

Playing Mortgage Roulette

Home buyers should carefully consider what type of mortgage is best for them or be prepared to suffer potentially expensive consequences. In a recent interview with mortgage professional Kenneth Polin, president of Banner Mortgage Group, Inc., a firm located in the Lord & Taylor Shopping Center, Polin discusses mortgage issues that home buyers should understand. Here are excerpts:

Strictly Scarsdale: What's "hot" in the mortgage industry today?

Polin: Since interest rates are up – more than two percent over just the last twelve months – most home purchasers are opting for adjustable rate mortgages (ARMs). That is, mortgages whose rates adjust periodically.

ARMs come with certain advantages: nevertheless, there are clear disadvantages as well. ARMs all too often entice applicants through artificially low introductory rates. What may start off as a bonanza of savings may, in time become a nightmare of unaffordable payments.

Strictly Scarsdale: Who are the best applicants for ARMs?

Polin: Anyone who can afford to bear future increases in monthly payments may aggressively wish to pursue today's low-rate ARMs. These programs also make a lot of sense for purchasers who have firm plans for a residence of short duration or for purchasers, such as young professionals, who confidently expect future increases in income.

Strictly Scarsdale: So, who should take a fixed rate mortgage?

Polin: Buyers who are planning on a lengthy term of residence should seriously consider a traditional fixed rate mortgage – that is, a mortgage whose rate never increases.

Today's fixed rate will mean higher payments at the outset, but it is very comforting to most people to have a mortgage whose payment will never rise. Taxes, insurance and maintenance expenses tend to increase over the years too. Having a fixed mortgage payment helps to take the sting out of the other costs of home ownership.

Strictly Scarsdale: Why should someone pay "points"?

Polin: There is an inverse relationship between interest rates and "points." A "point" is one percent of the mortgage amount. In exchange for paying points, the interest rate is reduced.

The longer the planned length of residence, the more it makes sense, cash-permitting, to pay points. After the cost of the points is recaptured through decreased monthly payments, the homeowners will continue to enjoy additional savings for the remaining duration of the mortgage.

Strictly Scarsdale: Does it make sense to pay points for a fixed rate program?

Polin: Not necessarily. By paying points on an ARM, for example, the start rate will be reduced. That will also usually have the wonderful effect of lowering the highest permissible rate over the life of a loan.



Kenneth Polin, President of Banner Mortgage, suggests that potential home buyers may want to consult a trusted financial advisor, accountant or attorney, and checking with the Better Business Bureau before hiring a mortgage professional.

Best of all, points paid in connection with a purchase are usually tax deductible by the buyer – whether paid by the buyer or seller.

Strictly Scarsdale: What are currently the most popular mortgage programs?

Polin: Because of our wholesale pricing arrangements with correspondent lenders, we usually find zero point or low point loans to be best for purchasers with limited cash on hand or those who plan on a short term of residence.

I personally like many of the "hybrid" programs. A hybrid program is designed to combine the security of a fixed rate program with the more attractive rate of an ARM. The initial rate is fixed for a period of up to ten years; thereafter, the program becomes an ARM.

Since most people move once every several years, the potential higher rates are often never faced. Meanwhile, the purchasers reap the benefit of having an initial rate of typically one-half to a full percent lower than that available with traditional fixed rate programs.

Strictly Scarsdale: How should an applicant choose between an ARM or hybrid program?

Polin: Carefully analyze the initial rate, index, margin and "caps." The index is the foundation on which the rate is based. The margin is the lender's spread over the index which, when added to the index, determines future interest rate changes. The "caps" limit the amount by which a rate may increase upon any adjustment or over the life of the mortgage, regardless of market conditions.

Since there are hundreds of such programs available, make your choice with a carefully selected and trusted mortgage professional.