

MORTGAGE MATTERS

Financial Issues for Today's Homeowner

WANT TO SAVE MONEY? - CANCEL YOUR MORTGAGE INSURANCE

Private Mortgage Insurance (PMI) is always required when a borrower puts less than 20% down on a new home purchase. The most important thing to remember in regards to canceling private mortgage insurance is that borrowers must take the initiative to do so.

Federal law requires automatic PMI cancellation when the mortgage balance is 78 percent of the original value of the house and the borrower is up-to-date on payments. However PMI can be cancelled when an 80% loan-to-value is reached if the homeowner takes the initiative to have it cancelled. Many people pay for insurance long after it is no longer necessary.

Automatic cancellation only takes into account amortization (principal balance reduction from the monthly payments) and does not give homeowners credit for home value appreciation. Lenders require that you have 20 percent equity in your home, equity being the difference between what you owe on the property and its value. This can be achieved by not only making payments that reduce the principal balance of your loan, but also by your home appreciating in value.

Homeowners who feel their equity has increased due to appreciation of the home or the reduction of the mortgage's principal balance may want to obtain a new appraisal. The mortgage loan balance divided by the current value of your home, including appreciation, will determine the loan-to-value. If the property value has appreciated to where the mortgage balance is less than 80% of the value of the home you should contact your lender and request to have the PMI policy canceled. Homeowners should call their lenders before ordering appraisals to learn what requirements and guidelines each particular lender has for canceling the PMI policy.

The cost savings gained by canceling the PMI policy can be significant to the homeowner. If the original loan amount was \$100,000, monthly PMI cost will range from approximately \$44-\$65 per month depending on the initial down payment amount. Given that a new appraisal should cost less than \$300, you should be able to recoup the appraisal expense in around six months.

Don't forget that in order to avoid paying PMI when you don't have to, take the first step and call your mortgage provider and ask the process to remove PMI.



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RATES ARE LIKELY TO HEAD BACK UP, BETTER TAKE ADVANTAGE NOW

Have we come too far too fast? That seems like a legitimate question considering what's happened with mortgage rates this summer.

Between May 17 and August 23, 30 year fixed rates plummeted 72 basis points, or almost three-quarters of a percentage point, to 7.97 percent from 8.69 percent.

The move stems from a belief among market watchers that the Federal Reserve Board's series of rate hikes is either over or coming to an end. But some think the reaction is overdone and that mortgage rates are acting like Fed rate cuts are on the way.

What can mortgage hunters do? Consider locking in now while long-term rates are hovering near their lowest levels since last December. They may be the best we'll see for a while.

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