Twelve Ways to Lower Your Homeowners Insurance Costs

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Insurance is a very competitive business and the price you pay for your homeowners insurance can vary by hundreds of dollars, depending on the insurance company you buy your policy from. Companies offer several types of discounts, but they don't offer the same discount or the same amount of discount in all states. That's why you should ask your agent or company representative about any discounts available to you. Here are some things to consider when buying homeowners insurance.

1. Be sure to shop around.

It'll take a few phone calls, but they could save you a good sum of money. Ask your friends, check the yellow pages or call your state insurance department (phone numbers are on the back page of this brochure). Also check consumer guides, insurance agents and companies. This will give you an idea of price ranges and tell you which companies or agents have the lowest prices. But don't consider price alone.

The insurer you select should offer both a fair price and excellent service. Quality service may cost a bit more, but it provides added conveniences, so talk to a number of insurers to get a feeling for the type of service they give. Ask them what they would do to lower your costs. Check the financial ratings of the companies, too. Then, when you've narrowed the field to three insurers, get price quotes.

2. Raise your deductible.

Deductibles are the amount of money you have to pay toward a loss before your insurance company starts to pay according to the terms of your policy. Deductibles on homeowners policies typically start at $250. By increasing your deductible to $500, you could save up to 12 percent; $1,000, up to 24 percent; $2,500, up to 30 percent; and $5,000, up to 37 percent, depending, of course, on your insurance company.

3. Buy your home and auto policies from the same insurer.

Some companies that sell homeowners, auto and liability coverage will take 5 to 15 percent off your premium if you buy two or more policies from them.

4. When you buy a home...

Consider how much insuring it will cost. Because a new home's electrical, heating and plumbing systems and overall structure are likely to be in better shape than those of an older house, insurers may offer you a discount of 8 to 15 percent if your house is new.

Check its construction, too. Brick, because of its resistance to wind damage is better in the East; frame, because of its resistance to earthquake damage, better in the West. Choosing wisely could cut your premium by 5 to 15 percent.

Avoiding areas that are prone to floods can save you $400 or so a year for flood insurance. Homeowners insurance does not cover flood-related damage. If you do buy a house in a flood-prone area, you'll have to buy a flood insurance policy, too.

Does your town have full-time or volunteer fire service? And is your house close to a hydrant or fire station? The closer your house is to firefighters and their equipment, the lower your premium will be.

5. Insure your house, not the land.

The land under your house isn't at risk from theft, windstorm, fire and the other perils covered in your homeowners policy. So don't include its value in deciding how much homeowners insurance to buy. If you do, you'll pay a higher premium than you should.

6. Beef up your home security.

You can usually get discounts of at least 5 percent for a smoke detector, burglar alarm, or dead-bolt locks. Some companies offer to cut your premium by as much as 15 or 20 percent if you install a sophisticated sprinkler system and a fire and burglar alarm that rings at the police station or other monitoring facility. These systems aren't cheap and not every system qualifies for the discount. Before you buy such a system, find out what kind your insurer recommends and how much the device would cost and how much you'd save on premiums.

7. Stop smoking.

Smoking accounts for more than 23,000 residential fires a year. That's why some insurers offer to reduce premiums if all the residents in a house don't smoke.

8. Once you retire...

Retired people stay at home more and spot fires sooner than working people. Retired people have more time for maintaining their homes, too. If you're at least 55 years old and retired, you may qualify for a discount of up to 10 percent at some companies.

9. See if you can get group coverage.

Alumni and business associations often work out an insurance package with an insurance company, which includes a discount for association members. Ask your association's director if an insurer is offering a discount on homeowners insurance to you and your fellow graduates or colleagues.

10. Stay loyal to your insurer.

If you've kept your coverage with a company for several years, you may receive special consideration. Several insurers will reduce their premiums by 5 percent if you stay with them for three to five years and by 10 percent if you remain a policyholder for six years or more.

11. Compare the limits in your policy and the value of your possessions at least once a year.

You want your policy to cover any major purchases or additions to your home. But you don't want to spend money for coverage you don't need. If your five-year-old fur coat is no longer worth the $20,000 you paid for it, you'll want to reduce your floater and pocket the difference.

12. If you're in a government plan...

If you live in a high-risk area --- say, one that is especially vulnerable to coastal storms, fires, or crime --- and have been buying your homeowners insurance through a government plan, you should check with an insurance agent or company representative. You may find that there are steps you can take that would allow you to buy insurance at a lower price in the private market.

A Consumer's Guide to Mortgage Refinancing

This was prepared in consultation with the following organizations:

American Bankers Association

Appraisal Institute

Comptroller of the Currency

Consumer Federation of America

Credit Union National Association, Inc.

Federal Deposit Insurance Corporation

Federal Home Loan Mortgage Corporation

Federal National Mortgage Association

Federal Reserve Board's Consumer Advisory Council

Federal Trade Commission

Independent Bankers Association of America

Mortgage Bankers Association of America

Mortgage Insurance Companies of America

National Association of Federal Credit Unions

National Association of Home Builders

National Association of Realtors

National Credit Union Administration

Office of Special Adviser to the President for Consumer Affairs

Savings and Community Bankers of America

The Consumer Bankers Association

U.S. Department of Housing and Urban Development

Veterans Administration

The Federal Reserve Board and the Office of Thrift Supervision has prepared a booklet on refinancing your mortgage in response to a request from the House Committee on Banking, Finance and Urban Affairs and in consultation with many other agencies and trade and consumer groups. It is designed to help consumers understand an important aspect of home financing.

They believe a fully informed consumer is in the best position to make a sound financial choice. If you are considering refinancing your home loan, this booklet will provide useful basic information about refinancing. It cannot provide all the answers you will need, but we believe it is a good starting point.

A Consumer's Guide to Mortgage Refinancing

If you are a homeowner who was lucky enough to buy when mortgage rates were low, you may have no interest in refinancing your present loan. But perhaps you bought your home when rates were higher. Or perhaps you have an adjustable-rate loan and would like to obtain different terms.

Should you refinance? This manual will answer some questions that may help you decide. If you do refinance, the process will remind you of what you went through in obtaining the original mortgage. That's because, in reality, refinancing a mortgage is simply taking out a new mortgage. You will encounter many of the same procedures-and the same types of costs-the second time around.

Would Refinancing Be Worth It?

Refinancing can be worthwhile, but it does not make good financial sense for everyone. A general rule of thumb is that refinancing becomes worth your while if the current interest rate on your mortgage is at least 2 percentage points higher than the prevailing market rate. This figure is generally accepted as the safe margin when balancing the costs of refinancing a mortgage against the savings.

There are other considerations, too, such as how long you plan to stay in the house. Most sources say that it takes at least three years to realize fully the savings from a lower interest rate, given the costs of the refinancing. (Depending on your loan amount and the particular circumstances, however, you might choose to refinance a loan that is only 1.5 percentage points higher than the current rate. You may even find you could recoup the refinancing costs in a shorter time.)

Refinancing can be a good idea for homeowners who:

1) Want to get out of a high interest rate loan to take advantage of lower rates. This is a good idea only if they intend to stay in the house long enough to make the additional fees worthwhile.

2) Have an adjustable-rate mortgage (ARM) and want a fixed-rate loan to have the certainty of knowing exactly what the mortgage payment will be for the life of the loan.

3) Want to convert to an ARM with a lower interest rate or more protective features (such as a better rate and payment caps) than the ARM they currently have.

4) Want to build up equity more quickly by converting to a loan with a shorter term.

5) Want to draw on the equity built up in their house to get cash for a major purchase or for their children's education.

If you decide that refinancing is not worth the costs, ask your lender whether you may be able to obtain all or some of the new terms you want by agreeing to a modification of your existing loan instead of a refinancing.

Should You Refinance Your ARM?

In deciding whether to refinance an ARM you should consider these questions:

1) Is the next interest rate adjustment on your existing loan likely to increase your monthly payments substantially? Will the new interest rate be two or three percentage points higher than the prevailing rates being offered for either fixed-rate loans or other ARMs?

2) If the current mortgage sets a cap on your monthly payments, are those payments large enough to pay off your loan by the end of the original term? Will refinancing to a new ARM or a fixed-rate loan enable you to pay your loan in full by the end of the term?

What Are the Costs of Refinancing?

The fees described below are the charges that you are most likely to encounter in a refinancing.

1) Application Fee. This charge imposed by your lender covers the

initial costs of processing your loan request and checking your credit report.

2) Title Search and Title Insurance. This charge will cover the cost of examining the public record to confirm ownership of the real estate. It also covers the cost of a policy, usually issued by a title insurance company, that insures the policy holder in a specific amount for any loss caused by discrepancies in the title to the property.

Be sure to ask the company carrying the present policy if it can re-issue your policy at a re-issue rate. You could save up to 70 percent of what it would cost you for a new policy.

Because costs may vary significantly from area to area and from lender to lender, the following are estimates only. Your actual closing costs may be higher or lower than the ranges indicated below.

Application Fee $75 to $300

Appraisal Fee $150 to $400

Survey Costs $125 to $300

Homeowner's Hazard Insurance $300 to $600

Lender's Attorney's Review Fees $75 to $200

Title Search and Title Insurance $450 to $600

Home Inspection Fees $175 to $350

Loan Origination Fees 1% of loan

Mortgage Insurance 0.5% to 1.0%

Points 1% to 3%

Lender's Attorney's Review Fees. The lender will usually charge you for fees paid to the lawyer or company that conducts the closing for the lender. Settlements are conducted by lending institutions, title insurance companies, escrow companies, real estate brokers, and attorneys for the buyer and seller. In most situations, the person conducting the settlement is providing a service to the lender. You may also be required to pay for other legal services relating to your loan which are provided to the lender. You may want to retain your own attorney to represent you at all stages of the transaction including settlement.

Loan Origination Fees and Points. The origination fee is charged for the lenders work in evaluating and preparing your mortgage loan. Points are prepaid finance charges imposed by the lender at closing to increase the lender's yield beyond the stated interest rate on the mortgage note. One point equals one percent of the loan amount. For example, one point on a $75,000 loan would be $750. In some cases, the points you pay can be financed by adding them to the loan amount. The total number of points a lender charges will depend on market conditions and the interest rate to be charged.

Appraisal Fee. This fee pays for an appraisal which is a supportable and defensible estimate or opinion of the value of the property.

Prepayment Penalty. A prepayment penalty on your present mortgage could be the greatest deterrent to refinancing. The practice of charging money for an early pay-off of the existing mortgage loan varies by state, type of lender, and type of loan. Prepayment penalties are forbidden on various loans including loans from federally chartered credit unions, FHA and VA loans, and some other home-purchase loans. The mortgage documents for your existing loan will state if there is a penalty for prepayment. In some loans, you may be charged interest for the full month in which you prepay your loan.

Miscellaneous. Depending on the type of loan you have and other factors, another major expense you might face is the fee for a VA loan guarantee, FHA mortgage insurance, or private mortgage insurance. There are a few other closing costs in addition to these.

In conclusion, a homeowner should plan on paying an average of 3 to 6 percent of the outstanding principal in refinancing costs, plus any prepayment penalties and the costs of paying off any second mortgages that may exist.

One way of saving on some of these costs is to check first with the lender who holds your current mortgage. The lender may be willing to waive some of them, especially if the work relating to the mortgage closing is still current. This could include the fees for the title search, surveys, inspections, and so on.

The information contained in this manual is intended to help you ask the right questions when considering a possible refinancing of your loan. It is not a replacement for professional advice. Talk with mortgage lenders, real estate agents, attorneys, and other advisors about lending practices, mortgage instruments, and your own interests before you commit to any specific loan.

Ask your lender or real estate agent for the following related pamphlets:

A Consumers Guide to Mortgage Settlement Costs

A Consumer's Guide to Mortgage Lock-Ins

Consumer Handbook on Adjustable Rate Mortgages