Looking for the Best Mortgage

Shop, Compare, Negotiate

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Shopping around for a home loan or mortgage will help you to 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 loans go up, generally 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 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 actually know how much you will have to pay.

Fees

A home loan often involves many fees, such as **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 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 in this brochure.

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 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. 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 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. Should that happen, 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 cannot 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, contact:

Equifax: (800) 685-1111
TransUnion: (800) 916-8800
Experian: (800) 682-7654

Glossary

Adjustable-rate loans*,* also known as variable-rate loans*,* 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 rise, generally so do your loan payments; and when interest rates fall, your monthly payments may be lowered.

Annual percentage rate (APR) is the cost of credit expressed as a yearly rate. The APR includes the interest rate, points, broker fees, and certain other credit charges that the borrower is required to pay.

Conventional loans are 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 know as Farmers Home Administration, or FmHA).

Escrow is the holding of money or documents by a neutral third party prior to closing. 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 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.

The ***interest rate*** is the cost of borrowing money expressed as a percentage rate. Interest rates can change because of market conditions.

Loan origination fees are fees charged by the lender for processing the loan and are often expressed as a percentage of the loan amount.

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

A ***mortgage*** is a document signed by a borrower when a home loan is made that gives the lender a right to take possession of the property if the borrower fails to pay off on the loan.

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

Points are fees paid to the lender for the loan. One point equals 1 percent of the loan amount. Points are usually paid in cash at closing. In some cases, the money needed to pay points can be borrowed, but doing so will increase the loan amount and the total costs.

Private mortgage insurance (PMI) protects the lender against a loss if a borrower defaults on the loan. It is usually required for loans in which the 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.

Thrift institution is a general term for savings banks and savings and loan associations.

Transaction, settlement, or closing costs 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; and notary, appraisal, and credit report fees. Under the Real Estate Settlement Procedures Act, the borrower receives a good faith estimate of closing costs at the time of application or within three days of application. The good faith estimate lists each expected cost either as an amount or a range.

Mortgage Shopping Worksheet

	Lender 1		Lender 2	
Name of Lender:				
Name of Contact:				
Date of Contact:				
Mortgage Amount:				

	Lender 1 mortgage 1	Lender 1 mortgage 2	Lender 2 mortgage 1	Lender 2 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) premiums				
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 Loan				
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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This brochure was prepared by the following agencies:

- Department of Housing and Urban Development
- Department of Justice
- Department of the Treasury
- Federal Deposit Insurance Corporation
- Federal Housing Finance Board
- Federal Reserve 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 issues, visit (http://www.consumer.gov), write to the Consumer Information Center, Pueblo, CO 81009 or visit the Center's Web site at (http://www.pueblo.gsa.gov). The following brochures are available from the Center:

- A Consumer's Guide to Mortgage Lock-Ins
- A Consumer's Guide to Mortgage Refinancing
- Buying Your Home: Settlement Costs and Helpful Information
- Consumer Handbook on Adjustable Rate Mortgages
- Guide to Single Family Home Mortgage Insurance
- Home Buyer's Vocabulary
- Home Mortgages: Understanding the Process and Your Rights to Fair Lending
- How to Buy a Home with a Low Down Payment
- How to Dispute Credit Report Errors
- The HUD Home Buying Guide
- When Your Home Is on the Line

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