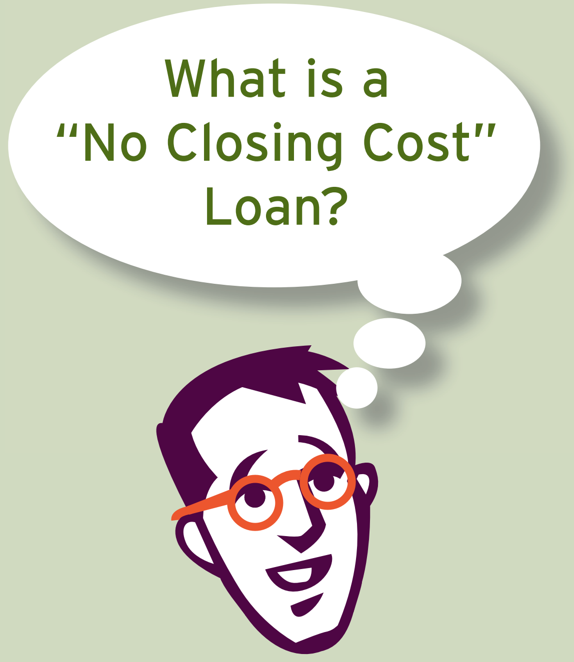
Removing the Mystery from Your
No Closing Cost Loan

APPLE STREET MORTGAGE



Q: I’ve heard about “No Closing Cost” loans. They sound like a great deal. Are they free?

A: Well, not really. As is usually the case in life, you don’t get something for nothing.

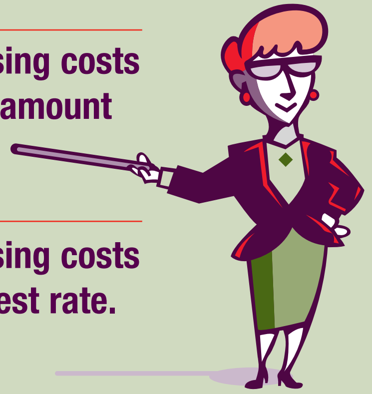
No Closing Cost loans are usually defined in one of two ways. It is important to understand how they work and what the difference is between the two:

Type 1

Roll your closing costs into the loan amount

Type 2

Roll your closing costs into the interest rate.



. . . continued on page 2

. . . continued from page 1

In Type 1, Your closing costs are simply rolled into the loan amount. Essentially, they are financed along with the rest of the loan. As a result, your monthly payment will be a little higher than if you paid your closing costs up front. We don’t really consider Type 1 to be a no closing cost loan, but it does give you the additional flexibility of not having to bring funds for closing costs to the table.

In Type 2, Your lender pays your closing costs for you, in exchange for a higher interest rate. You will have a slightly higher monthly payment as a result of the higher interest rate. This concept can perhaps be best understood by looking at the related but opposite notion of paying discount points.

When you pay discount points, *you* are paying the *lender* up front for a *lower* interest rate. You’re taking the risk that, by paying money up front, you will benefit in the long run from the reduced monthly payments of a lower interest rate – but you will reap this benefit only if you keep the loan for a long enough time – typically four to seven years.

By rolling your closing costs into the interest rate, the *lender* is essentially now paying *you* in exchange for a *higher* interest rate – which is just the opposite of paying discount points. In this case, the lender is hoping that you’ll keep the loan for a long time and the lender will benefit from the higher interest rate in the long run. The shorter the time that you keep the loan, the more you’ll benefit. So this plan is ideal if you expect to have the loan for only a few years, which will be the case if you sell your property, pay off your loan, or refinance it. Of course, even if you keep the loan for a long period, you may still find this option attractive simply because less money is required up front which may help you qualify for the loan or at least help your current cash flow.

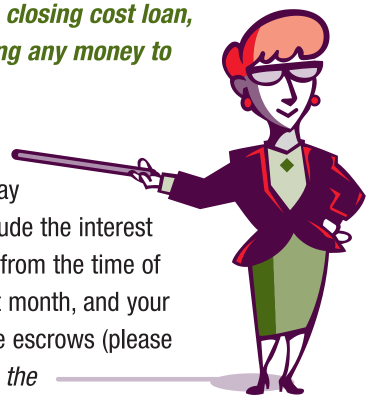
Q: ***What are the closing costs that get rolled in?***

A: Closing costs are your actual costs of getting the loan. These can vary. Closing costs typically include a loan origination fee and other costs such as underwriting, appraisal, and title insurance. Make sure to ask your lender if all closing costs are included in your no closing cost loan.

Q: ***I’ve heard about lenders that don’t charge an origination fee. Is that a good deal?***

A: If there is no origination fee, it is likely that it has been rolled into the interest rate. **Make sure that you understand what is and is not included in your no closing cost loan.** Different lenders may have their own definitions of what “no closing cost” means – which may not always be to your benefit. For instance, one lender may offer a no closing cost loan, but you still have to pay title fees – which can be substantial! At the closing table, you can either pay all closing costs, no closing costs, or anything in between. Apple Street Mortgage will provide you with the straight scoop on your alternatives.

Q: ***So if I get a true no closing cost loan, I won’t have to bring any money to the closing table?***



A: That depends. You generally must pay prepaids – these include the interest that you pay to your new lender from the time of funding to the end of the current month, and your property tax and home insurance escrows (please refer to the document *Removing the Mystery from Your Prepaids and Payoff Amount*).

But you can roll your prepaids into the loan amount or interest rate just like the closing costs. Just understand, prepaids are not closing costs. Prepaids include additional funds required to close your loan – but they should not be considered a fee for getting the loan. Again, check with Apple Street Mortgage to get an estimate of these costs

Q: ***My friend refinanced just to lower her interest rate by 1/4%. But I read somewhere that it doesn’t make sense to refinance unless you can lower your rate by 1 or 2%. What gives?***

A: If you use the Type 2 plan – rolling your closing costs into the interest rate – you can save money by lowering your rate by as little as 1/8%! This is because you get a better rate, but without any closing costs. But beware of prepayment penalties on your old loan. Some loans have them, some don’t. Apple Street Mortgage will help you find out whether yours does or not.

Q: ***My coworker got a no cost loan at 6%, but mine was 6.375%. Why the difference?***

A: Your no closing cost rate is based on a percentage of your loan amount. As a result, a larger loan amount will get a lower no cost rate than a smaller loan amount.

Q: ***This Q&A helps, but all of these alternatives are still kind of confusing. What is best for me?***

A: That depends on your situation. At Apple Street Mortgage, we’ll perform a free analysis of your individual circumstances so that you can make an informed decision on how best to structure your loan.