

Financial World



"What Interest Rate Should I Pay?"

When you take a home or car loan, how do you know if the interest rate is higher than it should be? The state-banking department has a new feature on its Web site (www.njdobi.org) that can help. The "What interest rate should I pay?" chart, launched June 2, includes regularly updated average loan rates offered by lenders in New Jersey in various credit-score ranges.

To use the chart, you have to know your "FICO" (Fair Isaac Co.) computer credit score, widely used by lenders to judge a borrower's creditworthiness, and which is available from credit reporting agencies for a charge. (Equifax 800-997-2493, www.equifax.com; Experian 888-397-3742, www.experian.com; and Trans Union, 800-888-4213, www.tuc.com) The state's online rate comparison chart is part of the state agency's response to the predatory lending problem.

Lending is considered predatory when lenders target the most vulnerable borrowers to charge unreasonably high rates and fees. It may involve working in cahoots with unscrupulous home improvement contractors to strip equity out of homes, or it may involve packing loans with high-priced insurance policies of questionable value. Most predatory lending occurs in the sub prime lending market, dominated by finance companies that specialize in making loans to those who would not qualify for banks' prime rates. These companies are not as well regulated as banks. Whereas banks post loan rates in newspaper ads, sub prime lenders do not.

This is an easy way to compare what types of rates are available for the FICO score ranges. Now we can shop for the second or third possible loan rate before making a decision, instead of just accepting the first approval we receive. Yes, we have choices even with a less than perfect credit scores.

One lesson we learn is the importance of having a good credit rating, as measured by a high FICO score.

For Instance: The interest-rate chart, as updated June 12, says those with top-tier FICO scores, 720-850, were being charged an annual percentage rate of 5.3 percent for 30-year, first-lien home loans in New Jersey, compared with 9.4 percent for those with the lowest scores that may still qualify for loans, 500-559.

The difference between a 5.3 percent rate and a 9.4 percent rate is substantial: On a \$100,000 loan, the difference is \$277.08 a month, or \$99,748.80 over the 30-year life of the loan.

Written By Charles A. Rufai. CPA