# Looking for the Best Mortgage

## Shop, Compare, Negotiate

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**Shopping around for a home loan or mortgage will help you get the best financing deal. A mortgage—whether it's a home purchase, a refinancing, or a home equity loan—is a product, just like a car, so 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, so you should 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; in other words, 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. Brokers will generally contact several lenders regarding your application, but they are not obligated to find the best deal for you unless they have contracted with you to act as your agent. Consequently, 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. And most brokers' advertisements do not use the word "broker." Therefore, 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 separate from and 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. You should ask each broker you work with how he or she will be compensated so that you can compare the different fees. Be prepared to negotiate with the brokers as well as the lenders.

*Words and terms appearing in bold in the text are defined in the glossary.

## 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, and 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 a list of its current mortgage interest rates and whether the rates being quoted are the lowest for that day or week.
- Ask whether the rate is **fixed** or **adjustable**. Keep in mind that when interest rates for adjustable-rate mortgages go up, generally so do the monthly payments.
- If the rate quoted is for an adjustable-rate mortgage, 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 and 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 being 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 know how much you will actually have to pay.

## Fees

A home loan often involves many fees, such as l**oan origination** or underwriting fees, broker fees, and **settlement** (or **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 are sometimes 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. Some common fees associated with a home loan closing are listed on the Mortgage Shopping Worksheet.

## Down Payments and Private Mortgage Insurance

Some lenders require 20 percent of the home's purchase price as a down payment. However, many lenders now offer loans that require less than 20 percent down—sometimes as little as 5 percent on **conventional loans**. If a 20 percent down payment is not made, lenders usually require the homebuyer to **purchase private mortgage insurance (PMI)** to protect the lender in case the homebuyer 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 the PMI premium is included.

# Obtain the Best Deal That You Can

Once you know what each lender has to offer, negotiate 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. The most likely reason for this difference in price is that loan officers and brokers are often allowed to keep some or all of this difference as extra compensation. Generally, the difference between the lowest available price for a loan product and any higher price that the borrower agrees to pay is an **overage**. When overages occur, they are built into the prices quoted to consumers. They can occur in both fixed-rate and variable-rate loans and can be in the form of points, fees, or the interest rate. Whether quoted to you by a loan officer or a broker, the price of any loan may contain overages.

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. The lock-in should include the rate that you have agreed upon, 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

When buying a home, remember to shop around, to compare costs and terms, and to negotiate for the best deal. Your local newspaper and the Internet are good places to start shopping for a loan. You can usually find information both on interest rates and on points for several lenders. Since rates and points can change daily, you'll want to check your newspaper often when shopping for a home loan. But the newspaper does not list the fees, so be sure to ask the lenders about them.

The Mortgage Shopping Worksheet that follows may also help you. Take it with you when you speak to each lender or broker and write down the information you obtain. Don't be afraid to make lenders and brokers compete with each other for your business by letting them know that you are shopping for the best deal.

## Fair Lending Is Required by Law

The *Equal Credit Opportunity Act* prohibits lenders from discriminating against credit applicants in any aspect of a credit transaction on the basis of race, color, religion, national origin, sex, marital status, age, whether all or part of the applicant's income comes from a public assistance program, or whether the applicant has in good faith exercised a right under the Consumer Credit Protection Act.

The *Fair Housing Act* prohibits discrimination in residential real estate transactions on the basis of race, color, religion, sex, handicap, familial status, or national origin.

Under these laws, a consumer may not be *refused* a loan based on these characteristics nor be *charged more* for a loan or *offered less-favorable terms* based on such characteristics.

## Credit Problems? Still Shop, Compare, and Negotiate

Don't assume that minor credit problems or difficulties stemming from unique circumstances, such as illness or temporary loss of income, will limit your loan choices to only high-cost lenders.

If your credit report contains negative information that is accurate, but there are good reasons for trusting you to repay a loan, be sure to explain your situation to the lender or broker. If your credit problems cannot be explained, you will probably have to pay more than borrowers who have good credit histories. But don't assume that the only way to get credit is to pay a high price. Ask how your past credit history affects the price of your loan and what you would need to do to get a better price. Take the time to shop around and negotiate the best deal that you can.

Whether you have credit problems or not, it's a good idea to review your credit report for accuracy and completeness before you apply for a loan. To order a copy of your credit report, visit www.annualcreditreport.com, call (877) 322-8228, or contact

Equifax: (800) 685-1111
TransUnion: (800) 888-4213
Experian: (888) 397-3742

# Glossary

***Adjustable-rate mortgage (ARM)***—A mortgage that does not have a fixed interest rate. The rate changes during the life of the loan based on movements in an index rate, such as the rate for Treasury securities or the Cost of Funds Index. ARMs usually offer a lower initial interest rate than fixed-rate loans. The interest rate fluctuates over the life of the loan based on market conditions, but the loan agreement generally sets maximum and minimum rates. When interest rates increase, generally your loan payments increase; when interest rates decrease, your monthly payments may decrease. For more information on ARMs, see the *Consumer Handbook on Adjustable Rate Mortgages* (www.federalreserve.gov/pubs/arms/arms_english.htm).

***Annual percentage rate (APR)***—The cost of credit expressed as a yearly rate. For closed-end credit, such as car loans or mortgages, the APR includes the interest rate, points, broker fees, and certain other credit charges that the borrower is required to pay. An APR, or an equivalent rate, is not used in leasing agreements.

***Conventional loans***—Mortgage loans other than those insured or guaranteed by a government agency such as the FHA (Federal Housing Administration), the VA (Veterans Administration), or the Rural Development Services (formerly known as the Farmers Home Administration or FmHA).

***Escrow***—The holding of money or documents by a neutral third party before closing on a property. It can also be an account held by the lender (or servicer) into which a homeowner pays money for taxes and insurance.

***Fixed-rate loans***—Loans that generally have repayment terms of 15, 20, or 30 years. Both the interest rate and the monthly payments (for principal and interest) stay the same during the life of the loan.

***Interest rate***—The price paid for borrowing money, usually stated in percentages and as an annual rate.

***Loan origination fees***—Fees charged by the lender for processing a loan; often expressed as a percentage of the loan amount.

***Lock-in***—A written agreement guaranteeing a homebuyer a specific interest rate on a home loan provided that the loan is closed within a certain period, such as 60 or 90 days. Often the agreement also specifies the number of points to be paid at closing.

***Mortgage***—A contract, signed by a borrower when a home loan is made, that gives the lender the right to take possession of the property if the borrower fails to pay off, or defaults on, the loan.

***Overages***—The difference between the lowest available price and any higher price that the homebuyer agrees to pay for a loan. Loan officers and brokers are often allowed to keep some or all of this difference as extra compensation.

***Points*** (also called discount points)—One point is equal to 1 percent of the principal amount of a mortgage loan. For example, if a mortgage is $200,000, one point equals $2,000. Lenders frequently charge points in both fixed-rate and adjustable-rate mortgages to cover loan origination costs or to provide additional compensation to the lender or broker. Points are paid usually on the loan closing date and may be paid by the borrower or the home seller, or split between the two parties. In some cases, the money needed to pay points can be borrowed, but increases the loan amount and the total costs. Discount points (sometimes called discount fees) are points that the borrower voluntarily chooses to pay in return for a lower interest rate.

***Private mortgage insurance (PMI)***—Protects the lender against a loss if a borrower defaults on the loan. It is a payment usually required of a borrower for loans in which a down payment is less than 20 percent of the sales price or, in a refinancing, when the amount financed is greater than 80 percent of the appraised value. When you acquire 20 percent equity in your home, PMI is cancelled. Depending on the size of your mortgage and down payment, these premiums can add $100 to $200 per month or more to your payments.

***Settlement (or Closing) costs***—Fees paid at a loan closing. May include application fees; title examination, abstract of title, title insurance, and property survey fees; fees for preparing deeds, mortgages, and settlement documents; attorneys' fees; recording fees; estimated costs of taxes and insurance; and notary, appraisal, and credit report fees. Under the Real Estate Settlement Procedures Act, the borrower receives a "good faith" estimate of closing costs within three days of application. The good faith estimate lists each expected cost either as an amount or a range.

***Thrift institution***—a term generally describing savings banks and savings and loan associations.

# Mortgage Shopping Worksheet

| | Lender 1 | | Lender 2 | |
|---|---|---|---|---|
| **Name of Lender:** | | | | |
| **Name of Contact:** | | | | |
| **Date of Contact:** | | | | |
| **Mortgage Amount:** | | | | |
| | mortgage 1 | mortgage 2 | mortgage 1 | mortgage 2 |
| **Basic Information on the Loans** | | | | |
| Type of Mortgage: fixed-rate, adjustable-rate, conventional, FHA, other? If adjustable, see below | | | | |
| Minimum down payment required | | | | |
| Loan term (length of loan) | | | | |
| Contract interest rate | | | | |
| Annual percentage rate (APR) | | | | |
| Points (may be called loan discount points) | | | | |
| Monthly private mortgage insurance (PMI) premium | | | | |
| How long must you keep PMI? | | | | |
| Estimated monthly **escrow** for taxes and hazard insurance | | | | |
| Estimated monthly payment (principal, interest, taxes, insurance, PMI) | | | | |
| **Fees** Different institutions may have different names for some fees and may charge different fees. We have listed some typical fees you may see on loan documents. | | | | |
| Application fee or Loan processing fee | | | | |
| Origination fee or Underwriting fee | | | | |
| Lender fee or Funding fee | | | | |
| Appraisal fee | | | | |
| Attorney fees | | | | |
| Document preparation and recording fees | | | | |
| Broker fees (may be quoted as points, origination fees, or interest rate add-on) | | | | |
| Credit report fee | | | | |
| Other fees | | | | |
| **Other Costs at Closing/Settlement** | | | | |
| Title search/Title insurance For lender | | | | |
| For you | | | | |
| Estimated prepaid amounts for interest, taxes, hazard insurance, payments to escrow | | | | |
| State and local taxes, stamp taxes, transfer taxes | | | | |
| Flood determination | | | | |
| Prepaid private mortgage insurance (PMI) | | | | |
| Surveys and home inspections | | | | |
| **Total Fees and Other Closing/Settlement Cost Estimates** | | | | |

# Mortgage Shopping Worksheet—continued

| | Lender 1 | | Lender 2 | |
|---|---|---|---|---|
| **Name of Lender:** | | | | |
| | mortgage 1 | mortgage 2 | mortgage 1 | mortgage 2 |
| **Other Questions and Considerations about the Loans** | | | | |
| Are any of the fees or costs waivable? | | | | |
| **Prepayment penalties** | | | | |
| Is there a prepayment penalty? | | | | |
| If so, how much is it? | | | | |
| How long does the penalty period last? (for example, 3 years? 5 years?) | | | | |
| Are extra principal payments allowed? | | | | |
| **Lock-ins** | | | | |
| Is the lock-in agreement in writing? | | | | |
| Is there a fee to lock in? | | | | |
| When does the lock-in occur—at application, approval, or another time? | | | | |
| How long will the lock-in last? | | | | |
| If the rate drops before closing, can you lock in at a lower rate? | | | | |
| **If the loan is an adjustable-rate mortgage:** | | | | |
| What is the initial rate? | | | | |
| What is the maximum the rate could be next year? | | | | |
| What are the rate and payment caps each year and over the life of the loan? | | | | |
| What is the frequency of rate change and of any changes to the monthly payment? | | | | |
| What is the index that the lender will use? | | | | |
| What margin will the lender add to the index? | | | | |
| **Credit life insurance** | | | | |
| Does the monthly amount quoted to you include a charge for credit life insurance? | | | | |
| If so, does the lender require credit life insurance as a condition of the loan? | | | | |
| How much does the credit life insurance cost? | | | | |
| How much lower would your monthly payment be without the credit life insurance? | | | | |
| If the lender does not require credit life insurance, and you still want to buy it, what rates can you get from other insurance providers? | | | | |

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# Looking for the Best Mortgage?

This information was prepared by the following agencies:

- Board of Governors of the Federal Reserve System
- Department of Housing and Urban Development
- Department of Justice
- Department of the Treasury
- Federal Deposit Insurance Corporation
- Federal Housing Finance Board
- Federal Trade Commission
- National Credit Union Administration
- Office of Federal Housing Enterprise Oversight
- Office of the Comptroller of the Currency
- Office of Thrift Supervision

These agencies (except the Department of the Treasury) enforce compliance with laws that prohibit discrimination in lending. If you feel that you have been discriminated against in the home financing process, you may want to contact one of the agencies listed above about your rights under these laws.

For more information on home lending, visit the following websites:

Federal Reserve Board consumer information on mortgages
www.federalreserve.gov/consumerinfo/mortgages.htm

Federal Trade Commission consumer information on credit and mortgages
ftc.gov/credit

Consumer Action Handbook
www.consumeraction.gov

Federal Citizen Information Center
www.pueblo.gsa.gov

Housing and Urban Development Home Buying Guide
www.hud.gov/buying/index.cfm

U.S. Financial Literacy and Education Commission
www.mymoney.gov

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