

Mortgage Advice

The 5 Most Important Questions To Ask When Shopping for a Mortgage!

by: Chuck Simmons

Shopping for a mortgage can be confusing...and even intimidating. If you do not ask the right questions, you may not get the terms that are best for you. Many in the mortgage industry would propose that the lowest rate automatically equals the best deal. Not so. While the interest rate is an important component, it is only one of many pieces. Think of your mortgage as a puzzle. Your home financing picture won't be complete until all the pieces have been put together---and they must fit correctly for you to have received the best plan possible.

Lenders may offer a low interest rate... but may charge more in fees somewhere else in order to support that rate. Other lenders might wrap the closing costs into a higher interest rate and then state that the loan is "no cost". Understanding how to calculate your actual costs to determine a break-even point between two options is your key to seeing which option is the best value.

I believe there are five questions every borrower must ask in order to make an educated decision. Surely, there will be other questions along the way---after all, this is one of the most important financial decisions most people make. But, these five questions will help sift through the confusion when it comes to finding the best deal. Before you begin, it is critical to ensure that you are making an apples-to-apples comparison. Ensuring two competing lenders are quoting rates for the exact same program using precisely the same information can ensure you aren't surprised later with a mortgage program you did not understand or anticipate.

1. What is the interest rate?

We lead with this question since it is the one that is most commonly asked. The interest rate is important because it, combined with the loan amount and the amortization period, is what determines your monthly payment

2. Is there an origination fee?

An origination fee is a fee a lender makes to do the loan. A 1% origination fee is

While the interest rate is an important component, it is only one of many pieces.

common in the Des Moines metro area and represents 1% of the loan amount. Asking a lender to waive the origination fee usually results in a higher interest rate.

3. Are there any discount points being charged?

Discount points work similar to an origination fee. They are points that can be paid to buy an interest down to a lower level. Some lenders will advertise a low interest rate but have anticipated that the borrower would pay extra points to get that rate. One point is 1% of the loan amount.

4. What are the "hard costs"?

These are the actual closing costs to do the loan (excluding origination fee and discount points). They are for things such as the appraisal, title work, and processing fees. Lenders costs vary but are typically between \$1600 - \$1800.

5. Is there a "broker fee"?

Some mortgage companies are mortgage brokers. Mortgage brokers don't lend the money to a borrower but they set the borrower up with a lender. Most brokers charge a fee to the borrower for that service. This question is important because many people do not know to ask it.

While some of these questions may seem redundant, if you don't ask all of them you may find that not everything is at it seems. Recently I received a call from someone asking for our current mortgage rates. He stated that another bank in town had just quoted a low rate with "no

points". The rate they quoted seemed low compared to the marketplace, so I asked more questions. As it turned out their premise of "no points" simply meant they would not charge any discount points but instead they charged a higher than normal origination fee. When we compared the terms apples to apples, we found that rate was basically the same as most others in the marketplace. It was just presented with a different spin.

Once you have the answer to these questions you can make an informed decision. For instance, let's say lender A has a lower interest rate than lender B and it saves you \$50/month in payments. But you add up all of the fees in questions 2-5 and see that lender A is actually charging \$2,000 more in various costs in order to get that rate. If you have to pay \$2,000 extra to save \$50 a month, you now know that you need to be in that loan for at least 40 months (\$2,000 in extra costs divided by savings of \$50/month) for it to be a better value for you.

A mortgage is too important to your financial future to leave it in the hands of others. Arm yourself with the right questions to ask and you will make the choice that is right for your own unique situation.

Chuck Simmons is Vice President of First American Bank Home Mortgage. Chuck can be reached at (515) 778-8519, Chuck.Simmons@BankFirstAmerican.com

