Anticipating a Mortgage Rate Increase

BORROWING
LISA PREVOST

The intense focus on when the Federal Reserve will finally raise its benchmark interest rate above zero can be nerve-wracking for home buyers. Many might be wondering whether they should rush to close on a deal before a move by the Fed causes mortgage rates to climb.

While it might be smart to expedite deals in the works, those who aren't quite ready to buy shouldn't feel pressured. Mortgage rates are influenced by many factors, some of which can be controlled by borrowers to get a better deal.

When the Fed does act, the effect is unlikely to be an immediate spike in mortgage rates, said Jonathan Smoke, the chief economist for Realtor.com. What's more likely, he said, is a gradual increase in rates totaling around half a percentage point over a 12-month period. "There isn't a direct strong relationship between the Fed's policy action and what rates have been doing," Mr. Smoke said. "We've been at that zero policy level since the end of 2008, and since then the 30-year fixed rate has ranged from 3.31 to a high of 5.59."

One could even argue that "rates could stay the same or possibly go down when the Fed moves," said Bob Walters of Quicken Loans, the online lender. "It's not as though the long-term rates move in lockstep with the federal funds rate, which is a very short-term rate. And when they do move, the market's not going to be surprised. A lot of that is anticipated." (The federal funds rate is the amount banks charge one another for overnight loans.)

So instead of worrying about the Fed, borrowers might do better to concentrate on rate factors within their control. First is the type of loan they choose. Initial rates are lower on adjustable-rate mortgages, called ARMs, relative to a 30-year fixed, but these loans may not make sense for buyers who plan to stay in their homes for more than five to seven years. As the rate adjusts, it could become less affordable.

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One way for home buyers who opt for a fixed-rate loan to drive down their rate is by paying points — essentially prepaying interest. This strategy may make sense for buyers who plan to be in their homes for a long time, Mr. Walters said.

Two other factors that influence rates are credit scores and down-payment levels. Credit scores, in particular, have a considerable effect. On a conventional mortgage, the span between rates offered to borrowers with lower FICO credit scores (in the 600s) versus high (750 or higher) can be as much as a percentage point, Mr. Walters said.

Likewise, loans to borrowers making higher down payments (10 percent to 20 percent of the purchase price) are viewed as less risky and therefore offer lower interest rates. Fannie Mae and Freddie Mac do offer first-time home buyer programs that require just 3 percent down. But "there is a price for that," Mr. Smoke said. "A higher rate and mortgage insurance."

Borrowers should also keep in mind that rates vary across lenders because of "all of their individual views of the level of risk and how much business they need to fill their pipeline," he added. "It pays to shop around."

At the same time, Mr. Walters said, borrowers should be aware that rates are not static — a phone quote given in the morning could change by day's end. "Mortgage rates are just like stocks, in that mortgage-backed securities trade all day and rates are changing throughout the day based on what's happening in the market," he said. "So home buyers shouldn't assume it's a bait-and-switch or a scam when the quoted rate changes in a short period of time."

PIOTR REDLINSKI FOR THE NEW YORK TIMES

Health savings accounts let consumers save and pay for medical care, free of federal income taxes.

Health Accounts Growing

YOUR MONEY
ANN CARRNS

The number of people with health savings accounts has ballooned, but higher-income families are much more likely to fund the accounts, a new analysis found.

The number of health savings accounts, or H.S.A.s, has been growing by about one million a year, reaching more than 6.5 million in 2012, according to research published recently in the journal Health Affairs.

Health savings accounts let consumers save and pay for medical care, free of federal income taxes. Balances are carried from year to year, and consumers can often invest the money for tax-free growth. The accounts are not available to everyone, however. They must be used with a specific type of health insurance plan with a high deductible (at least $1,300 for a single person in 2015).

H.S.A.s offer the prospect of significant tax savings. Contributions are deducted from pretax income, and any contributions you make from personal funds are tax-deductible — even if you don't itemize deductions on your return. Withdrawals aren't taxed either, as long as the funds are used for eligible medical costs.

Timothy Hayes, a financial planner near Rochester, N.Y., said the accounts might be attractive to consumers who have funds to invest longer term, because they can be used to pay not only for medical care in retirement but also for costs like long-term-care insurance premiums.

Mr. Hayes said he advised clients that, if they could, they should pay for current medical costs using other funds, and let their H.S.A. contributions grow for future use. Resist the urge to use health savings account's debit card. "You'll be happy to have that money, when you're older," he said.

Q & A

¶ What is the maximum contribution to a health savings account?
For 2015, it is $3,350 for an individual, $6,650 for a family. (Optional contributions from an employer count toward the total.) In 2016, the cap for an individual remains the same, while the amount for a family will rise by $100, to $6,750; the lack of a big change is because of "tepid" inflation according to the Society for Human Resource Management.

¶ Can I make "catch-up" contributions to my H.S.A.?
If you are 55 or older, you can add an extra $1,000 a year.

¶ Is an H.S.A. the same as a health care flexible spending account?
No. The accounts sound alike, but have different rules. For instance, you can't take an F.S.A. with you, if you change jobs.

Choosing the Best Smartphone Plan

TECHNOLOGY
BRIAN X. CHEN

When you shop for a wireless phone plan, chances are that the carrier's marketing contains the word "simple." But when you browse the numerous options and fees, you'll find they are anything but.

Instead, we may be hitting peak complexity with phone plans.

"Never before has the pricing been so complicated with all the carriers," said Toni Toikka, whose research firm Alekstra analyzes wireless bills and who recently created a giant spreadsheet of phone plans. "This is the first time in carrier history that the carriers have been able to build that kind of a maze that even I get really confused."

So we worked to boil down which plans are worth paying attention to, especially as consumers may be shopping for new phones and carrier plans since Apple unveiled its new iPhones on Sept. 9. The main takeaway: In terms of price and network quality, AT&T has the best deals right now for both individual subscribers and families.

To see how we arrived at that conclusion, it's worth understanding how once relatively straightforward phone plans became complicated ones with all manner of fees and choices.

TOM GRILLO

Death of 2-Year Contract

The big change in wireless plans began with the departure from the two-year contract, which was a standard plan several years ago. Under the contract, people paid a one-time subsidized price for a cellphone upfront, and then a monthly fee for a wireless plan, including minutes, text messages and data. After two years, you would be eligible to buy a new phone at a subsidized rate and you would continue to pay the same monthly wireless fee, whether you upgraded to a new phone or not.

In 2013, T-Mobile said it would abandon the two-year contract to make phone plans cheaper and more transparent, while eliminating annoying charges like termination fees. T-Mobile instead chose to break out the full cost of a phone from the cost of the data plan. AT&T, Verizon Wireless and Sprint soon followed suit.

"We're finally seeing companies move away from these one-way, unfair, nontransparent contracts," Mike Sievert, the chief operating officer of T-Mobile, said in an interview.

The new plans are called contract-free or "equipment installment plans," which typically have four main costs: the price of the data plan, the cost of the device spread over monthly installments, the activation fee for each phone and the monthly cost for each phone line (also called the network-access fee).

Prices vary by carrier, and over time, the fees can shift. Once you finish paying off the cost of the phone, for example, that fee is removed from your bill and you pay a lower monthly rate for your phone bill. In some cases, you can choose to upgrade to a new device when you've paid off the phone.

For a flavor of the complexity of these plans, look at Verizon's three-gigabyte contract-free plan. It costs $45 a month for the data. Each smartphone added to the plan is $20 a month. There is an equipment payment plan to pay off the smartphone over two years — the iPhone 6 costs $650, or $27 a month spread over two years. Altogether, you pay at least $92 a month. After paying off the device, you would subtract the $27 equipment charge from your monthly bill.

Contract-Free Plans

One aspect of contract-free plans that consumers should be aware of: Some can actually cost more than a two-year contract plan.

Take an individual AT&T customer who has an iPhone 6 with five gigabytes of data on a two-year contract. Over the two years, the customer would pay about $2,405 total ($200 upfront for the iPhone, $50 a month for the data plan, a $45 activation fee and $40 a month for the network access fee).

For someone who chooses the five-gigabyte plan on AT&T's Next 18 installment plan, which spreads phone payments over two years, the customer would pay $2,465 over two years ($27.09 a month for the iPhone, a $15 activation fee, $25 a month for the network access fee and $50 a month for the data plan).

The difference in price comes from the monthly rates and activation fees. The monthly rate for the installment plan is higher than the monthly rate for the two-year contract, whereas the activation fee is higher on the two-year contract.

Get Help With Seeing Blind Spots of Investing

SKETCH GUY
CARL RICHARDS

A retired investment banker was looking for help with his money. I said to him, "Of all the people I know, you're in the best position to deal with your investments. Why do you need help?"

"Carl," he replied, "I could invest my own money, except for the 'I' part."

He understood that when it came to his own money he had a blind spot. And he recognized the value in having someone else help him see mistakes he might make.

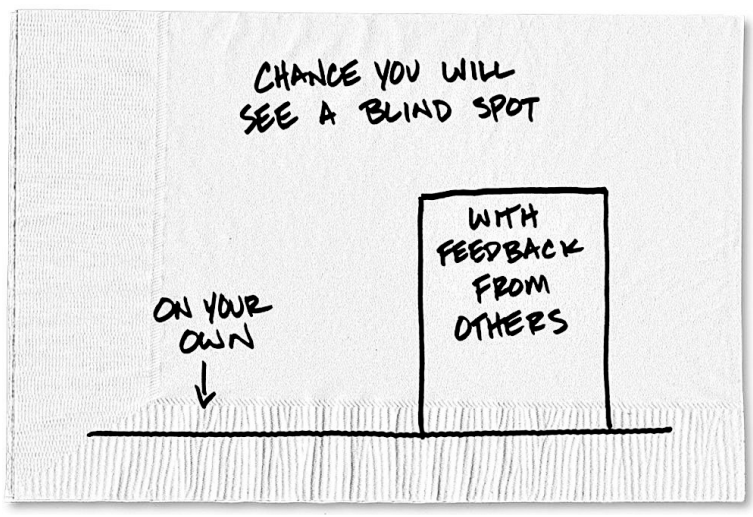
There are other people experienced in seeing blind spots, and they've seen our type before. But we don't like asking for feedback. In part, it's because we tend to internalize what we're hearing. It becomes about us, not our behavior.

But if we take a different approach and make the feedback only about our behavior, we can shine a flashlight on our blind spots. This feedback is crucial if we want to change our behavior.

It starts by addressing the biggest blind spot of all: admitting we have any. The next step: Finding someone you'll trust and listen to. We won't take and act on feedback from just anyone. We certainly need to trust and respect this other person. But whoever you identify, make the commitment to pay attention when this person provides coaching about your blind spots.

Don't make excuses. Listen carefully and add what you hear to what you already know about yourself.

Imagine telling a friend that you wish you could save more money each month. This friend knows you well and asks you how much you spend each week eating out. You do the mental math and come back with, "Not much."



CARL RICHARDS

She says, "Why don't you sit down with your receipts and figure out what you actually spent?"

The instinctive response might be, "I really don't eat out that much. And what does my eating out have to do with saving more money?" The smarter response would be, "Huh, maybe I could save more money if I ate out less. I should look at the numbers."

Sometimes the feedback will be subjective if all the facts aren't known or knowable, but if the advice points to something you hadn't considered, there are few reasons not to test it.

We're oblivious to blind spots until someone helps us see what we've been missing.