Mortgage Do's and Don’ts

Do: Ask family and friends for mortgage lender referrals

Before or during the interview process with potential residential mortgage lenders, ask people you trust for referrals. You need to be comfortable with the loan officer and their financial institution that you will be dealing with and know they are working in your best interest. The borrowing cost of the home loan mortgage is not your only criteria.

Do: If you’re getting a mortgage rates lock, get it in writing.

Some brokers tell the borrower the price has been locked, but don't lock with the lender. If interest rates don't rise between the supposed lock date and the closing date, the broker makes an extra profit. If interest rates spike during that period, which is unlikely but always possible, you're left holding the bag. Don't be afraid to ask for written confirmation of the rate lock.

Do: Ask your mortgage lender about making extra mortgage payments

By making extra mortgage payments on your home loan, especially early in the term, you could be saving thousands in mortgage interest over the life of the home loan. The extra payments go to paying down your mortgage loan principal. Most mortgage lenders have extra mortgage payment plans such as the bi weekly mortgage payment plan. For these programs to make financial sense, make sure there are no excessive fees or penalties imposed for making the extra monthly mortgage payment.

Don’t: Blindly going to a mortgage lender that is referred to by your Realtor.

Realtors will recommend mortgage bankers that will help you get the residential loan but not necessarily at the best mortgage rate or borrowing terms. Always do your research before committing yourself to a house loan lender. You should be shopping for a loan with at least three mortgage companies before you make a decision. Getting better borrowing terms will translate to thousands of dollar savings over the life of your mortgage loan.

Don’t: Select The Loan Provider Offering The Best Price Over The Telephone Or In The Newspaper

If you cast a wide net, you are bound to find a rogue who will beat all the other prices, but has neither the capacity nor the intention of delivering such prices. His objective is to rope you in and move the process along until it is too late for you to back out. At that point, he raises the price using any of a dozen tricks available for that purpose. Remember: Because the market is constantly changing, you can't hold a broker or lender to a price quote until you lock the prices. A lock is the lender's agreement guaranteeing the prices.

Don’t: Automatically go to the mortgage banker with the lowest mortgage interest rate and not ask for a written Good Faith Estimate GFE

The advertised mortgage interest rate by a mortgage company is not the only consideration to go by. You must ask the mortgage lender what fees were included in the calculation of the mortgager interest rate. The Annual Percentage Rate APR is a better reflection of the home borrowing rate since it includes the mortgage loan processing fees. The advertised mortgage rate tends not to include all the fees charged for closing a home mortgage loan. If you do sign with that particular residential mortgage lender, you might be paying last minute imposed closing fees or learn that you will be paying extra points. You might not be getting the best mortgage rate after all. To effective compare mortgage rates, you should first ask for a written Good Faith Estimate GFE from several mortgage lenders before submitting your application. With a few GFE Faith Estimates to compare, you can learn what fees are incorporated and find out which residential loan lender is more forthcoming about the costs of your transaction. The lowest quoted current mortgage rates are not always the best home mortgage deal but the lenders that are most thorough in disclosing their mortgage loan closing fees. Your mortgage company is required to provide you with a written good-faith estimate (GFE) of closing costs usually within 3 business days after receipt of your completed loan application

Don’t: Minimize your down payment on your property purchase

If you want to minimize your down payment on your home purchase, you might end up paying a higher home borrowing rate and be required to pay private mortgage interest. By making a sizeable down payment, ideally 20% or more of your property value, you will avoid paying pmi private mortgage insurance. Since you made a sizeable mortgage down payment on the property, you’ll be able to get lower home loan borrowing rates. Because you have sizeable equity in your home, you are deemed less likely by your mortgage banker to default on your mortgage loan.

Don’t: Assume That You Can Shop Lender A Today And Lender B Tomorrow

Because of market volatility, prices obtained on different days are not comparable. Unless you shop all sources on the same day, you are wasting your time.

Don’t: Assume That The Loan Provider Who Offers The Best Price On One Type Of Loan Will Also Have The Best Price On Another

It is common for borrowers to shop the loan they think they want, then change their mind later in the process. For example:

*They begin thinking they want a fixed-rate loan, then switch to an adjustable.

*They begin thinking they want a 30-year term, then switch to 15-years.

*They begin thinking they want a zero-point loan, then switch to 3 points.

Such switches may invalidate their shopping because the loan provider with the best price in one loan category may not have the best price in another.

Don’t: Allow The Price To Float Without An Agreement With The Loan Provider Regarding How The Price Will Be Determined At Closing

Some borrowers elect to allow the price to "float" -- change with the market -- until shortly before closing. Such borrowers are told they will receive the "market price" at the time they lock. Few loan providers, however, explain how the market price is determined. The market price at closing should be the price available if the loan were delivered immediately. This is also the price quoted to new customers electing to float on the day you lock. Because the lock price is always higher than the float price, floating should save you money if interest rates don't rise. The reality, however, is that in the absence of an agreement to the contrary, the market price at closing is what the loan provider says it is. And many say that it is the 30 or 45-day lock price, rather than the float price.

Mark Zwick, Bringing home results to the Greater Philadelphia area. 215-627-2848
mark@markzwick.com