The Ultimate Guide To

SHOPPING FOR A MORTGAGE

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How to Successfully Shop for a Mortgage

So your lender pulls your credit and within minutes, your phone starts blowing up with texts and spam calls from other mortgage companies. And they're all promising a lower rate and a better deal.

You're probably wondering – ***are they for real***?

If you're like me, you want to make sure you're getting the best deal.

You also want to be confident that you're making the right choice in the people and companies you are working with.

Shopping for a mortgage isn't the same as shopping for shoes online. There's a lot of fine print, moving parts, and other things to consider besides the just the interest rate.

So what should you focus on?

In this guide I'm going to teach you 4 principles to shopping for a mortgage. I will give you a little insight into how mortgages work to help you make the most informed decisions.

Here's what you are going to learn:

1. **The lowest rate is not always the best deal.**
2. **Every mortgage rate quote is a custom quote.**
3. **An online rate quote is not the same thing as a locked Loan Estimate**
4. **Work with someone you trust**
5. **Don't be fooled by tricks lenders use to make their quote more appealing**

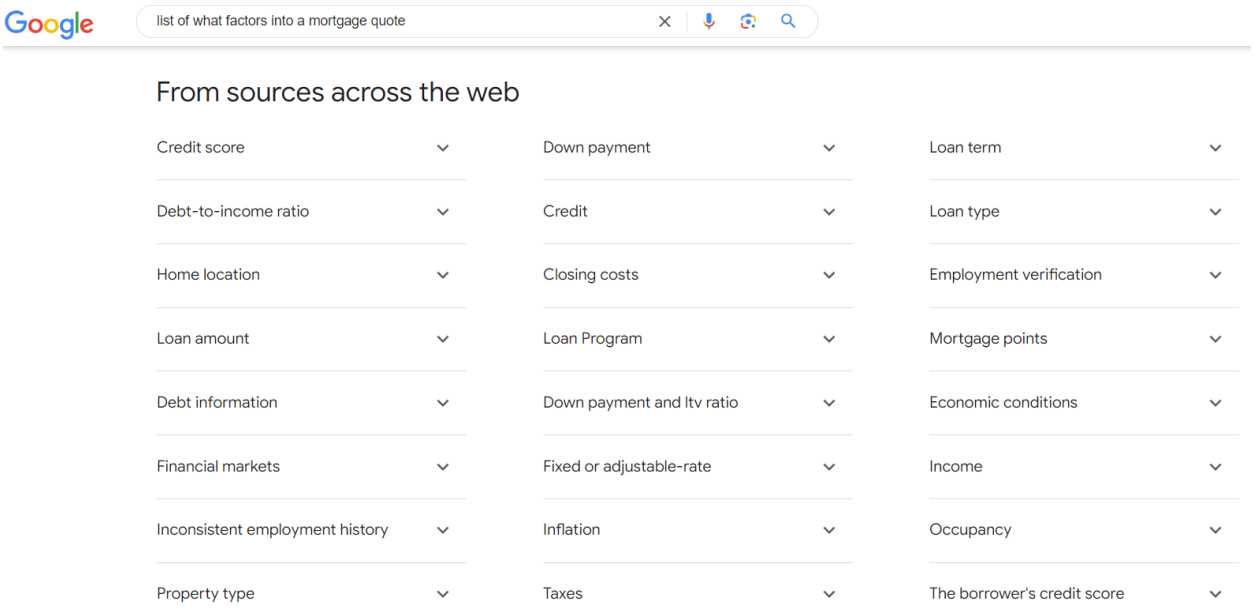
Principle #1: Every mortgage rate quote is a custom quote.

There are a few reasons for this.

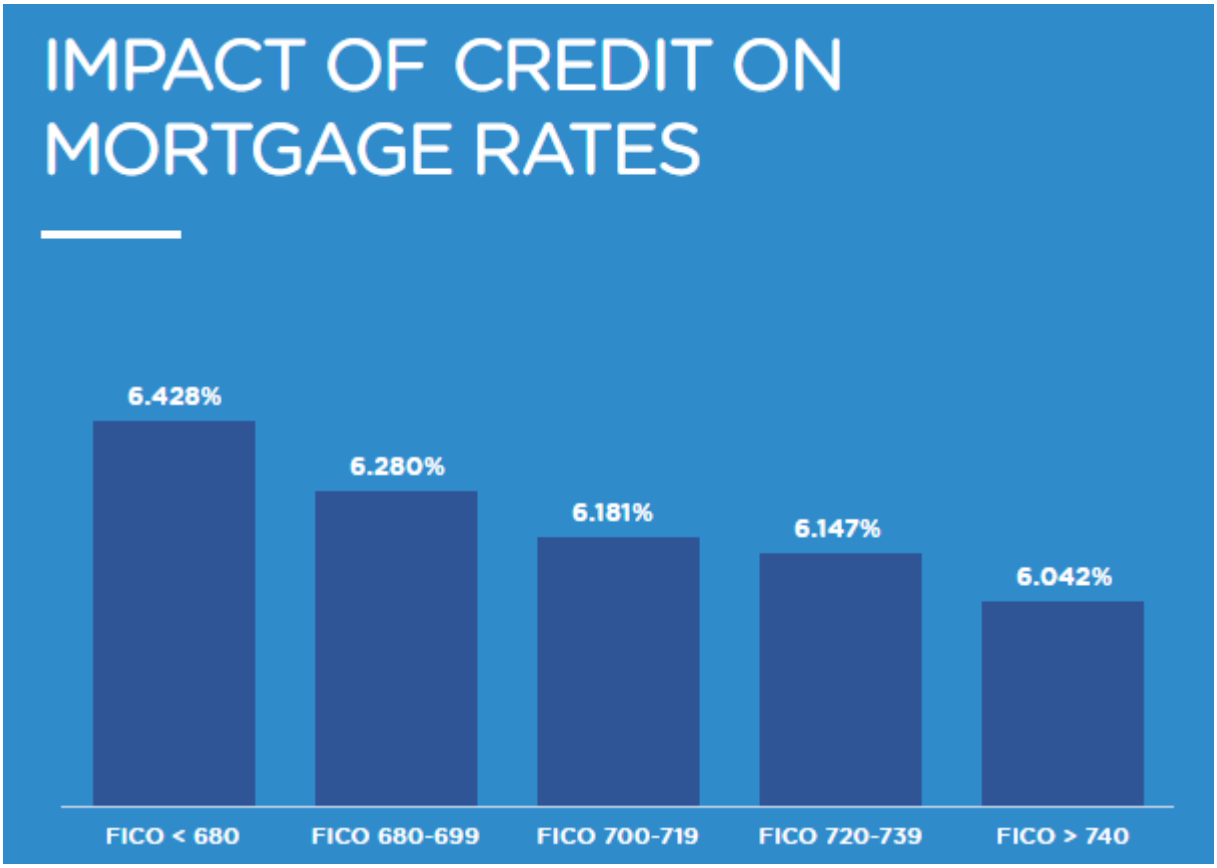
First, you should understand that there is not one rate that everybody gets. If you ask, "What's the rate today?" there is actually a whole schedule of interest rates. It ranges from high to low, and it changes every day. Sometimes multiple times in the same day.

Differences in loan program, credit score, down payment, debt ratio, loan amount, property type, location, and many other factors all make a difference in where your rate will fall on the scale.

A quick google search turns up a large list of factors, and this is not even complete.



Credit score, for example, can have a huge impact on your rate. Generally, the higher your credit score, the lower the rate you qualify for.



However, this is not always the case. I don't want to get too much into the weeds here, but there are something called Loan Level Price Adjustments (LLPA's). These are adjustments to the points depending on credit score, LTV ratio, etc.

These adjustments don't always make logical sense, either. LLPAs are the reason why, for example, a borrower with a 680 credit score and 5% down will actually have LOWER closing costs than someone putting 20% down with a 739 score. It's true! Check out the chart:

Purchase Money Loans – LLPA by Credit Score/LTV Ratio

Credit Score	LTV Range Applicable for all loans with terms greater than 15 years									
	≤ 30.00%	30.01 – 60.00%	60.01 – 70.00%	70.01 – 75.00%	75.01 – 80.00%	80.01 – 85.00%	85.01 – 90.00%	90.01 – 95.00%	>95.00%	SFC
≥ = 780	0.000%	0.000%	0.000%	0.000%	0.375%	0.375%	0.250%	0.250%	0.125%	N/A
760 – 779	0.000%	0.000%	0.000%	0.250%	0.625%	0.625%	0.500%	0.500%	0.250%	N/A
740 – 759	0.000%	0.000%	0.125%	0.375%	0.875%	1.000%	0.750%	0.625%	0.500%	N/A
720 – 739	0.000%	0.000%	0.250%	0.750%	1.250%	1.250%	1.000%	0.875%	0.750%	N/A
700 – 719	0.000%	0.000%	0.375%	0.875%	1.375%	1.500%	1.250%	1.125%	0.875%	N/A
680 – 699	0.000%	0.000%	0.625%	1.125%	1.750%	1.875%	1.500%	1.375%	1.125%	N/A
660 – 679	0.000%	0.000%	0.750%	1.375%	1.875%	2.125%	1.750%	1.625%	1.250%	N/A
640 - 659	0.000%	0.000%	1.125%	1.500%	2.250%	2.500%	2.000%	1.875%	1.500%	N/A
≤ 639[1]	0.000%	0.125%	1.500%	2.125%	2.750%	2.875%	2.625%	2.250%	1.750%	N/A

This is public information, by the way. Just search up "Fannie Mae LLPA" and you can peruse through the 9 pages of charts for yourself.

This leads us to our second principle:

Principle #2: The lowest rate is not always the best deal.

Each borrower has the option to "**pay points**" to get a lower rate. Let me explain what that means.

There is a tradeoff between rates and fees. Think of it like 2 sides of a scale or 2 kids on a teeter-totter. When one side goes up, the other goes down. High rate = low fees. Higher fees = lower rate.

Paying points basically means paying higher closing costs up-front to get a permanently lower interest rate.

Your loan officer is going to help to structure your financing to be the best fit for you. This means making sure you're comfortable not just with the interest rate, but more importantly the monthly payment, and total amount due at closing.

For example, if you're buying a house and your main goal is getting in with as little money out of your pocket as possible, there are some ways to do that.

First, you're going to want to structure your loan with the lowest amount of closing costs. Remember the scale – lower closing costs means a higher rate.

In some cases, you may actually be able to BE PAID points. This is called lender credit, and it basically means the lender pays your closing costs in exchange for a higher interest rate. It looks something like this:

Rate	Points	Cost	Payment
4.50%	2.50	$7,500	$1,520
5.00%	1.00	$3,000	$1,610
5.50%	0.00	$0.00	$1,703
6.00%	-1.00	$3,000	$1,798
6.50%	-2.00	$6,000	$1,896

In this chart, the "No Points" rate is 5.5%. By opting to take a 6.5% rate instead, you generate a lender credit of $6,000. You can't take cash back, but you can use those funds to pay your closing costs and prepaid items like taxes and insurance.

Notice how in the chart, it costs 1 point to get a 5.00% rate, and 2.5 points to get a 4.50% rate. These "spreads" between the cost of the points at each rate change daily along with the market. **A good lender is going to give you full access to the whole rate board, and let you choose how you structure your loan and rate.**

Another thing you might consider is taking advantage of down payment assistance programs. Depending on the program, you can usually expect to pay a higher-than-market interest rate. Some allow buying down the rates and some don't. So it's a tradeoff – less money down, but a higher rate and payment.

The point is, any of these routes is going to land you with a higher rate than what you'll see online or be quoted in the spammy text messages. This doesn't mean you are being overcharged or paying too much in interest. You are using the *higher rate as a strategy* to finance your home with less money down.

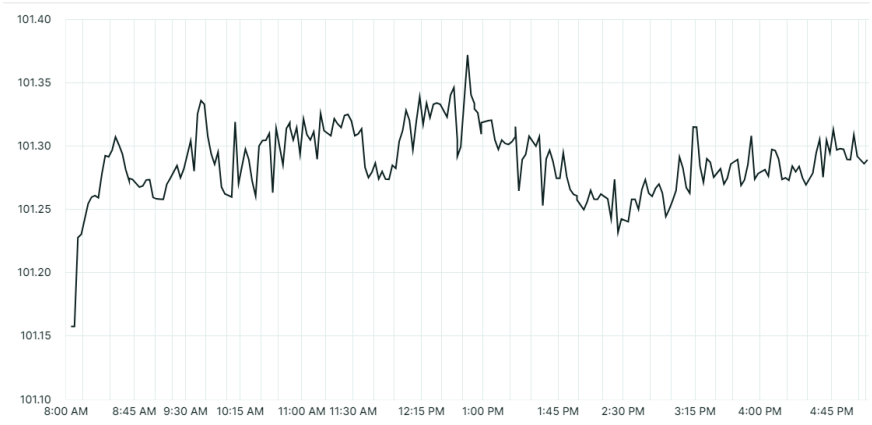
That's why I say that the lowest rate is not always the best deal.

Principle #3: A rate quote is not the same as a locked Loan Estimate

Online Mortgage Rates: Average vs. Marketing Rates

Let's talk about online rates for a moment. They usually fall into 1 of 2 categories: either "marketing rates" (basically designed by lenders to make their phone ring), or averages.

Keep in mind that mortgage-backed securities, which are the bond market funds mortgage rates come from, trade a lot like the stock market, up and down every day. So you can see wild swings sometimes with rates changing daily, even multiple times throughout the same day.



So that makes it pretty easy for the sharks in the mortgage industry to quote lower-than-market rates to draw you in, and then say "OOPS, the market changed, that rate is no longer available" once they get you on their hook. This is called bait and switch tactics.

Until you have an official Loan Estimate (the government-required form disclosing the rate and fees), lenders are not required to commit to their quoted rate or fees. And even then, unless the Loan Estimate specifies "Locked" in the top right corner, your rate and lender fees are subject to change.

This is the reason it's important to deal with a lender you trust.

Principle #4: Work with Someone You Trust

> *In my opinion, it's best to deal with somebody who was referred to you either by a friend or family member, or by your real estate agent or other trusted financial advisor. That way the lender has some accountability.*

My business, for example, as a lender for over 20 years, is very heavily based on referrals. That means my reputation matters to me. If I was doing the low-ball, bait-and-switch kind of thing, word would get around, and no one would recommend me anymore.

See, my clients and referral partners know they can trust their friends with me. That comes from having good experiences over and over. They also know that if I screw up somehow, I'm going to make it right. **My reputation is more important to me than one single transaction.**

Contrast that with the company that's texting you, trying to "poach" away your business by promising "a better deal." They don't have that level of accountability. In fact, it's all about the transaction for them because there is no connection from one customer to the next. Every deal comes from spending money on advertising and their aggressive tactics.

Now, is it possible they will give you a lower rate? Yes, sure. In fact, **there is no one company that has the lowest rates all the time.** That's not how it works in mortgages. The money pretty much all comes from the same place, but you can almost always find someone willing to the do the job a little bit cheaper.

So should you go with the cheapest possible price?

Well, there are a few things to consider.

Everyone's situation is a little different, and sometimes getting your loan approved requires effort, creativity and extensive knowledge of lending guidelines. That means not every lender will have the ability to get your loan approved. **The lowest rate, even if it's locked in and disclosed on a Loan Estimate, is worthless if your loan doesn't get approved.**

A lot of times we describe the loan process as like being a passenger on an airplane. You might fly through turbulence or come into unexpected situations, and you want to make sure you have a competent pilot in the cockpit.

When you're buying a house, you're almost always dealing with deadlines. You want to make sure your lender isn't going to drop the ball and cause you to be in breach of contract by missing your timeframes. **The lowest rate, even if it's locked in and disclosed on a Loan Estimate, is worthless if your lender can't close on time.**

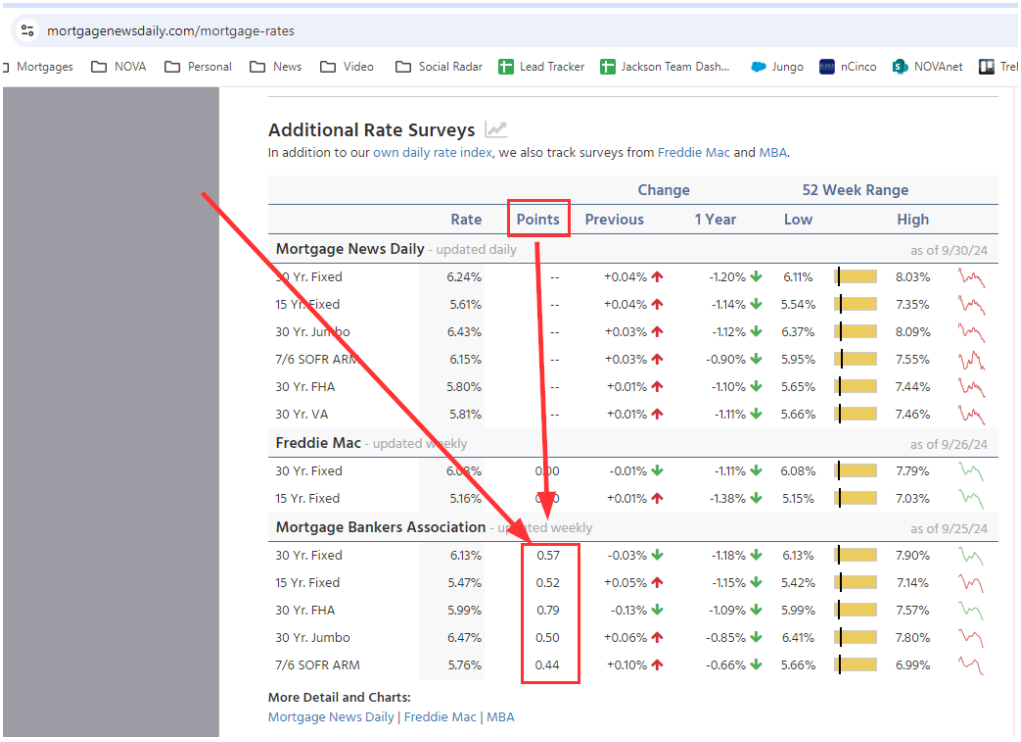
Traits You Want in Your Loan Officer:

Ask yourself:

- Is the lender patient in answering your questions?
- Are they willing to meet with you in person and do they answer questions on the phone?
- Are they clear and open about the costs on the different options, or do they just waive them away or downplay them?
- Do you feel comfortable asking questions and do they come across to you as knowledgeable and trustworthy with their answers?
- And maybe most of all, are they making you feel pressured or rushed? Or like you're being sold a slick sales pitch?

Let me get back to explaining online rates.

Mortgagenewsdaily.com, for example, is a good place to check rates. Notice next to the weekly average, which is put out by the Mortgage Bankers Association, it also includes the average amount of points customers are paying.



That's an important detail.

Rates can vary a little bit lender to lender, but if you have good credit and you're getting, let's say, an FHA loan with your own down payment, your rate should be pretty close to the weekly average.

That is, if you are paying a similar amount of points and the market hasn't had any big movement in the last day or two.

The average is usually around 1 point. 1 point is 1% of your loan amount, so if you're borrowing say $300,000, "paying a point" is going to add about $3,000 to your closing costs.

Is The Cheapest the Best?

You have probably heard the saying that you can pick 2 between: Fast, Good and Cheap.

- If you want it Fast and Good, it won't be Cheap
- If you want it Good and Cheap, it won't be Fast.
- If you want it Fast and Cheap, it won't be Good.

A good mortgage lender strives to offer the best combination of rates, fees and service.

Providing excellent service is about having the right people in place to get things done, and processes to make the work as streamlined and efficient as possible.

Many online lenders claim to offer the lowest, rock-bottom interest rates and fees. In my opinion, that's a losing business proposition. #1, it's not true. As we already covered, there's no one company that has the lowest rates every day. They may operate on slimmer margins and charge lower fees, but there is always someone else willing to do it just a little bit cheaper. #2, it means they don't have anything to offer you other than to try to get your attention with flashy rates. And #3, they must be operating on bare-bones skeleton crew and probably working from their mother's basement to keep costs down.

On the other side of the spectrum, there are lenders that will try to sell you on how great their service is in order to distract you from the high rates and fees. You don't want that either.

The key is working with a lender who strives to provide the best combination of rates, fees and service.

Lenders make the same regardless of the rate, term or loan product you choose. That means your lender isn't going to make more money if you choose to pay more points, so they should have no reason to try to influence you one way or another.

Locking in your rate

When you have an accepted contract and know all the terms of your purchase, and your timeframe for closing, you can talk to your lender about locking in your interest rate.

At this point, how my team does it is we give our client full access to the rate board on that day, and we talk about the different rate options and how they affect your monthly payment and funds due at closing. So you get to choose what rate you want to go with.

What you want to do is structure your loan so you're comfortable with 2 things:

1. The total dollars out of your pocket at closing

2. And your total monthly payment.

Both of those are influenced by your interest rate. At the end of the day, you need to make sure you have enough money to close the deal, and that you can live with the monthly payment going forward.

Principle #5: Don't be fooled by tricks lenders use to make their quote more appealing

Even with a locked Loan Estimate, there are several ways lenders are able to manipulate the numbers. In particular, look out for:

Insurance and Property Tax Estimates
You may not have a specific property picked out yet when you are comparing offers from different lenders. If this is the case, each lender will have their own method to estimate the property taxes and insurance. The best policy is to overestimate to make sure borrowers are never surprised with higher numbers later. However, it's not uncommon to see lenders low-ball these numbers. They aren't required to honor these amounts, and it makes their payment estimates lower up-front. If you are comparing quotes with the same interest rate and loan amount but one has lower monthly payments, this is most likely the cause. Don't be fooled by this type of shenanigans.

Points vs No Points
If you're not paying attention, it's easy to miss a lender charging you points. Sometimes it can be called an Origination Fee. Sometimes it's called Processing Fees or Underwriting Fees. Either way, it's money the lender is charging you. Don't just look at the rate, make sure to compare all the lender fees.

Lock Terms
Did you know your locked rate is only good for a specific amount of time? Say you sign a contract on October 1st and your closing date isn't until the middle of December. If your lender is quoting you 30 day lock pricing, that's not going to be long enough to get you to your closing date. It's not uncommon to see online lenders quoting rates and fees based on 15-day lock periods. Make sure you are clear on what you're getting.

Mortgage Insurance Rates
If you're getting a conventional loan, mortgage insurance rates have LLPA price adjustments just like your mortgage rate. There are several companies that provide mortgage insurance. They all have their own underwriting guidelines, called overlays, that may or may not impact you. If a company is quoting you lower mortgage insurance rates than other quotes, make sure they can deliver. Just like with rock-bottom mortgage rates, sometimes you may not end up qualifying for the least expensive mortgage insurance. This is another reason it's so important to deal with a knowledgeable loan officer.

If you found this helpful and want to begin the process of purchasing your dream home, my team and I can help.

Book time with me here: Click Here

Talk soon!

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