DAILY JOURNAL

Real Estate

Your guide to homes, property and apartments in Johnson County

MORTGAGES

Adding extras can make your house payment climb

By Dana Dratch
BANKRATE

Think you know what you can afford as a first-time home buyer? You might want to grab a calculator and run those numbers again.

There's a lot more to a mortgage payment than the loan amount and interest rate. Extras such as property taxes, mandatory structural insurance and private mortgage insurance, or PMI, can add as much as 30 percent to 50 percent to your monthly payment.

If you don't realize that going in, you could end up shopping for too much house or falling in love with a home that's really more than you can afford. Many of these costs will vary with the home, the location, the type of loan and the amount of your down payment.

If you're working with a mortgage banker, mortgage broker or real estate agent, he or she can usually give you some guidance in comparing the additional costs associated with one to those of another. But if, like many buyers, you start your home search online, you need an idea of how to make some rough estimates on your own.

Homeowners insurance

"A good rule of thumb is $3 for every $1,000 of the loan amount annually," said Jennifer Gavre, Wachovia mortgage banking executive for Georgia.

So that $200,000 home would cost you about $600 a year. Typically, you'll pay a year in advance at closing, and the next year's premium will be equally divided among your payments, an extra $50 per month. It covers damage to the structure of your home, but many policies do not cover flooding. If you live in a flood-prone area, you might need additional coverage.

"One thing worth remembering is that in some areas of the country, areas hurt by hurricanes in the past few years, premiums have gone up rather sharply," said Mike Fratantoni, a senior economist with the Mortgage Bankers Association. "So it's a good thing to have a handle on. Just like everything else, do your shopping and get multiple quotes."

One easy way to compare a house in one neighborhood to a similar home across town: get the ZIP code.

"Insurers have very detailed price rate sheets," Fratantoni said. Depending on the ZIP code, "they may have a different rate for you," he said.

Flood insurance

If you live in a flood-prone area (usually termed "100-year flood plain"), your lender will likely require you to have insurance that specifically covers flood damage. The cost will vary based on how close you are to flood-prone areas. Figure about $150 to $200 per year, Gavre said. Again, you'll pay a year in advance at closing, then next year's premiums will be divided into your monthly payments.

Property taxes

While the federal government will give you a tax break for investing in a home, you have to pay taxes to the local municipalities where the home is located. Depending on where the house is, you may pay several municipalities. In addition, some locations will offer tax breaks or special tax abatement zones to encourage home buyers.

Property taxes are usually a set rate, adjusted by the value of your home. As a general rule of thumb, figure 1 percent to 1.5 percent of the home cost per year, Gavre said. Using that yardstick, expect $167 to $250 per month for that $200,000 house.

So do people shop property tax? Not really, Gavre said. "They're buying the house they love in the school district they want," she said.

"You see it a little in the upper market ... $1 million or more," she said, "because a difference in property tax is much more significant."

Remember, you probably won't get the same tax bill the current owner does, Fratantoni said.

Ideally, property tax rates keep pace with the value of the house. Realistically, tax assessments may not be adjusted for years and then take a sudden climb, often when the house is sold.

Look at demand, too, since that can signal climbing values and increasing tax rates, said Michael Turner, senior vice president and director of development for the National Foundation for Credit Counseling.

When he and his family recently bought a home in Loudoun County, Va., "I knew that the growth rate was exploding," Turner said. So he banked a little extra, just to cover any anticipated tax increases.

"I had a buffer," he said.

In some states like California, state laws limit tax hikes while the property is owned by one person, but the tax bill can change, sometimes drastically, when the property is sold, Fratantoni said. So a copy of the current tax bill "may not be enough information," he said.

Instead, look at tax bills for the past few years. Also consider how demand will factor into future bills. Call the local municipality offices and find out what kind of bill you could expect if you bought the house.

Then, when you get a fairly realistic estimate, add one-twelfth of that amount to your payment every month.

Private mortgage insurance

Otherwise known as PMI, private mortgage insurance protects the lender if you should default on the loan. It's tricky to calculate because the rate depends on your credit rating, the amount of money you have in reserve, the amount you put down, the type of loan and the price of the house, Gavre said.

"It's hard to give a rule of thumb because it's very individual," she said.

Typically, PMI is required when the borrower takes out a private loan and puts down less than 20 percent of the mortgage. Once the homeowner has paid 20 percent of the principal, he or she often can discontinue PMI. With some government-backed loans such as VA and FHA mortgages you don't have PMI, but there is an equivalent fee.

For a general guide, if you're paying PMI, estimate between $140 and $300 for a $200,000 home, Gavre said.

Thanks to a recent change in the law, mortgage insurance is tax-deductible on mortgages taken out in 2007. That can mean substantial savings and tilt your decision.

Are you considering one of the piggyback mortgage products that will allow you to essentially take out a second loan to cover the cost of the down payment?

To get a true apples-to-apples comparison, you need to compare the cost of a one-mortgage option with PMI to the multiloan product, Fratantoni said.

"It's worth looking at both," he said.

Association dues

A number of first-time buyers (and some empty-nesters) decide that a condo is a good way to get or stay in the housing game without many of the outdoor maintenance issues and other homeowner hassles. But, if you decide to buy a condo, remember to add the monthly association fees into your obligations.

Fees vary depending on the property, the amenities and the services, such as water or garbage collection, included. To be on the safe side, budget about $200 to $225 per month if you're condo shopping.

Maintenance

Budget for the unexpected.

When you live in a house, things go wrong. The water heater quits, the roof springs a leak or you have to hire someone to clean the gutters or paint. The smart thing is to put aside a little every month when you make your mortgage payment. A good amount: at least $100, Gavre said.

But adjust the estimate to your situation, Fratanton said.

"A new house with a new roof and new appliances is probably in better shape than a fixer-upper," he said.

OK, so if you've been keeping track, the "extras" on a $200,000 home can add between $364 and $614 to your monthly payment. If you get a 30-year loan at 6 percent, that means your monthly payment could range between $1,564 and $1,814. That's not including condo association fees or a nest egg to cover future maintenance needs.

Experts suggest you have a reserve fund with several months' worth of payments. How much will vary on the lender, the loan and the down payment.

Gavre recommends "three to four months" of monthly mortgage payments in reserve.

But Fratantoni believes that, depending on the circumstances, you might be able to make do with less.

"Typically, a lender is going to want a borrower to have at least two months of monthly payments in reserve," he said.

REAL ESTATE WATCH

Mortgage limits won't change in 2007

The conforming mortgage limit between regular mortgages and jumbo mortgages won't rise in 2007, but at least it won't fall.

But if home values fall again next year (as they did this year), government regulators might decrease the conforming limit in 2008.

Conforming mortgages are home loans that conform to standards set by Fannie Mae and Freddie Mac, the government-sponsored enterprises that buy bundles of mortgages and sell them as investments. Fannie and Freddie act as pumps that keep money circulating through the mortgage financing system. The conforming limit marks the maximum loan size that Fannie and Freddie may buy or guarantee.

A mortgage that's bigger than the conforming limit is called a jumbo loan. Rates on jumbo mortgages tend be one-eighth to one-quarter of a percentage point higher than comparable conforming mortgages. You can check the rates of both types of loans on www.Bankrate.com's mortgage search tables.

The conforming limits

The conforming limit will remain $417,000 for single-family houses in the continental United States. It will remain $625,500 in Alaska, Hawaii, Guam and the U.S. Virgin Islands.

Normally, the conforming limit rises and falls along with house values. The limit is pegged to the change in average house prices from October to October, as measured by the Federal Housing Finance Board. Today the board reported that the average U.S. house price fell $501 in the 12 months ending in October. This October, the average price was $306,258; in October 2005, the average price was $306,759. That's a drop of 0.16 percent.

Anticipating the drop, the agency that oversees Fannie and Freddie announced two weeks ago that it would not lower the conforming limit for 2007 because such a move would disrupt the mortgage markets. "If house prices fall, loan limits should reflect that, but we need to ensure an orderly and transparent process for any downward adjustment," James B. Lockhart, director of the Office of Federal Housing Enterprise Oversight, said at the time.

OFHEO had never gotten around to devising a procedure to deal with a decline in house prices. The agency says it will come up with a plan early next year, so that if house prices fall again, it can lower the conforming limit without wreaking havoc in the mortgage banking world.

Holden Lewis

Real Estate Watch

No sudden mortgage moves, please

Lowering the conforming limit without giving ample warning could cause problems because it sometimes takes lenders a few months to sell their mortgages on the secondary mortgage market.

Here's why that could cause a problem. Let's say a bank underwrote a $416,500 mortgage in late October, just barely inside the conforming limit. Then, a month later, OFHEO lowered the conforming limit to $416,350. If the bank were unable to sell the loan before Jan. 1, it might be stuck with keeping the loan on its books. Or it might have to sell the loan on Wall Street at a loss. OFHEO doesn't want to force lenders into either of those circumstances.

The conforming limit rises almost every year but not always. It has gone down only once in the last 26 years, when the limit fell $150 in 1990, to $187,450. It remained unchanged in 1994 and 1995.

It went up 15.95 percent in 2006, the biggest increase in memory.

Conforming limits for multifamily homes will remain the same, too.

Other conforming limits:

- $533,850 for two-family properties.
- $645,300 for three-family properties.
- $801,950 for four-family properties.

The limit for second mortgages remains $208,500 in the continental United States and 50 percent higher in Alaska, Hawaii, Guam and the Virgin Islands.

FHA-insured mortgages

The Federal Housing Administration soon will decide on the limits for FHA-insured mortgages. Those limits vary by county, depending on how expensive the houses are, from a low of $200,160 in cheap places such as Lubbock, Texas, to a high of $362,790 in expensive places such as Los Angeles.

Distributed by Scripps Howard News Service. E-mail Holden Lewis at editors@bankrate.com

The ins and outs of underwriting

Once your loan has been approved, the clock starts ticking to closing day. Much remains to be done during those few weeks, and most of it occurs behind the scenes. You can help speed the process by:

- Providing complete documentation
- Responding promptly to your lender's request for information.
- Helping contact employers and others who may need to provide documentation.
- Keeping records of your conversations with your lender.

Here's what's happening while you wait:

Underwriting verification

Your lender's team of underwriters springs into action, verifying the information on your application and supporting documents. They will call your employer, for instance, to verify that you work in the job and at the salary stated on your application. The amount of verification involved depends on how risky your lender perceives you to be.

Appraisal

Your lender will require an independent appraisal of the property prior to closing, the outcome of which could affect the rate and terms of your mortgage. The work will be done by a licensed appraiser, who will arrive at an expert's estimated value of the property based on physical inspection and a sampling of comparables or "comps" — prices paid for comparable properties that have recently sold in the neighborhood. Cost of an appraisal typically runs between $300 and $500.

Title search and title insurance

Your lender doesn't want to lend money against a house that may have claims or other encumbrances upon it. That's why a title company performs a title search.

The title company will go to the county courthouse and research the history of the property, looking for encumbrances such as mortgages, claims, liens, easement rights, zoning ordinances, pending legal action, unpaid taxes and restrictive covenants.

Flood certification

Lenders also want to know whether the property you're buying is in a flood-prone area. They will hire a vendor to analyze your property and neighboring sites to determine if it's in a flood zone. If the answer is yes, you'll be required to buy flood insurance because most standard homeowners' policies don't cover damage from rising water.

Survey

Some lenders also will require that a home's property lines be verified by a professional survey.

Mortgage Basics is a financial literacy courses offered at www.bankrate.com to help consumers make smart choices on everything from car loans to credit cards. The Basics series include discussions of the topic, a quiz at the end of each chapter, links to Bankrate calculators, surveys and decision tools and money-saving advice.