

Take a look at where mortgage rates have been

MORTGAGE SHOPPING



DAVID C. MULLY

As a new segment of my column, I thought it would be fun to look back every week and compare current interest rates with interest rates at different times over the last 25 years. For this very first "Mortgage Timeline," I thought it might be appropriate to look back at when the highest 30-year fixed-

rate of the last 25 years occurred and what that rate was. Do you know? (answer is at the end of this column.)

To buy an existing home:
Last week, the one-year (convertible) adjustable rate with no points was in the low 6.0-percent range, making this program an attractive choice for many home-owners. Generally, the one-year ARM can only adjust up or down a maximum of 2 percent per year and 6 percent over the life of the loan. The convertible feature of the mortgage makes the risk of future rate adjustments a little

less risky. After the initial 13 months, you have the option to convert the adjustable rate to a fixed rate for the remainder of the term for a fee of approximately \$200. Hence, there is less risk of being subject to rate changes because you can convert to the fixed rate.

In the past, the convertible one-year ARM rate was higher than the non-convertible one-year ARM. But now they are very similar. This makes the convertible ARM an ever better choice. By being able to choose when you want to convert any time from the 13th through the 60th month, you have the flexibility to watch the rate market, much like you would the stock market and choose to convert when you feel rates are at their lowest.

Another important reason for

the popularity of one-year convertible ARMs is that your first-year payment is much lower than with other programs. For those people going into a bigger home with a larger-sized mortgage, this can help ease them into that higher payment and help avoid payment shock. For first-time homebuyers, the one-year ARM can help buyers qualify for a higher-priced home while helping them feel more comfortable with the initial first-year payment.

To buy a newly constructed home:

I have received some calls recently regarding "lot loans." Therefore, this might be a good time to discuss general requirements and interest rates related to lot loans.

Lot loans have a few different guidelines that regular home mortgages. For example, the down payment

requirements on a lot loan is generally 20 to 30 percent of the price of the lot. Generally the lender prefers the lot to have no construction under way. Closing costs are lower than for regular mortgages, but interest rates can be slightly higher.

For an overview on rates, I surveyed a few lenders last week and found the following: One lender was offering a 7.25 percent rate with no points on a one-year ARM with a 15-year amortization. Another lender offered a 7.8-percent fixed rate with one point for 24 months before being required to build. Still another was offering Prime Rate (8.25 percent) with one point and a 15-year amortization with a balloon payment due at the end of 36 months. So, you can see the variety of rates and options available for lot loans.

To refinance your current home:

When you close on a home refi-

nance transaction, the lender is legally required at closing to give you an option called a "Right to Cancel" or "Three Day Right of Rescission" as it is commonly referred to. This means that you would have three days to rescind or cancel your mortgage should you have any misgivings. You would receive any fees from the lender that you had previously paid. The three days begin the day of closing and continue to midnight of the third day. For homeowners who are doing a cash-out refinance, you will not receive your cash-out from the lender until the third day has expired.

Mortgage timeline answer:

In October 1981, the 30-year fixed-rate had reached 18.45 percent. Wow! On a \$100,000 mortgage, the payment would have been \$1,543.85, compare this to today's 30-year fixed-rate and payment of approximately 8 percent and \$733.76, respectively, and you can see the difference for yourself. The payment would more than double!

David Mully has been writing his weekly "Mortgage Shopping" column for the Observer & Eccentric Newspapers since June 1995. He has been involved with residential mortgage lending in the Detroit area since 1988 and is a senior loan officer. For information about a new mortgage, call Mully toll-free at 1-800-405-3051 or fax him at 810-380-0603. You can access Mully's previous Mortgage Shopping articles on-line at <http://oeonline.com/>

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