time that a loan is made until it is fully paid

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Special Bonus:

11. Sixty One Ways to Save Money

Here is a list of tips and ideas that will help you save money in various areas of your life:

Airline Fares

1. You may lower the price of a round trip air fare by as much as two-thirds by making certain your trip includes a Saturday evening stay over, and by purchasing the ticket in advance.
2. To make certain you have a cheap fare, even if you use a travel agent, contact all the airlines that fly where you want to go and ask what the lowest fare to your destination is.
3. Be flexible, if possible. Consider using low fare carriers or alternative airports and keep an eye out for fare wars.

Car Rental

1. Since car rental rates can vary greatly, shop around for the best basic rates. Ask about any additional charges (extra driver, gas, drop-off fees) and special offers.
2. Rental car companies offer various insurance and waiver options. Check with your automobile insurance agent and credit card company in advance to avoid duplicating any coverage you may already have.

New Cars

1. You can save thousands of dollars over the lifetime of a car by selecting a model that combines a low purchase price with low financing, insurance, gasoline, maintenance, and repair costs. Ask your local librarian for new car guides that contain this information.
2. Having selected a model, you can save hundreds of dollars by comparison shopping. Call at least five dealers for price quotes and let each know that you are calling others.
3. Remember there is no "cooling off" period on new car sales. Once you have signed a contract, you are obligated to buy the car.

Used Cars

1. Before buying any used car:
 - Compare the seller's asking price with the average retail price in a "bluebook" or other guide to car prices found at many libraries, banks, and credit unions.
 - Have a mechanic you trust check the car, especially if the car is sold "as is."
2. Consider purchasing a used car from an individual you know and trust. They are more likely than other sellers to charge a lower price and point out any problems with the car.

Auto Leasing

1. Don't decide to lease a car just because the payments are lower than on a traditional auto loan. The leasing payments may be lower because you don't own the car at the end of the lease.

2. Leasing a car is very complicated. When shopping, consider the price of the car (known as the capitalized cost), your trade-in allowance, any down payment, monthly payments, various fees (excess mileage, excess "wear and tear," end-of-lease), and the cost of buying the car at the end of the lease. *Keys to Vehicle Leasing: A Consumer Guide*, published by the Federal Reserve Board and Federal Trade Commission, is a valuable source of information about auto leasing.

Gasoline

1. You can save hundreds of dollars a year by comparing prices at different stations, pumping gas yourself, and using the lowest-octane called for in your owner's manual.

2. You can save up to \$100 a year on gas by keeping your engine tuned and your tires inflated to their proper pressure.

Car Repairs

1. Consumers lose billions of dollars each year on unneeded or poorly done car repairs. The most important step that you can take to save money on these repairs is to find a skilled, honest mechanic. Before you need repairs, look for a mechanic who:

- is certified and well established;
- has done good work for someone you know; and
- communicates well about repair options and costs.

Auto Insurance

1. You can save several hundred dollars a year by purchasing auto insurance from a licensed, low-price insurer. Call your state insurance department for a publication showing typical prices charged by different companies. Then call at least four of the lowest-priced, licensed insurers to learn what they would charge you for the same coverage.

2. Talk to your agent or insurer about raising your deductibles on collision and comprehensive coverages to at least \$500 or, if you have an old car, dropping these coverages altogether. Taking these steps can save you hundreds of dollars a year.

3. Make certain that your new policy is in effect before dropping your old one.

Homeowner/Renter Insurance

1. You can save several hundred dollars a year on homeowner insurance and up to \$50 a year on renter insurance by purchasing insurance from a low-price, licensed insurer. Ask your state insurance department for a publication showing typical prices charged by different licensed companies. Then call at least four of the lowest priced insurers to

learn what they would charge you. If such a publication is not available, it is even more important to call at least four insurers for price quotes.

2. Make certain you purchase enough coverage to replace the house and its contents. "Replacement" on the house means rebuilding to its current condition.

3. Make certain your new policy is in effect before dropping your old one.

Life Insurance

1. If you want insurance protection only, and not a savings and investment product, buy a term life insurance policy.

2. If you want to buy a whole life, universal life, or other cash value policy, plan to hold it for at least 15 years. Canceling these policies after only a few years can more than double your life insurance costs.

3. Check your public library for information about the financial soundness of insurance companies and the prices they charge. The July 1998 issue of Consumer Reports is a valuable source of information about a number of insurers.

Checking

1. You can save more than \$100 a year in fees by selecting a checking account with a low (or no) minimum balance requirement that you can, and do, meet. Request a list of these and other fees that are charged on these accounts.

2. Banking institutions often will drop or lower checking fees if paychecks are directly deposited by your employer. Direct deposit offers the additional advantages of convenience, security, and immediate access to your money.

Savings and Investment Products

1. Before opening a savings or investment account with a bank or other financial institution, find out whether the account is insured by the federal government (FDIC or NCUA). An increasing number of products offered by these institutions, including mutual stock funds and annuities, are not insured.

2. To earn the highest return on savings (annual percentage yield) with little or no risk, consider certificates of deposit (CDs) and treasury bills or notes.

3. Once you select a type of savings or investment product, compare rates and fees offered by different institutions. These rates can vary a lot and, over time, can significantly affect interest earnings.

Credit Cards

1. You can save as much as a thousand dollars or more each year in lower credit card interest charges by paying off your entire bill each month.

2.If you are unable to pay off a large balance, pay as much as you can and switch to a credit card with a low annual percentage rate (APR). For a modest fee, RAM Research Corp. (800-344-7714) will send you a list of low-rate cards. You can obtain a list of low-rate cards by accessing "www.ramresearch.com.cardtrack" on the Internet.

3.You can reduce credit card fees, which may add up to more than \$100 a year, by getting rid of all but one or two cards, and by avoiding late payment and over-the-credit limit fees.

Auto Loans

1.If you have significant savings earning a low interest rate, consider making a large down payment or even paying for the car in cash. This could save you as much as several thousand dollars in finance charges.

2.You can save as much as hundreds of dollars in finance charges by shopping for the cheapest loan. Contact several banks, your credit union, and the auto manufacturer's own finance company.

First Mortgage Loans

1.Although your monthly payment may be higher, you can save tens of thousands of dollars in interest charges by shopping for the shortest-term mortgage you can afford. On a \$100,000 fixed-rate loan at 8% annual percentage rate (APR), for example, you will pay \$90,000 less in interest on a 15-year mortgage than on a 30-year mortgage.

2.You can save thousands of dollars in interest charges by shopping for the lowest-rate mortgage with the fewest points. On a 15-year, \$100,000 fixed-rate mortgage, just lowering the APR from 8.5% to 8.0% can save you more than \$5,000 in interest charges. On this mortgage, paying two points instead of three would save you an additional \$1,000.

3.If your local newspaper does not periodically run mortgage rate surveys, call at least six lenders for information about their rates (APRs), points, and fees. Then ask an accountant to compute precisely how much each mortgage option will cost and its tax implications.

4.Be aware that the interest rate on most adjustable rate mortgage loans (ARMs) can vary a great deal over the lifetime of the mortgage. An increase of several percentage points might raise payments by hundreds of dollars per month.

Mortgage Refinancing

1.Consider refinancing your mortgage if you can get a rate that is at least one percentage point lower than your existing mortgage rate and plan to keep the new mortgage for several years or more. Ask an accountant to calculate precisely how much your new mortgage (including up-front fees) will cost and whether, in the long run, it will cost less than your current mortgage.

Home Equity Loans

1. Be cautious in taking out home equity loans. These loans reduce the equity that you have built up in your home. If you are unable to make payments, you could lose your home.

2. Compare home equity loans offered by at least four banking institutions. In comparing these loans, consider not only the annual percentage rate (APR) but also points, closing costs, other fees, and the index for any variable rate changes.

Home Purchase

1. You can often negotiate a lower sale price by employing a buyer broker who works for you not the seller. If the buyer broker or the broker's firm also lists properties, there may be a conflict of interest, so ask them to tell you if they are showing you a property that they have listed.

2. Do not purchase any house until it has been examined by a home inspector that you selected.

Renting a Place to Live

1. Do not limit your rental housing search to classified ads or referrals from friends and acquaintances. Select buildings where you would like to live and contact their building manager or owner to see if anything is available.

2. Remember that signing a lease probably obligates you to make all monthly payments for the term of the agreement.

Home Improvement

1. Home repairs often cost thousands of dollars and are the subject of frequent complaints. Select from among several well established, licensed contractors who have submitted written, fixed-price bids for the work.

2. Do not sign any contract that requires full payment before satisfactory completion of the work.

Major Appliances

1. Consult Consumer Reports, available in most public libraries, for information about specific brands and how to evaluate them, including energy use. There are often great price and quality differences among brands.

2. Once you've selected a brand, check the phone book to learn what stores carry this brand, then call at least four of these stores for the prices of specific models. After each store has given you a quote, ask if that's the lowest price they can offer you. This comparison shopping can save you as much as \$100 or more.

Electricity

1. To save as much as hundreds of dollars a year on electricity, make certain that any new appliances you purchase, especially air conditioners and furnaces, are energy-

efficient. Information on the energy efficiency of major appliances is found on Energy Guide Labels required by federal law.

2. Enrolling in load management programs and off-hour rate programs offered by your electric utility may save you up to \$100 a year in electricity costs. Call your electric utility for information about these cost-saving programs.

Home Heating

1. A home energy audit can identify ways to save up to hundreds of dollars a year on home heating (and air conditioning). Ask your electric or gas utility if they can do this audit for free or for a reasonable charge. If they cannot, ask them to refer you to a qualified professional.

Local Telephone Service

1. Check with your phone company to see whether a flat rate or measured service plan will save you the most money.

2. You will usually save money by buying your phones instead of leasing them.

3. Check your local phone bill to see if you have optional services that you don't really need or use. Each option you drop could save you \$40 or more each year.

Long Distance Telephone Service

1. Long distance calls made during evenings, at night, or on weekends can cost significantly less than weekday calls.

2. If you make more than a few long distance calls each month, consider subscribing to a calling plan. Call several long distance companies to see which one has the least expensive plan for the calls you make.

3. Whenever possible, dial your long distance calls directly. Using the operator to complete a call can cost you an extra \$6.

Food Purchased at Markets

1. You can save hundreds of dollars a year by shopping at the lower-priced food stores. Convenience stores often charge the highest prices.

2. You will spend less on food if you shop with a list.

3. You can save hundreds of dollars a year by comparing price-per-ounce or other unit prices on shelf labels. Stock up on those items with low per-unit costs.

Prescription Drugs

1. Since brand name drugs are usually much more expensive than their generic equivalents, ask your physician and pharmacist for generic drugs whenever appropriate.

2. Since pharmacies may charge widely different prices for the same medicine, call several. When taking a drug for a long time, also consider calling mail-order pharmacies, which often charge lower prices.

Funeral Arrangements

1. Make your wishes known about your funeral, memorial, or burial arrangements in writing. Be cautious about prepaying because there may be risks involved.

2. For information about the least costly options, which could save you several thousand dollars, contact a local memorial society, which is usually listed in the Yellow Pages under funeral services.

3. Before selecting a funeral home, call several and ask for prices of specific goods and services, or visit them to obtain an itemized price list. You are entitled to this information by law and, by using it to comparison shop, you can save hundreds of dollars.

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