

Community Legal Aid

A non-profit law firm serving the legal needs of low-income individuals and families in central northeast Ohio

www.communitylegalaid.org



Looking for the Best Mortgage

LOOKING FOR THE BEST MORTGAGE

A mortgage for a home purchase, refinancing, or home equity loan is a product, just like a car. The price and terms may be negotiable. You'll want to compare all the costs involved in obtaining a mortgage. Shopping, comparing, and negotiating may save you thousands of dollars.

Obtain Information from Several Lenders

Home loans are available from several types of lenders: thrift institutions, commercial banks, mortgage companies and credit unions. Different lenders may quote you different prices. Contact several lenders to make sure you're getting the best price. You can also get a home loan through a mortgage broker. Brokers arrange transactions rather than lending money directly; they find a lender for you. A broker's access to several lenders can mean a wider selection of loan products and terms from which you can choose. They are not required to find the best deal for you unless they have contracted with you to act as your agent. You should consider contacting more than one broker, just as you should with banks or thrift institutions.

Whether you are dealing with a lender or a broker may not always be clear. Some financial institutions operate as both lenders and brokers. Most brokers' advertisements do not use the word "broker." Be sure to ask whether a broker is involved. This information is important because brokers are usually paid a fee for their services that may be in addition to the lender's origination or other fees. A broker's compensation may be in the form of "points" paid at closing or as an add-on to your interest rate, or both. Ask each broker you work with how he or she will be paid so that you can compare the different fees. Be prepared to negotiate with the brokers as well as the lenders.

Obtain All Important Cost Information

Be sure to get information about mortgages from several lenders or brokers. Know how much of a down payment you can afford. Find out all the costs involved in the loan. Knowing just the amount of the monthly payment or the interest rate is not enough. Ask for information about the same loan amount, loan term, and type of loan so that you can compare the information. The

following information is important to get from each lender and broker:

Rates

- Ask each lender and broker for its current mortgage interest rates. Are they the lowest for that day or week?
- Ask whether the rate is fixed or adjustable. When interest rates for adjustable-rate loans go up, so does the monthly payment.
- If the rate quoted is for an adjustable-rate loan, ask how your rate and loan payment will vary, including whether your loan payment will be reduced when rates go down.
- Ask about the loan's annual percentage rate (APR). The APR takes into account not only the interest rate but also points, broker fees, and certain other credit charges that you may be required to pay, expressed as a yearly rate.

Points

Points are fees paid to the lender or broker for the loan. They are often linked to the interest rate. Usually the more points you pay, the lower the rate.

- Check your local newspaper for information about rates and points currently offered.
- Ask for points to be quoted to you as a dollar amount—rather than just as the number of points—so that you will actually know how much you will have to pay.

Fees

A home loan often involves many fees (loan origination or underwriting fees, broker fees, and transaction, settlement, and closing costs). Every lender or broker should be able to give you an estimate of its fees. Many of these fees are negotiable. Some fees are paid when you apply for a loan (such as application and appraisal fees) and others are paid at closing. In some cases, you can borrow the money needed to pay these fees but doing so will increase your loan amount and total costs. "No cost" loans may be available but they usually involve higher rates.

- Ask what each fee includes. Several items may be lumped into one fee.
- Ask for an explanation of any fee you do not understand.

Down Payments and Private Mortgage Insurance

Some lenders require 20 percent of the home's purchase price as a down payment. If a 20 percent down payment is not made, lenders usually require the home buyer to purchase private mortgage insurance (PMI) to protect the lender in case the home buyer fails to pay.

When government-assisted programs such as FHA (Federal Housing Administration), VA (Veterans Administration), or Rural Development Services are available, the down

payment requirements may be substantially smaller.

- Ask about the lender's requirements for a down payment, including what you need to do to verify that funds for your down payment are available.

- Ask your lender about special programs it may offer.
- If PMI is required for your loan,
- Ask what the total cost of the insurance will be.
- Ask how much your monthly payment will be when including the PMI premium.
- Ask how long you will be required to carry PMI.

Obtain the Best Deal That You Can

Once you know what each lender has to offer, negotiate for the best deal that you can. On any given day, lenders and brokers may offer different prices for the same loan terms to different consumers, even if those consumers have the same loan qualifications. Have the lender or broker write down all the costs associated with the loan. Then ask if the lender or broker will waive or reduce one or more of its fees or agree to a lower rate or fewer points. You'll want to make sure that the lender or broker is not agreeing to lower one fee while raising another or to lower the rate while raising points. There's no harm in asking lenders or brokers if they can give better terms than the original ones they quoted or than those you have found elsewhere.

Once you are satisfied with the terms you have negotiated, you may want to obtain a written lock-in from the lender or broker. A lock-in should include the agreed interest rate, the period the lock-in lasts, and the number of points to be paid. A fee may be charged for locking in the loan rate. This fee may be refundable at closing. Lock-ins can protect you from rate increases while your loan is being processed. If rates fall, however, you could end up with a less favorable rate. If that happens, try to negotiate a compromise with the lender or broker.

Remember: Shop, Compare, Negotiate

Shop around to compare costs and terms. Negotiate for the best deal. You can usually find information in your local newspaper and the Internet on interest rates and on points for several lenders. Since rates and points can change daily, check often when shopping for a home loan. But the newspaper does not list the fees, so be sure to ask the lenders about them. Don't be afraid to make lenders and brokers compete with each other for your business.

This handout is meant to give you general information and not to give you specific legal advice. Prepared by Community Legal Aid Services, Inc. Info updated: April 2012. CE-62-F190-CLAS.

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