

9 BIGGEST MISTAKES TO AVOID MAKING WHEN CHOOSING A LENDER

BORROWER'S GUIDE NINE WAYS TO RATE YOUR LENDER

Homebuyers sometimes overlook one important step that can save thousands of dollars: shopping for the right lender. The lowest interest rate is important, but lenders charge fees and offer different terms that can make a big difference over the life of a loan.

Before you go lender-shopping, you'll select your best loan type, the amount you need and the term (time length) of the loan. (We will be happy to help you understand the wide variety of loans available today.) Then ask each lender the following questions. You may find a notebook or card helps compare their answers.

RATES

1. What are the interest rate and annual percentage rate of the loan?

Find out what the interest rate will be on the loan as well as the annual percentage rate (APR). The APR is a combination of the interest rate, points, and other charges divided by the loan's term to give an annualized rate. It is the best way to compare loan costs. Lenders are required by law to release the APR to you.

Remember: The lowest interest rate is not necessarily the best loan. Additional fees and costs can sometimes increase your loan costs considerably.

POINTS

2. How many points will be charged?

A point is 1% of the loan amount. Discount points are charged by lenders to increase yield on their loans and thus attract money into the housing market. The number of points charged varies from lender to lender.

Remember: A loan with a low interest rate and high points may cost you thousands of dollars more up front than a higher interest rate and low points. However, discount points, like mortgage interest, are tax-deductible by the buyer, even if the seller paid the points.

FEES

3. What is the total cost of the fees charged?

Lenders charge fees for such items as application, origination, document preparation, document review, underwriting, tax service. Some lenders combine all of the costs and charge one basic fee. Others charge separately for each fee. These "lender's fees" are different from "closing costs" related to the transaction (appraisal, credit report, PMI, title exam and insurance, survey, pest inspection, etc.)

Remember: Some lenders quote low interest rates and points, and then charge higher lender's fees. We will tell you up front what is included. We like to have clarity from the beginning, so there are no misunderstanding later.

LOCK-IN

4. Is there a lock-in policy? Is there an additional charge to lock in an interest rate and discount points?

Many lenders offer a lock-in policy that guarantees you a certain interest rate and points on settlement (closing) day. Options for locking include locking in the application-day rate for a specified number of days or waiting to lock in a rate prior to settlement day. The "no lock-in" alternative is accepting the prevailing rate and points at closing.

Remember: The length of the lock varies by lender and fees charged can range from 0-1% of the loan amount. Be sure your lock-in is in writing and includes both rate and points because either one can change. If rates and points are rising, the one time lock-in fee may be a good investment to save money at closing and over the life of

PROCESSING

5. How long will it take to process the loan?

Processing can vary greatly among lenders and types of loans, sometimes by weeks. Processing is the first step where all the documents are gathered to complete an “approved application.” After final application approval, in effective lender, under normal circumstances, should be able to fund your loan within 10 working days.

Remember: If time is of the essence, you will want a lender with a quick processing and funding turnaround time. Mortgage scoring now allows some lenders to give same-day approval.

FHA/VA

6. Are you a VA automatic or FHA direct endorsement lender?

VA automatic and FHA direct endorsement means the lender has met all the government requirements for FHA/VA and lender’s underwriter has completed the FHA/VA’s mandatory educational requirements. An automatic or direct endorsement lender can approve or disapprove a loan just as if the loan has been sent directly to the regional FHA or VA office

PMI

7. Can I finance the upfront Private Mortgage Insurance (PMI) premium into the loan amount?

If your down payment is less than 20% of the sale price, you will be charged PMI, an insurance policy to protect the lender in case you or someone who assumes your loan defaults on the loan. Some lenders allow you to include the first year’s premium in the amount you borrow.

Remember: If you are short of cash, this option could help you qualify for a loan and reduce your cash outlay at settlement. Some lenders will allow you to use part of the loan to pay other closing costs, too. But this may reduce the house price you can afford.

PREPAYMENT

8. Is there a prepayment penalty?

Normally, you can prepay a loan without penalty if you notify the lender in writing that you are either selling the home or refinancing the loan. In many areas, prepayment penalties are no longer allowed. Ask us about your area.

REPUTATION

9. What is the lender’s track record?

It’s important to rate your lender’s reputation for speedy processing, knowledgeable loan officers, honoring lock-ins, customer-oriented service. You want a lender who will keep you informed and be able to answer questions promptly throughout the financing period.

Remember: We’ve helped many home buyers determine what kind of mortgage is best for them. We’d be happy to assist you, too.

“DON’T JUDGE A LOAN BY ITS INTEREST RATE ALONE.”
Borrower’s Golden Rule