

THE REAL ESTATE PAGE

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Need a Mortgage? Don't Ask What Is Your Rate!

Sounds like the most natural thing in the world. You need a home loan. Perhaps you are purchasing a home. Or perhaps you are refinancing your present mortgage. So you are *shopping around*. And shopping is important. However, 99% of the home loan “shoppers” start with this question, “*what is your rate?*”

After all, it makes sense that if you need a loan, obtaining the lowest rate will give you the best deal. Yet, we advise vehemently against starting with this question. Why? Well, let us give you some very important reasons which will help make your shopping experience more fruitful.

First, You are not likely to get an accurate answer to your question. We are not saying that the lender you speak with will be untruthful. However, the answer to the question is much more complex than you would imagine. There are several variables that will affect the rate on a mortgage and some of those variables are not likely to be known by the lender you are speaking to—not without further research.

Therefore, if you do not spend major time with that lender as opposed to “just shopping around,” the lender is likely to give you a very favorable rate quote that is not likely to be accurate. If the quote is not going to be accurate, why not quote the lowest rate possible?

What are these variables? Here are just a few:

- Your credit score. The lower the score, the higher the rate;
- The amount of your down-payment or equity in the home on a refinance;
 - What type of property is being financed;
 - The stability of your income;
- Is the seller paying for part of the

closing costs;

- How large a cash reserve is available after the transaction is consummated;
- Will the property be occupied as your primary residence;
 - How many debts do you have;
- Is there a previous foreclosure, bankruptcy or other major credit issue.

There is much more...

- ⇒ *What factors could affect the rate?*
- ⇒ *What are the fees?*
- ⇒ *What is the record of performance?*

Second. There are many other factors which are as important as the rate. For example, what fees are charged by that lender? The higher the fees, the higher the cost of the mortgage. On the other hand, some fees can lower the payment on a mortgage and be more advantageous for those who are going to use that mortgage for a longer period of time. So we are not saying that fees are necessarily a negative factor, but they must be considered in light of the rate quote.

Another consideration is the variety of programs that may be available from that lender. We understand that home buyers are likely to want a lower rate so that they have a lower payment. Yet, many homeowners are looking to become debt free more quickly, especially in uncertain economic times. A mortgage with a 20-year term may be more advantageous if your goal is to build equity. Rates for 15-year and 20-year mortgages are likely to differ from the rates on 30-year mortgages, making shopping more complex.

Finally, it is important to

know who you are dealing with when shopping for home financing. It is important to know not only the mortgage company, but also the qualifications of the loan officer on the other side of the telephone line. You may be dealing with a major bank that you have dealt with many times before, yet the person handling your loan request could have little or no experience. Conversely, you may have not heard of the mortgage company you are dealing with, but the loan officer has decades of experience.

Why is experience, training and skill important? If a loan officer can't put your loan request together in the right way, it is more likely that something could happen to create stress in the process, change your rate quote or even cause the loan not to go through altogether. This is why a personal referral can be the best way to find a mortgage company.

In light of this information, perhaps the questions you should ask should be..

“Do you have any references from satisfied customers?”

“What do you need me to do in order to obtain an accurate rate quote from your company?”

“What programs does your company have that might help me achieve my long-term financial goals?”

A rate quote may make you feel good, but it would be better if you had the right information to help you achieve your goals with regard to this very important transaction... ☐

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