

Comparing "apples to apples" while shopping mortgage rates.



*I was offered a **4%** fixed for 30 years, can you beat it?*

More often than not, borrowers get so caught up in the "rate" that they fail to look at the actual product being offered to them. My goal is to help you avoid this pitfall to save time and money. There are virtually hundreds of loan products that are offered on the market today. More often than not, receiving a "rate quote" on the internet or over the phone is meaningless if you don't understand the terms that apply to that rate. I always tell my clients to make sure we are comparing "apples to apples" and not "apples to oranges". Comparing offerings is a crucial part of the purchase or refinance decision. By following these 5 simple steps, you will be able to ask the right questions and choose the best loan option for you!

Step 1

Get a "good faith estimate" from your broker or lender. The "good faith estimate" is an industry standard document, which breaks down all of the costs associated with the loan and rate you were offered. The "good faith estimate" is required to be sent to you within 3 business days of your initial application by law. If you don't receive one, the old saying, "buyer beware" comes to mind. By placing the "good faith estimates" from each offer side by side, you will be able to do a breakdown of the costs associated with each loan and make an informative comparison.

Step 2

Find out what criteria the loan officer used to get that rate. All investors have documentation guidelines. Main components such as credit worthiness and the ability to provide income/asset documentation play a factor in quoting a rate. If a loan officer quotes you a rate without looking at your credit report and asking what income and savings documentation you can provide, this should be a red flag! Comparing "apples to apples" includes the type of documentation you will need to provide in order to get the rate offered. Ask the loan officer whether he priced you on a "full documentation" or "stated" program. These components make a difference in the paperwork you will need to provide and the pricing you are offered.

Step 3

Find out if the rate you were quoted is a fixed or adjustable rate. Most loans are typically fixed for 15, 20, 30 and now 40 years! If you are offered an adjustable, you may hear the word "fixed". Make sure you don't get confused. Adjustable products such as 2/28's, 3/27's, and 5/25's may be "fixed" for a set period of time, however, they adjust periodically thereafter. For example, a "2/28" is an adjustable loan, that is "fixed" for the first 2 years, but adjusts after that period. If the loan is an adjustable, find out what index the loan is tied to (COFI, MTA, LIBOR, etc..) and what the predetermined margin is. Remember the Index + Margin = Your fully indexed rate!

Step 4

Make sure you compare loans that have similar characteristics. It does no good to compare one loan that has a prepayment penalty with one that does not. The difference is usually 6 months of interest charged in penalties on a loan, which adds up to thousands of dollars if you make a mistake! Also, make sure you know if the offers have an interest only option on them. Simply looking at the expected payment on a "good faith estimate" will not suffice. One lender may send you a "good faith estimate" with an interest only payment being reflected, but it does no good if your main goal is to pay off the home faster with a fully ammortized payment.

Step 5

Finally, thinking "outside the numbers", borrowers must also compare who is making the offer. Questions such as, "Was the loan officer knowledgable and willing to answer my questions in a clear and straight forward manner?" are very important! Purchasing or refinancing your home is one of the most important decisions you will make in your life. Choosing the right person to work with can make all the difference in having a positive home loan experience.



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