

8 Must Ask Mortgage and Refinancing Questions

Whether you're buying a house or refinancing, there is more to a mortgage than the rate. Here are eight questions to ask while mortgage shopping. You'll have to ask yourself some of these questions; others can only be answered by mortgage professionals and insurers.

1. How long do I plan to stay in the house?

That's often a hard question to answer. Try anyway because a lot of your decisions depend on the answer.

"I always say, 'What's the game plan? How long do you plan to be in the property?'" says Ellen Bitton, CEO of Park Avenue Mortgage Group in New York.

The answer affects whether you would be better off paying points to lower your rate, whether you should get a fixed-rate or adjustable-rate loan, whether you should accept a prepayment penalty. If you're thinking of refinancing, the answer helps you decide whether you should refinance at all.

If you have no idea how long you'll live in the house, keep in mind that homeowners stay in one residence for a median duration of 8.2 years, according to [1998 U.S. Census data](#). In other words, half of homeowners move within 8.2 years. The other half, naturally, stay in their homes longer. Do you feel "average"? If so, maybe it means you'll stay home for about eight years or so.

(FYI, with renters, the median stay in one residence is 2.1 years.)

2. How much are the costs of getting the loan?

When you apply for a loan, you'll get a federally mandated document called the Good Faith Estimate of closing costs. It estimates how much the lender will charge you for origination and discount fees, an appraisal, a credit report, document preparation, title insurance, a pest inspection and myriad other costs. Compare good faith estimates and especially take note of the line that reads "Estimated cash at closing." That's an educated guess of how much you'll have to pay out of your checkbook to get the loan.

3. How long will it take to break even?

If you're buying a home, how long will it take to break even if you pay discount points to get a lower rate? If you're refinancing, how long will it take to recoup the closing costs from your monthly savings?

In either case, all you have to do is divide the upfront cost (of discount points if you're buying a house and of all the closing costs if you're refinancing) by the monthly savings you would get. That tells you how many months it will take to break even. If it's going to take five years to break even but you expect to stay in the house four more years, it's probably not worth it.

4. What makes me feel comfortable?

Bitton says some of her clients insist on paying zero discount points, while others want to pay a lot of points to get absolutely the lowest interest rate, "even if it takes four or five years to break even."

As far as Bitton is concerned, there often is no right or wrong answer when people ask whether they should pay discount points or choose a 15-year or 30-year mortgage. "There's not just an objective, dollars-and-cents number," Bitton says. "There's also the psychological factor: What are you going to feel comfortable with?"

She has clients in their 70s and 80s who get 30-year mortgages because that's what makes them feel comfortable. Some homeowners would rather refinance once and never have to bother with refinancing again, so they pay a lot of points for a rock-bottom rate. As a bonus, they have something to boast about at cocktail parties. Other clients simply want the lowest possible payments, so they snag an interest-only, five-year ARM. All understand what they're getting into and have found their comfort zones.

5. How long should I lock?

This will depend on how busy the lenders and mortgage servicers are -- the busier the offices, the longer the wait to close. If you want to lock a rate, follow the broker's or lender's advice on how long you should lock. You might be told to lock for 45 days or even longer. For more information on rate locks, read my column "[Rate lock anxiety](#)."

6. Will I be able to make the payments when I include all the monthly mortgage expenses?

Principal and interest are only part of your monthly payment. Add in private mortgage insurance, association fees, property taxes and homeowner insurance and your range of affordable homes will narrow -- to the ones you will actually be able to afford.

In addition, you'll need a savings cushion. Many people don't find room in their budget to save up for the inevitable roof repairs, furnace replacement and painting. Then they step on the debt treadmill to pay for those things.

Experts often recommend that couples qualify for a mortgage based on one partner's income. That lets them escape a common dilemma today, in which the income from one spouse vanishes, leaving them one paycheck away from financial disaster.

7. Is my credit good enough to get that attractive rate?

The advertised rate isn't necessarily the rate you'll get. If your credit history is merely OK instead of excellent, you'll be quoted a higher rate than your chum with flawless credit. To be more specific, if you have been more than 30 days late with your mortgage payment anytime in the last couple of years, you are unlikely to get the best rate. Ditto if you've been more than 30 days late three or four times in the last couple of years on other types of debt, such as credit cards and auto loans.

People with less-than-perfect credit won't be turned away. They'll just have to pay a higher rate.

Before applying for a mortgage, [check your credit reports](#) to make sure they're accurate.

8. Can I get homeowner insurance?

This question is especially important in states susceptible to hurricanes such as Florida, Texas and other Gulf Coast states. Mold problems, hurricanes, sinkholes and tornadoes are big reasons why these states pay some of the highest premiums in the nation. Texans are

charged the most, according to the latest annual homeowners insurance report from the National Association of Insurance Commissioners. Homeowners in Louisiana, Oklahoma and Florida pay the next highest premiums.

Some insurers have pulled out of states and refuse to write new homeowner policies. If you're buying a house with a history of insurance claims for water damage or mold, you might have trouble finding a company that will insure it. Shop for insurance long before the closing date.