

HOW TO SHOP FOR A MORTGAGE



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FOREWORD

Hello,

If you're reading this, chances are you're interested in getting the very best mortgage you can get. That's why I wrote this book. I believe everyone deserves the right mortgage – not just any old mortgage advertised online, but one that actually helps you build wealth. You're unique, and your mortgage should fit you like a glove.

Not all mortgages are created equal, and neither are lenders. Use this book to navigate the market. From picking a lender to selecting a loan, learn how to think about mortgages and the lenders who provide them, so you can get the right mortgage for you.

I'd love to work with you to help you select the right mortgage to achieve your financial goals. Let's schedule a 15-minute get-to-know-you call (just visit my website, **www.NilesTeam.com**) to see if I can help you. We'll talk about you, lending and life. And I guarantee, it will be fun.

To your future,

Ryan

INTRODUCTION

I get a lot of calls from people looking for a mortgage. That's a good thing, since I'm a mortgage lender. But the calls almost always follow the same script.

I feel a bit sad when I get these calls, since they're all about rates, rates and rates. It seems that most mortgage shoppers don't get that even though rates are based on the Wall Street bond market, they're really pegged to YOU. Your finances. Your preferences. Your goals. Your life.

Of course, I also know that all mortgages are not created equal. I've been in this business a long time, and I've seen a lot. What's promised in an ad or the Internet almost never applies to your real-life goals. And time really is a factor; what's quoted one day can change the next. If you're going to shop rates, you need to ask serious questions and be prepared to compare the fine print.

My job is to get you the best mortgage possible at any point in time. In this handy guide, I'm going to give you my secrets — so even if (God forbid) you don't work with me, you won't get steered into a bad loan, or waste your time trying to get a loan that will never happen. I want you to ask the right questions so you can get the best loan for your life.

Let's get started.



Hi, this is Ryan.

Oh hey, what's your best rate on a 30-year fixed?



I've got a lot of great rates, but I need to learn a little more about you to make sure I'm giving you an accurate quote.

Such and so told me they could do a loan for 4.25 percent with no points and a \$2,000 closing credit. Can you match that?



That sounds really great, but I need to be sure I'm matching their program. Could you tell me a little more about yourself?



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LET'S TALK ABOUT RATES

*Let's talk about you and me
Let's talk about all the good things
And the bad things that may be...*

—SALT-N-PEPA

At the risk of sounding like the mortgage version of Salt-N-Pepa, let's talk about rates.

I think about rates all day, every day. I can give you the going rate on hundreds of loan products. Just get me started about the bond market, a few good economic indicators, and my everlasting affection for Janet Yellen, and we might need a couple of days. But all of that's not going to help me tell you one thing about rates unless I know about you and your specific goals.

Now, I know you've seen plenty of awesome rates on the Internet. But let's start this rate conversation with the bare-naked fact that virtually every lender, including me (Cornerstone Home Lending) and the online lenders, offer rates on hundreds of programs that are within hundredths of a percent of each other.

So, when you call and say you can get X.X percent on a 30-year fixed, and ask if can I beat it, there's a strong likelihood that I can.

TRADE SECRET: I CAN PROBABLY MATCH EVERYONE ELSE'S RATES. AND THEY CAN MATCH MINE.

Nobody wants to tell you this, but I will: I can pretty much match everyone else's rates. And every other lender you're talking to can probably match mine. In fact, almost all our rates originate from the same places – including the Wall Street bond market – so what you're really buying, when you shop for a lender, is service.

You might also look for thoughtful, nice people who care about you and your situation. Of course, you also want stability and a variety of programs. But in the end, it really comes down to people and service. Not all lenders and loan officers are created equal. Service from real people counts, and it will make getting your mortgage that much easier.

That's why this next point is so important. I know that many people prefer to text and email over talking on the phone. But here's the deal: Even if you use a digital mortgage application process because you would really rather not talk to a human loan officer, I must tell you that at some point you'll still have to talk to a real human about your loan.

There are some things that you really just can't accomplish with a text or email. No matter which lender you choose (including all of the online lenders), I can guarantee you that you'll need to speak to real people throughout the loan process to confirm details and select options that are right for you. I can't say enough how important it is to work with a loan officer you like who is also insightful and really cares about your loan and circumstances.

Nonetheless, you downloaded this book because you wanted to learn how to get a great rate on a great loan. I'm about to give you all my secret sauce. And just in case you have a question, text me, email me or just pick up the phone and call me. Let's hit it.

**PRO
TIP**

Share It

Once you've got several quotes, don't be shy about

sharing them with your loan officer. This way, you leverage your loan officer's expertise so you can compare your quotes on an apples to apples basis. Give your loan officer the chance to compete for your business, and you might be pleasantly surprised.

HOW CAN YOU FIND A GREAT LENDER?

You might be surprised to hear that I get this question a lot. You see, I have a lot of friends who don't live in Washington State (where we do most of our business). Here's what to do if you need to find the best lender in town, no matter where you live.

The first step is to visit open houses. Seriously. Yes, you're shopping for a home, but you're also shopping for a lender. If there is one group of people who know which lenders cut the mustard, it's Realtors. Their lives depend on closing deals on houses, so financing matters to them almost as much as it matters to you.

Check out the lending flyers that show off the rates for the homes you visit. Ask the Realtor if they know loan officers they like and trust. After 5-10 visits, you'll start to notice a pattern: The same lender's name will probably surface at a lot of open houses. That's a good sign; hiring a loan officer that is known in your market is smart.

THE POWER OF LOCAL

Local lenders have lots of power when it comes to getting your offer accepted, because when sellers consider your offer they're also looking at your financing. If your offer includes an approval letter from a respected local lender, the Realtor who is selling the home is likely to tell the owners that you have sound financing. That can give you an edge if the market is tight, and there are multiple offers.

Now, remember what I said about rates. We can all come within hundredths of a point of each other. That's why you should look beyond the rate and give the lender a call. On the telephone.

See if they pick up the phone or return your call promptly when you need answers or advice. In my book, promptly means within one business day (and preferably sooner), because when you need answers you need answers. This is no time to wait around for someone who isn't responsive or inquisitive about you and your needs.

ONLINE VS. TRADITIONAL LENDERS

One of the biggest changes in lending in my career is the emergence of online lenders, like Rocket Mortgage from Quicken Loans or Lending Tree. I'm not here to bash those guys; in fact, they're so appealing I've considered getting a loan from them myself. (You may not know this, but even loan officers shop for mortgages, just like you. We're always doing competitive research.)

Yet the challenge with these low-cost lenders is that you can get seemingly a low rate at your own expense (financial and/or emotional). Here's what I mean.

Good loan officers know rates, programs and the markets. They're walking encyclopedias of possibilities, and they're committed to service. Chances are, if they're good at their jobs, they make a good living and have plenty of support at their mortgage company to offer competitive rates, effective and fast processing and intelligent advice. That can make all the difference in closing your loan.

DO YOU NEED SERVICE?

On the other hand, cut-rate lenders sometimes cut the rate they're offering by squeezing the quality of service you receive when you work with them. That's not always true. But when it happens, it typically shows up in an imprecise and inaccurate pre-approval process or the loan estimate (which usually omits fees and expenses that come as a horrible surprise at the closing table, and end up costing you more money).

Now let me also say that I have nothing against online lenders. In some situations, they're the right choice, and I've used them too. But they're driven by different motivations than individual loan officers like me. They're volume lenders, meaning that they're professional salespeople first, who are selling a particular product at a particular time because that's what's being advertised at the moment. So when you see super low rates online, know that you're probably going to speak to a salesperson in a call center first to screen you (using a prepared sales script of the day to capitalize on your emotions).

The salesperson on the other end of the call center is going to tell you how great the specific loan you called about is for you, because that's what they've been told to say. That's not about getting the right loan for you; that's about selling the right loan for them at a volume discount. It's like buying a diamond at Costco vs. a local jeweler. It might be great, or it might not, but Costco isn't going to spend a lot of time with you to help you figure out what's right for you. When it works, it's great, but be cautious if your circumstances are at all unique, or it's your first time getting a mortgage.

What's more, if your online lender doesn't have a solid track record in delivering financing for other buyers in your market, your financing may not be considered as strong as someone with a local lender. That can cause you to lose the home you want in a competitive bid situation.

SHORT TERM VS. LONG TERM

There's another nuance to consider when you're selecting a lender: their outlook. Lenders who are committed to your long term financial well-being are easy to spot, because they ask about your intentions for the property you plan to buy. Not just whether you plan to live in it or rent it; they ask you about your long term financial goals and want to actively keep track of you and your loan.

That's important, because a lender that is committed to service will let you know when rates adjust in your favor. Responsible lenders literally create wealth-building opportunities for you, by tracking the features and rate of your loan.

For example, I recently had a client who didn't use us for his loan. He chose another lender that offered a payment that was just \$30 lower a month, tax-adjusted. But that lender didn't keep track of his loan — they were in it for the immediate, love 'em and leave 'em transaction.

When rates were at an all-time low, his lender didn't get in touch to offer him the opportunity to refinance at a substantially better rate. The result? This client missed one of the best opportunities to refinance of all time and lost about \$3,500 of annual interest savings. Though we can't fix that missed opportunity, now we're working on his next loan, and he says he understands the true importance of having a real relationship with a loan officer.

**PRO
TIP**

Appraising the Appraiser

If you think an online lender might be the right choice for you, be sure to ask them if they use an appraisal management company (AMC), or if they hand-select their appraisers in your market. AMCs are the bane of the industry, because they pay appraisers just 50-60 percent of the average appraiser's fee. That means anyone with a license and a pulse can be assigned to your loan, which can result in inconsistent valuations and headaches at closing. Instead, you need an expert appraiser who knows your market like the back of their hand. This is especially true in high-cost markets like Seattle.

If your new home is under-appraised, your transaction could fall apart because you'll need to make up the difference between the sale price and the appraised value of the property so you can get your mortgage. Unless there's an appraisal contingency in your contract, you could lose your earnest money (the money you put in to escrow when your offer was accepted) if you pull out of the deal. Ouch.

Just as lenders aren't created equal, neither are appraisers. That's why local lenders tend to work with hand-picked local appraisers, who know the market and are paid what they're worth. They're the experts you need, because their appraisals make transactions close as expected.

HOW CAN YOU GET THE ABSOLUTE BEST RATE?

It all comes down to communication. Every lender (including me!) must ask you questions, and for you to get any reasonable answers you should (alright, have to) give a bit. Not too much, but some.

I'm not nosy by nature, and I'm not trying to sell you any old loan the first time you call. Instead, I'm trying to get you the right rate on the right loan, which is always, inevitably and certainly tied to YOU. Without you, there can be no mortgage. So that's why, when you call, I must learn enough about your finances and intentions to give you a proper quote and match you to the right program.

At a bare minimum, you've got to give up seven key bits of information about yourself to get anything resembling a reasonable quote:

- ▶ **Monthly income and current debt**
- ▶ **Approximate credit score**
- ▶ **Desired down payment**
- ▶ **Price of the home you want to buy**
- ▶ **Where you want to buy**
- ▶ **What you want to buy (single family house, condo, etc.)**
- ▶ **What kind of loan are you interested in? (fixed rate or adjustable)**

Honesty is the Best Policy

Anyone can offer a rate; the art in what great lenders do is getting you the best rate possible, given who you are and what you're trying to do. You'll always get the best rate when you're open and honest with your loan officer.

Every Rate is Variable

Though everyone always focuses on rates, you need to know that there is always a lot of variability in every loan program. Every loan program's cost can vary by as much as 1-2 percent, depending on whether you can (or want to) use lender credits to buy your rate down. A good lender should always show you every option available to you, from paying points or getting credits, so you can make the right decision for your situation and long-term goals.

So, when I see online lenders offering this rate or that rate, without this type of explanation or tied to a specific loan program that is tied to a specific borrower (i.e., YOU!), it makes me crazy. Whatever their reasons for not laying out the terms of the loan, it's just not in your interest if you can't make informed choices about aspect of your mortgage before you sign on the dotted line.

So what's the "real" or "best" rate? It depends on you and the program, which is of course influenced by your goals, and the day of the week, and the economy.

THERE'S NOTHING SET ABOUT RATES

That said, there is no "set" or "normal" percentage (like prime plus two percent). Regardless of what type of mortgage you get, rates are always tied to the Wall Street bond market, and the market moves and loan programs evolve.

It should also be said that I'm not generally in favor of paying points (where you pay a percent – or even two or three points) to buy down your overall interest rate. Honestly, points only work in rare cases where you're absolutely positively sure that you're going to stay long enough in a property to make it worth it. Otherwise, it's just an expensive sham that's good for the lender, but bad for you.

Here's why: The economy is going to move, one way or the other, while you own your home. If you pay points when you buy and rates are at an historic low, and you plan to stay in your home for a really long time, it could pay off. We can run a cost analysis to see where you'll break even, and how long you need to stay in your home to make the money worth it.

But if you pay points when rates are high or going up (or as I like to say, you're in an elevated market) – and then you refinance because rates dropped enough to save you some serious cash – you might as well light all those points you paid on fire. That's because points don't transfer to a new loan, so you will have just handed over a bunch of coin to your lender with no chance of recouping it. Ugh.

That's why getting the best rate on the perfect loan for you is all about understanding your goals when you're ready to buy. Everyone is a unicorn with unique needs – especially you.

PRO TIP

Think Long-term

The "right" rate costs you the least amount of money upfront, and throughout the life of your mortgage. That rate is determined by running the numbers on the right loan program, based on your down payment, how long you're planning to stay in the property, and what you intend to do with it.

Why Rates Move While You're Shopping for a Home

When you're shopping for a home, you're only shopping, even if you've been pre-qualified and pre-approved for a mortgage. You haven't locked in your rate because you haven't made an offer yet.

No lender will guarantee a specific rate for the entire time you're shopping. You might take a long time to find the perfect home. Some people just do.

That means when you come back to me, having gone into contract, your rate might be different than my original quote. I swear, I'm not doing that of my own free will. It's that the market moved, and your prospective loan moved right along with it. But never fear.

The whole reason you're buying a home in the first place is to build your wealth — so chances are the prevailing interest rate at the time we lock will never outweigh the advantages of buying your home. That's another reason that it's so important to pick the right program up front for your circumstances; you want to lock in a rate, not gird yourself for unpleasant surprises the moment you go into contract.

PRO TIP

Lock Strategy

To lock in a rate, you must be in contract on a specific property. That means you've made an offer and it was accepted. The rate on your loan can be locked anytime throughout the contract to closing period. Your loan officer ought to have a lock strategy that considers the state of the bond market and pending economic announcements to pick the best day to lock your rate before your contract closes.

Sometimes that's right up front, the very minute your contract is accepted. Other times, that could be much later if the market is moving in your favor — even as late as five days before your contract closes. Your lender's job is to make sure you get the best rate possible for your specific loan during the contract period.

RATES AND PROGRAMS

Now that you've learned the basics on how rates are set, and what to look for in a lender, let's start shopping. Let's talk about rates and programs. Think about it this way:

- ▶ **There are two types of rates:** Fixed and Adjustable that apply to all loans
- ▶ **There are three types of loan programs:** Agency (conventional, conforming loans backed by Fannie Mae/Freddie Mac), Jumbo (backed by private lenders that may include big banks or Wall Street securities) or Government-Backed (VA, FHA or even USDA)

Simple, right? Except that those few options are combined into hundreds of programs, one of which is likely to be right for you. Did you know you can combine different types of interest rates with different loan programs? You could have an FHA loan with an adjustable rate, or a Jumbo loan with a fixed rate, and a second mortgage that's adjustable? It's really all about you.

Sure, I'm a loan officer, but I'm also a mortgage designer. Everything we do has to fit like a glove. It's also why no competent loan officer should give you a quote without knowing anything about you.

FIXED RATE

Your interest rate stays the same throughout the duration of your loan. Usually these are the rates you see advertised all over the place, like all rates, change every day.

PRO: Your rate never changes, so you can confidently build and maintain a lifelong housing budget.

CON: Fixed rate loans typically cost more than adjustable rate mortgages, because their rates are higher no matter the state of the market.

ADJUSTABLE RATE

Your interest rate changes (adjusts) in tune with the market after an initial short-term fixed rate period.

PRO: Fabulous when rates are low, or dropping, and for those with short-term intentions. Meaning you move before the fixed rate period expires.

CON: If you keep the loan beyond the initial fixed-rate period, the rate adjustments could increase your payments, and add risk to your budget.

CONVENTIONAL LOANS

A conventional conforming loan “conforms” to a loan amount limit set by the Federal Housing Finance Agency (FHA).

PRO: Conforming rates are typically super competitive, and are often easy to apply for because lenders like Vellum Mortgage have digitized the application process to electronically verify your income and assets. No more paperwork!

CON: If you need to borrow more than the conforming limit in your area, you’ll need to get a jumbo loan.

★ **TIP:** Some people use a conforming loan plus a home equity line of credit to buy a home, so that the first mortgage stays within the conforming limits.

JUMBO LOANS

A jumbo loan exceeds the FHFA standard loan limit. Contact me to find out what that current loan limit is based on the county you want to buy in. Often, jumbo loans are referred to as “private lending.”

PRO: Can have great, aggressive rates, with more flexible terms, that can go to a very high sales price.

CON: May require higher down payments and could be harder to get due to regulatory standards.

GOVERNMENT-INSURED LOANS

A government-insured loan (from the Veteran's Administration, Federal Housing Administration or USDA/RHA) that is guaranteed by the federal government in case the borrower defaults.

PRO: There are lots of low or minimal down payment programs for many types of buyers, including first-time home buyers and veterans, with more flexible underwriting requirements.

CON: All government-insured loans require some level of private mortgage insurance (PMI). Whether you pay PMI monthly, or in one lump sum when you originate your loan, it can be expensive. But studies show that it's better to own than to rent, so you can still come out ahead even if you have to pay a bit of PMI in the beginning. You can always refinance later to eliminate it.

It's also sometimes harder in some markets to get your contract ratified with this type of mortgage product.

THE NITTY GRITTY OF COMPARING QUOTES

Here's what we know so far:

- ▶ Most lenders (e.g., 97.527%) offer rates that are within hundredths of a percent of each other (including my company, Cornerstone Home Lending)
- ▶ Most lenders will match other lenders' pricing if it's an apple to apple comparison
- ▶ When you're shopping for a mortgage, you're buying service from the lender (and not just the rate)
- ▶ You can mix and match loan programs to meet your needs
- ▶ It's far better to work with a loan officer who has expertise who really cares about what's best for you

Now that you know all of that, how can you get the best deal from your lender? Sure, getting the very best rate you can has something to do with it, but it's really all in the closing costs. And let's not forget the annual percentage rate (APR), which wraps up some of the closing fees above and beyond the mortgage itself, so you can more accurately compare costs.

What are Closing Costs?

Most borrowers have heard of closing costs, but few realize that they determine the actual cost of your real estate transaction beyond the cost of the property and your loan.

Closing costs include everything over and above the price of the home you're buying. They're everything from discount points you've paid to reduce the rate of your loan and lender fees, to appraisal fees, title insurance, pro-rated interest payments, deed recording fees, transfer taxes, surveys and homeowner's association (HOA) dues.

**PRO
TIP**

Don't Underestimate the True Closing Costs

Some lenders will deliberately understate your closing costs to make their loan appear less expensive. That can be an unpleasant surprise when you get to the closing table. But it also means that you might accidentally choose a loan that is more expensive because the real closing costs have been misstated. No joke: This can cost you thousands.

I'm telling you this now, because even though these things will appear on your closing statement, not including them in your quote before you get your loan can give you a cockeyed view of what you're really going to pay.

It's a big bundle of numbers, and this is the biggest area where you can potentially save some money and get the best deal you can when you buy your home. The money is in the details, and the details will show you who is giving you the best loan package. This is where service counts.

It's important to note that some closing costs are within the lender's direct control, and others aren't. Your job is to pay attention to the details so that every cost necessary is included in your final loan estimate.

The Loan Estimate

It's our job (and legal requirement) to give you a Loan Estimate that includes a forecast of your closing costs before you sign on the dotted line. Legally, we're obliged to send you this estimate within three days of your application for a mortgage (even if you end up not getting the mortgage through us). Because fees and services are variable, you'll need to look closely at that estimate to ensure it faithfully includes what's necessary to close your loan, and leaves out unnecessary charges and expensive fees for things that you should not pay for, or aren't necessary.

It's also good to keep in mind that when lenders give you an informal quote they may not give you the chapter and verse about their closing costs, which is why it's so important to ask about them before choosing your mortgage lender and heading down the path of a formal application.

Closing costs tend to fall in just a few categories, as spelled out in your Loan Estimate. Here's what to look for in each section of your Loan Estimate.

Loan Costs

ORIGINATION CHARGES

These are the costs that are within the lender's control. They include fees for things like preparing, processing and storing your loan documents, and funding the loan. Usually these are called origination fees, and sometimes include points if you've decided to pay them to reduce your rate.

When you hear about something called a "low cost" or "no cost loan," it's typically because the lender has absorbed all or some of these fees to win your business.

If you see points on your estimate, make sure you understand exactly how much those points cost. I'm generally never in favor of paying points, because so few people live somewhere long enough to deliver a good return on investment.

SERVICES YOU CAN'T SHOP FOR: REPORTS AND APPRAISALS

When lenders write a mortgage, they always obtain your credit report and an appraisal of the property you want to buy, as well as fun stuff like a flood determination, flood monitoring, tax status, and tax monitoring. The lender typically pays for these items upfront, and they should know what they cost (because they've negotiated a good rate with the vendors they use that provide these services).

Though these types of charges are a small part of your overall closing costs, it's worth looking at this category to make sure there aren't any extra fees for services or reports you don't need.

Of these items, the appraisal is by far the most important. Be sure to read our pro tips about appraisers – and remember, you want a local, well-regarded expert.

SERVICES YOU CAN SHOP FOR: INSPECTIONS AND INSURANCE

For years, it never occurred to borrowers to shop for things like title insurance, title insurance binder, lender's title policy, title search, or a survey. Typically, the title company charged you for these services, but it was a rare day when your average home buyer went out looking for a surveyor to get the best price.

Thanks to the Consumer Finance Protection Board, it's now exceedingly clear that you can shop for these items, and tell your title company which services you want to use. But, few people do, and that might be for the best.

Here's why. By far, one of the biggest costs in the inspections and insurance category is title insurance. This insurance is used to protect the lender against flaws or errors in the property title. About 30 percent of all title searches reveal problems with a title, like unpaid taxes or contractor liens that must be fixed before the transaction can close.

Now, I'm not saying you shouldn't shop for title insurance, but keep in mind that title insurance is regulated by the commissioner of insurance in the state you live in, and virtually all title insurance rates are basically the same as a result (regardless of the policy level).

**PRO
TIP**

Look at the APR

Most people care more about the interest rate on their mortgage than the annual percentage rate. But here's why you want to make sure you understand your APR: It includes the costs you pay each year to borrow the money for the mortgage. Confused? Think of it this way:

- ▶ **The interest rate tells you how much interest you're going to pay** on the money you borrow. It doesn't include any fees or other charges you must pay for the loan. It's all interest, all the time.
- ▶ **The APR tells you how much the mortgage itself costs**, because it includes both the interest and the one-time closing fees you'll pay for your mortgage. This combination of interest and fees illustrates the true cost of getting your mortgage. That's why the APR is almost always higher than the interest rate on a fixed rate mortgage.

As important as the APR is, don't look at it by itself to decide whether a loan is right for your circumstances. Some unscrupulous loan officers will manipulate fees they disclose so that the APR appears lower, and that's bad for you. How? They'll leave out daily interest charges, or selected title fees, and you'll pay for it down the line. That's why it's much better to use the APR as a guide, but look closely at the details on your estimate to accurately compare rates.

What's different is the level of service that title insurance companies provide, and just like lenders, some are better than others. A poor title insurance company can cause lots of problems, including settlement delays.

On the other hand, a fabulous title insurance company produces a comprehensive property report well in advance to give the lender ample review time. Such companies offer different levels of title insurance policies to match your transaction. The cost of these policies can vary by as much as 40 percent, so you want to match the right type of policy to your transaction.

Since title insurance companies tend to match each other's pricing at each level (meaning there's not really any price advantage if you choose one over the other) I recommend considering the recommendations of your Realtor and lender.

**PRO
TIP**

Title Insurance

Home buyers can get title insurance too, and we think it's a good idea. It's called owner's title insurance, and it protects your equity in your home if there's ever a problem with your home's title that is not found during the closing process for your home. But many lenders eliminate owner's title insurance because it's a discretionary fee, and adds to the closing costs. But we think this is one fee worth paying.

Other Costs

THE BIG PRE-PAID ITEMS: PRE-PAID INTEREST, TAXES AND INSURANCE

Here's where it gets tricky. Your closing costs will always include some amount of pro-rated and pre-paid interest, property taxes and homeowner insurance that covers the period between your signing (closing of your loan) and your first payment.

For example, if you sign your new loan papers on the third, but your first mortgage payment isn't due until the first of the following month, your lender will want to collect interest for the period between signing and your first payment – or 27 days in this example.

A favorite way for some lenders to make a loan's closing costs seem less expensive than they really are is to drastically underestimate the cost of pro-rated interest and property taxes. But this can add up. One day of interest is a whole lot less than 25 days. Tack on insurance and taxes, and it's a lot of money. You need to be sure that your estimate includes an adequate and reasonably accurate prediction for these costs.

**PRO
TIP**

The Mythical “No Points” Mortgage

Look out for another “gotcha” in mortgage lending: the mythical, heavily advertised “no points” loan with a super-low, artificial interest rate. These types of loans can end up costing you, big time. How?

To make up for the “no points” artificial low rate, some lenders will jack up your processing and underwriting fees to double or triple the industry standard. That means that you’ll pay a lot more for your “no points” loan than a typical market-rate loan at a more reputable lender. If you’re thinking about getting a “no points” mortgage, be sure to check the fine print and compare it to a loan for the same amount that doesn’t include any points.

While it’s true that lenders don’t have control over these fees, they can accurately estimate them so you’re not surprised. We tend to be conservative at The Niles Team, because we’d rather have you know what’s coming than be shocked at the closing table — though we know it’s news you may not want to hear. But since we’d want to know if we were in your shoes, we always let you know about these fees when we’re quoting rates.

By the way, when you’re comparing quotes, this is the very first place to look if the estimates are wildly different from each other.

OTHER COSTS: SETTLEMENT SERVICES

This last category doesn’t apply to everyone, but if you’re in a state that requires that the buyer and seller both use lawyers, you might see a fourth category of charges that includes attorney fees and charges from your escrow company.

Your Rights

Keep in mind that once you’ve gotten your loan (cleared for funding), but before it closes, you have the right to look at your settlement statement (the Closing Statement). By law, we must give it to you at least four days before your loan is scheduled to close. In fact, we can’t close your loan unless you acknowledge receipt of it.

Make sure you study your closing statement before you hit the closing table; you’ll be able to avoid a lot of surprises with a little advance review.

**PRO
TIP**

Compare What the Lender Controls

When you're shopping for a mortgage, remember to look specifically at the costs the lender can control (like the lender fees, including points) to accurately compare loans and closing costs, in addition to the quoted rate. This way, you'll be able to compare apples to apples, and avoid nasty surprises down the line.

But don't forget to compare your mortgage estimates for the items that aren't in the lender's direct control, but you'll pay for regardless of who you choose. If a lender is omitting necessary fees, it's a great big red flag. Either they're sloppy, or they're just trying to sell you without telling you what the loan really costs. That can cost you time and money in the underwriting process, not to mention frustration and delays. Sloppy is as sloppy does.

THE LOAN ESTIMATE: THE TRICKIEST BITS OF ALL

YOUR FRENEMY: THE OFFICIAL LOAN ESTIMATE

You know what our government is really good at? Making things confusing. Thanks to the Consumer Finance Protection Board and a bunch of other legislators, all lenders must use the same form to give you a loan estimate. The idea is to make it easy for anyone to compare quotes. It's a fabulous idea, but it's a fallacy; I think the new forms make it harder than ever for any normal person to line up quotes side by side, and figure out which one is best.

That's why a lot of lenders (including Cornerstone Home Lending) supplement the government-mandated forms with explanations of their own, because it's so confusing.

A collage of several loan estimate forms, some overlapping. A purple callout bubble with white text is positioned over the forms, stating: "COMPARE EVERY LINE TO SAVE MONEY". The forms show various sections like "Loan Estimate", "Closing Cost Details", and "Additional Information About This Loan".

Even though the boxes on the government forms are the same, every lender fills the form out just differently enough so that it's easy to misinterpret the numbers you're reviewing.

Here's a perfect case in point. I recently got a call from a new client who was referred to me by one of my Realtor partners. She was in a hurry to get a loan; she had fallen in love with a condominium in Seattle, WA and submitted an offer. It was accepted, and now she was in contract and on the hook to get a loan, tout suite.

Now, if you've learned anything about mortgages in this eBook, it's simply this: There a zillion different programs, and there is always one that's just right for you ... if only you'll let me get to know you. But this person was certain she had everything all sewn up, because she knew what type of home she was going to buy (condo), how much she was going to pay (\$415,000), how much she was going to put down (\$33,200), and how much she needed to finance (\$381,800).

She said she wanted a 15-year fixed mortgage in our first call. She said she was shopping, and would get quotes from other lenders. But our first call also turned out to be our last call – everything else happened via text. The result?

I never got to explain to her why her quote from the other guy was actually more expensive after she had selected him. “I chose someone with lower closing costs,” her last text read. “He has a better rate and payment, and I’m going with him.”

But there's more to the story. A few weeks later, I received a panicked call that the other lender had actually declined her loan two weeks into her underwriting period. The other guy said that because she was receiving a gift from her parents for part of the down payment, she was no longer eligible for her loan. (That excuse was what we call an "overlay" – where the lender has a rule that only they have, so they can decline loans not in keeping with their internal guidelines. I hate overlays, and I'm glad Cornerstone Home Lending doesn't have many of them.) What's more, the actual payments and costs from the other lender were much higher than she expected, so she wanted to pull out anyway. How could this have happened? Let's break it down.

Cash to Close

Let's start by comparing the proposed mortgage payment in the loan terms section of the loan estimate.

THE NILES TEAM		
Loan Terms		
Loan Amount	\$381,800	Can this amount increase after closing? NO
Interest Rate	3%	NO
Monthly Principal & Interest See Projected Payments below for your Estimated Total Monthly Payment	\$2,636.64	NO
Does the loan have these features?		
Prepayment Penalty		NO
Balloon Payment		NO

THE OTHER GUY		
Loan Terms		
Loan Amount	\$381,800	Can this amount increase after closing? NO
Interest Rate	2.875%	NO
Monthly Principal & Interest See Projected Payments below for your Estimated Total Monthly Payment	\$2,613.75	NO
Does the loan have these features?		
Prepayment Penalty		NO
Balloon Payment		NO

They look pretty different, right? If you just look at this box, the first thing you’d say is that my loan is a touch more expensive than the other guy’s. It looks even worse when you look at the projected payments:

THE NILES TEAM

Projected Payments			
Payment Calculation	Years 1 - 3		Years 4 - 15
Principal & Interest	\$2,636.64		\$2,636.64
Mortgage Insurance	+	134	+ --
Estimated Escrow Amount can increase over time	+	319	+ 319
Estimated Total Monthly Payment	\$3,090		\$2,956
Estimated Taxes, Insurance & Assessments Amount can increase over time	This estimate includes		In escrow?
	\$581 a month	☒ Property Taxes	YES
		☒ Homeowner's Insurance	YES
		☒ Other: Condo Assoc Dues	NO
See Section G on page 2 for escrowed property costs. You must pay for other property costs separately.			

THE OTHER GUY			
Projected Payments			
Payment Calculation	Years 1 - 3		Years 4 - 15
Principal & Interest	\$2,613.75		\$2,613.75
Mortgage Insurance	+	134	+ --
Estimated Escrow <i>Amount can increase over time</i>	+	235	+ 235
Estimated Total Monthly Payment	\$2,983		\$2,849
Estimated Taxes, Insurance & Assessments <i>Amount can increase over time</i>	\$363 a month	This estimate includes	In escrow?
		☒ Property Taxes	YES
		☒ Homeowner's Insurance	NO
		☒ Other: Condo Assoc Dues	NO
<i>See Section G on page 2 for escrowed property costs. You must pay for other property costs separately.</i>			

There's just one teensy problem: The other guy left just a few things out.

- ▶ My estimate includes an accurate amount for property taxes. The other guy used an old assessment that artificially reduced his monthly tax estimate. Keep an eye out for this in your loan estimate. This happens more often than it should, and it will certainly be a nasty surprise to you if your taxes are, in reality, significantly higher.
- ▶ My estimate includes home insurance, which 85 percent of condominiums require. The other guy didn't include it here to make his loan look less expensive. But home insurance isn't an option; if you must have it, it ought to be accounted for in your monthly payment, whether you pay it through escrow or not.
- ▶ My estimate includes a true amount for homeowners' association dues. The other guy completely underestimated them, probably because he didn't take the time call the HOA to get an accurate amount. In any estimate you get, you can take the "estimated taxes, insurance and assessments" and subtract the "estimated escrow" in the payment breakdown to get to the HOA dues. But if the taxes, insurance and HOA dues are wrong in the first place, it spells trouble and makes the other guy's estimate look a lot less expensive. My HOA dues estimate of \$262 a month is real; his estimate of \$128 is based on thin air.

Having fun yet? Now let's look at the Costs at Closing, because this is where people trip up most of the time.

Here are my costs at closing:

THE NILES TEAM		
Costs at Closing		
Estimated Closing Costs	\$14,964	Includes \$4,405 in Loan Costs + \$10,559 in Other Costs - \$0 in Lender Credits. See page 2 for details.
Estimated Cash to Close	\$43,164	Includes Closing Costs. See Calculating Cash to Close on page 2 for details.

THE OTHER GUY		
Costs at Closing		
Estimated Closing Costs	\$14,677	Includes \$6,682 in Loan Costs + \$7,995 in Other Costs - \$0 in Lender Credits. See page 2 for details.
Estimated Cash to Close	\$37,877	Includes Closing Costs. See Calculating Cash to Close on page 2 for details.

There's a \$287 difference in the estimated closing costs, and a massive \$5,287 difference in the estimated cash to close. Let's unpack this. All those closing costs came from somewhere, but in this case, all the underestimating of insurance and taxes were really hiding a big number in the details: Points.

You know that I'm not in favor of paying points 99.95 percent of the time. It will be a rare day when you see points show up on one of my closing estimates. But the other guy put .652 percent worth of points (or \$2,489) into his Origination Charges:

THE NILES TEAM	
Loan Costs	
A. Origination Charges	\$995
% of Loan Amount (Points)	
Processing Fee	\$410
Underwriting Fee	\$585

THE OTHER GUY	
Loan Costs	
A. Origination Charges	\$3,484
0.652% of Loan Amount (Points)	\$2,489
Processing Fee	\$410
Underwriting Fee	\$585

Ouch! Our text-only borrower didn't know that she was paying points or that she should look at this box to find them.

While those points lowered her rate to 2.875 percent, they're also expensive and a waste because she plans to move in 4-5 years. Note that our other fees for processing and underwriting match exactly, so it's really the points that are the kicker here.

Now let's look at a few of the other costs associated with the loan, because there are some differences here, too.

THE NILES TEAM	
B. Services You Cannot Shop For	
Appraisal Fee	\$450
Credit Report Fee	\$18
Flood Certification	\$8
Tax Service Fee	\$92
C. Services You Can Shop For	
Title - Closing/Settlement/Attorney Fee	\$875
Title - Lender Title Insurance	\$1,967
D. TOTAL LOAN COSTS (A + B + C)	
	\$4,405

THE OTHER GUY	
B. Services You Cannot Shop For	
Appraisal Fee	\$605
Credit Report Fee	\$18
Flood Certification	\$8
Tax Service Fee	\$92
C. Services You Can Shop For	
Title - Closing/Settlement/Attorney Fee	\$765
Title - Lender Title Insurance	\$1,710
D. TOTAL LOAN COSTS (A + B + C)	
	\$6,682

For services you can't shop for, we come in below the other guy because our appraisal is lower. But in the services you can shop for, our attorney fee and title insurance is slightly higher. It is important to note that there are different levels of title insurance. Choosing the cheapest plan around, which the other guy did, might not be right for your circumstances. If you see a big difference in title insurance between quotes, be sure to ask why.

The Other Costs

Now comes the fun part. The Other Costs section is easy to look at, but not so easy to understand. Mistakes here can cost you.

You should have a philosophy about this section: You want all the costs here, even the ones you're not going to like. Some items, like transfer taxes and recording fees, will always be identical, since they originate from the county and state assessor. But everything else is up for grabs, and this is where things can get tricky.

THE NILES TEAM				
Other Costs				
E. Taxes and Other Government Fees				\$6,253
Recording Fees and Other Taxes				\$235
Transfer Taxes				\$6,018
F. Prepays				\$777
Homeowner's Insurance Premium (12 months)				\$300
Mortgage Insurance Premium (months)				
Prepaid Interest (\$31.82 per day for 15 days @ 3%)				\$477
Property Taxes (months)				
G. Initial Escrow Payment at Closing				\$1,545
Homeowner's Insurance	\$25.00	per month for	3 mo.	\$75
Mortgage Insurance		per month for	mo.	
Property Taxes	\$293.96	per month for	5 mo.	\$1,470
H. Other				\$1,984
Condo Working Capital Fee				\$524
HOA Dues				\$262
Realtor Processing/Transaction Fee				\$295
Title - Owner's Title Insurance (optional)				\$903
I. TOTAL OTHER COSTS (E + F + G + H)				\$10,559
J. TOTAL CLOSING COSTS				\$14,964
D + I				\$14,964
Lender Credits				

THE OTHER GUY				
Other Costs				
E. Taxes and Other Government Fees				\$6,363
Recording Fees and Other Taxes				\$345
Transfer Taxes				\$6,018
F. Prepays				\$457
Homeowner's Insurance Premium (months)				
Mortgage Insurance Premium (months)				
Prepaid Interest (\$30.49 per day for 15 days @ 2.875%)				\$457
Property Taxes (months)				
G. Initial Escrow Payment at Closing				\$1,175
Homeowner's Insurance		per month for	mo.	
Mortgage Insurance		per month for	mo.	
Property Taxes	\$235.00	per month for	5 mo.	\$1,175
H. Other				\$0
I. TOTAL OTHER COSTS (E + F + G + H)				\$7,995
J. TOTAL CLOSING COSTS				\$14,677
D + I				\$14,677
Lender Credits				

A favorite trick to try to win your business in the mortgage trade is to leave out key things you must pay for to make your closing costs look lower. But this is a false equation; ultimately, the costs are the costs, and they will come home to roost once you get out of the estimate stage and start underwriting your loan. It's like finding out your all-inclusive vacation package to the Bahamas doesn't actually include your air travel, hotel or cocktails (but does include a cheap tube of sunscreen).

In this case, the other guy just left out homeowners' insurance and owner's title insurance. Since you're pretty much always going to have insurance, this is a big miss. But a subtler error is the lack of owner's title insurance; while it's optional, it's good to have since it protects you in the event something goes wrong with the title of your property. At The Niles Team, our policy is to include it to protect you, and it's your choice as to whether you get it or not.

The other guy conveniently used an old assessment to generate his property tax estimate, which artificially lowers his closing costs. But what's especially galling to me is that he omitted \$1,984 of other fees (see Section H) that will have to be paid.

The Condo Working Capital Fee is a common requirement when you buy a condo. Typically, this is two months of HOA dues, payable at the time you close on your condo. It's not optional. He also left out a month of HOA dues, and the Realtor processing/transaction fee, which can range from \$250-499. These costs simply don't go away – and sometimes, there are even more costs that may be dictated by the terms of your purchase that cannot be removed from your closing costs.

Now let's say, just for the sake of argument, that the other guy actually included everything in his estimate. Here's how that shakes out (we'll use our accurate numbers for taxes, insurance and other mandatory charges that appear on our estimate to supplement his):

	THE NILES TEAM	THE OTHER GUY
Origination Charges	\$995	\$3,484
Services You Can't Shop For	\$568	\$723
Services You Can Shop For	\$2,842	\$2,475
Taxes and Other Fees	\$6,253	\$6,363
Prepays	\$777	<i>(with home insurance)</i> \$757
Initial Escrow at Closing	1,545	<i>(with insurance and correct taxes)</i> \$1,545
Other Costs	\$1,984	<i>(with working capital, HOA, Realtor fee, title insurance)</i> \$1,984
Total	\$14,964	\$17,331

Looks like that “less expensive” loan was quite a bit more expensive at \$2,367! But to me, the ultimate kick in the teeth are those points – to recoup the money this client paid in points, she would have to live in her condo for nine long years to realize any savings.

Calculating Cash to Close

This section of the loan estimate shows you what you must bring to the table to close your loan. It includes your closing costs and your deposit, plus any seller credits you may have obtained as part of your purchase price. Pay attention here to make sure that all appropriate credits are netted out to yield the final cash to close.

THE NILES TEAM		THE OTHER GUY	
Calculating Cash to Close		Calculating Cash to Close	
Total Closing Costs (J)	\$14,964	Total Closing Costs (J)	\$14,677
Closing Costs Financed (Paid from your Loan Amount)	\$0	Closing Costs Financed (Paid from your Loan Amount)	\$0
Down Payment/Funds from Borrower	\$33,200	Down Payment/Funds from Borrower	\$33,200
Deposit	\$0	Deposit	-\$5,000
Funds for Borrower	\$0	Funds for Borrower	\$0
Seller Credits	-\$5,000.00	Seller Credits	-\$5,000.00
Adjustments and Other Credits	\$0	Adjustments and Other Credits	\$0
Estimated Cash to Close	\$43,164	Estimated Cash to Close	\$37,877

In this case, the other guy assumed that our borrower had already paid the seller a \$5,000 contract deposit. But this wasn't true; she still owed the seller \$5,000. That's why his cash to close was \$5,000 lower than mine, and it ultimately caused our borrower to cancel her contract even though she could have gotten a mortgage through us. She was horrified to learn that her actual closing costs were actually \$5,000 more than she thought they would be, and that's a terrible misunderstanding that could have been resolved during the pre-approval process.

What's especially disheartening about this situation is that I see it all too often. Misled borrowers don't fully understand their loan estimates, and pull out of buying a home when they're perfectly capable of getting a mortgage today. That's a direct result of not getting the right advice along the way. In this case, the fact that our borrower didn't want to fully explore her options or even the loan estimate via a telephone call meant that she missed out on buying a home she really loved. And that's a loss for everyone, because we would have loved to help her.

It Doesn't Add Up When You Leave Things Out

Comparing loan quotes is hard if you don't do it all day, every day, like we do. But here are four important takeaways:

- ▶ **Don't be fooled by a low rate.** Make sure that points haven't crept into your loan estimate somewhere. Check the loan origination fees! And if you are paying points, make sure it's worth it – really, truly worth it. I know I'm a broken record, but paying points is usually like flushing money right down the toilet.
- ▶ **Make sure your quote contains the basics:** Home insurance, title insurance for you and the lender and pre-paid interest and taxes that are calculated at the correct rates. You can easily check the property tax rate by calling your local assessors' office, or go to their website.
- ▶ **Ask questions.** If one line item seems suspiciously low or high on lender's quote, don't assume that the lender knows what they're doing and it's correct. Humans make mistakes, and mistakes on loan estimates happen frequently. That can cost you money, delays and frustration.
- ▶ **Get help:** I've said it before, and I'll say it again. Pick up the phone and talk to your lender! You just can't do everything by text or email, particularly with complex transactions you don't handle every day. If you've got a good loan officer, they'll be able to help you compare and understand your quotes. Remember, when you're buying a mortgage, what you're really buying is service. Take advantage of it!

**PRO
TIP**

Every Line Counts

The Closing Estimate is the biggest source of confusion for most people when they're looking for a mortgage. Every lender is obligated to give you one if they take an application. But don't assume they're all created equal. Lenders are human, sometimes they forget things, or even get important things like taxes and insurance wrong.

Make sure you go past page one and review your estimated loan costs, other costs and the cash to close. Compare everything, line by line. Some things, like recording fees and transfer taxes, should be identical. But everything else might be slightly different — or hundreds or thousands of dollars apart. The more money on the line, the more it pays to look beyond the rate so you can understand every penny you're spending, and how it will impact your finances today, and tomorrow.

WRAPPING IT UP

What's most important when you're shopping for a mortgage for a new house?

Simple. Pay attention to rates. But don't shop them exclusively, because most lenders will match rates if they're given the opportunity. Instead, shop for service and quality.

Look for a relationship, because buying a home is the biggest purchase most of us will ever make. Find a loan officer who is responsive, insightful and knowledgeable about how to help you meet your goals. Sure, you need the lender to have the right programs and rates for you. But you also need someone who can look out for you and your loan, and bring your deal over the finish line.

Even if you decide to use an online lender, or use our digital application process, you should expect to speak to humans. Not everything can (or should) be ironed out in a text. There are a zillion nuances in mortgage lending, and a good loan officer's job is to guide you through them.

You know how we measure success?

Every time we help our clients unlock a possibility ... for a new home, a wealthier future or financial stability ... we know we've done the right thing. It's what makes us come to work every day of the week.

I hope this book has been useful. And if it's raised a few questions along the way, get in touch. We're standing by to help.

**PRO
TIP**

**Don't Worry.
Call Us.**

The best thing you
can do is call some-

one you can trust to talk about
mortgages and rates.

Give us a call at **206.949.4326**
for an honest opinion and a
competitive quote. Or visit
www.NilesTeam.com to learn
more.

RESOURCES

If you're actively shopping for a mortgage, I'll bet you still have questions about how much you need to save, lender credits and costs, the tax implications of homeownership or maybe even whether you should borrow from your 401k.

I've put together an amazing **Educational Resources** website for obtaining a mortgage and purchasing real estate at **www.NilesTeamResources.com**. Check out the site and please let me know if I can help you learn more about how to get a mortgage.

Cheers to your successful homebuying journey!

Ryan