

Six Shopping Rules That Will Get You The Best Loan

By Chris Salazar, publisher of Mortgage Originator Magazine

Pulling teeth, death, public speaking, and getting a mortgage - some of life's greatest pains, and greatest fears. The first three will be with us forever, but that last one can be conquered with an understanding of the inside workings of the mortgage process.

Every hour, of every day, an applicant for a mortgage is lied to, poorly serviced, generally abused on rates, and many times forced to take a loan they really don't want. As one who spent twenty years providing mortgages to borrowers, and as one who is retired and therefore has not any other motive for writing this article other than the removal of consumer abuse, I am going to give you a few "secrets" of getting a loan that if you use them, will help in getting the mystical "Best" loan.

"BEST LOAN SYNDROME." Everyone, in fact it is virtually "The American Way", wants to pay the lowest price for anything they buy. But in the world of mortgage finance, with rates and fees that change almost as often as a new-born baby's diaper, searching on the basis of "What is your rate and fees?" is the most dangerous method of getting the "best" loan. With rare exception, most providers of mortgages access the same source of ultimate financing -- Fannie Mae and Freddie Mac. Loans of \$333,700 and below most certainly fall into this category and the quotes given to you should be close to each other based on competitive factors in your marketplace. **RULE # 1:** If you are quoted a rate and fee significantly lower than all others -- Run, don't walk, away from that company. There is a strong probability that they are "Bait & Switch" artists!

"DO YOU QUALIFY?" One of the greatest abuses that takes place is where a borrower applies for a loan and weeks later is told they don't qualify - often after they have made a financial investment in an appraisal and credit report. If you have all your income, liability and credit information available, and you are dealing with a knowledgeable individual, then you will experience **RULE # 2:** You can find out in one day, in writing, if you qualify for a loan!

"RATE & FEE LOCKING POLICY." The saddest abuse in mortgage finance is when, after a borrower has given the financial version of an ounce and a half of their blood to a mortgage provider and apparently has climbed the mountain of the approval process, are then confronted by closing documents that do not resemble in any way the quote that was the basis for their making application. The choices are to start over with someone else or close the loan, with most using the "life is too short" concept and closing the loan. **RULE # 3:** Get in writing, at application, the mortgage provider's policy concerning the locking of the rates and fees!

"WHAT'S THE BEST PROGRAM FOR YOU?" The advent of hyperinflation in the late 70's brought with it the evolution of a multitude of mortgage products. Fifteen year and thirty year fixed rate loans have been joined by "30 year amortization, Due in 5 years", "30 year amortization, due in 7 years", "10 year fully amortized fixed", "20 year fully amortized fixed" - each with a virtually unlimited variations of fee structures! Then, of course there are the wide varieties of Adjustable Rate Mortgages (ARM' s) - also with unlimited fee structures. The "Best" one for you can only be determined by answering and obtaining professional counsel to some key questions, including the following:

1. "How long do you expect to remain in your home?"
2. "Is your primary motivation to pay off your loan or to lower your payments?"
3. "Is your income fixed, stable, or will it be increasing?"
4. "Do you have an accountant or tax advisor?"

RULE # 4: Any mortgage provider that does not ask you any of the above questions in all probability does not possess the experience necessary to provide professional mortgage consultation. Keep dialing till you find them!

"THE TRUTH ABOUT LOAN FEES." Noted economist Milton Friedman gave us all the first rule of economics: There is No Free Lunch. Nowhere is that validated more than in the concept of loan fees. Loan fees are supposed to be prepaid interest charges, so the concept is very simple: **THE LOWER THE LOAN FEES THE HIGHER THE INTEREST RATE.** The ultimate example of this today is the so-called "No Cost Loan" where by raising the rate a mortgage provider will "pay" all your closing costs. What is often never explained is that these closing costs, which may average over \$4,000,

are added to a higher loan than you would normally need, and in the case of a 30-year mortgage, would cost you an additional \$9,600 in interest that must be factored into any lower rate scenario that is being considered. **RULE # 5:** Obtain at least three fee samples from your mortgage provider on the selected loan program showing the total of payments, total interest paid, and loan balance after a selected life of the loan, (e.g. 5 years, 10 years, etc.)

"WHOM DO I GET MY LOAN FROM?" Like loan programs, the choices of who to get your loan from have increased as well. The current favorites for providing loans are: Mortgage Bankers, Mortgage Brokers, Savings & Loans, Banks and Credit Unions. Ideally, one should obtain referrals to three lending sources from Real Estate agents who are involved daily with the mortgage industry, and it is in their best interests to only do business with mortgage providers that perform consistently and professionally. Otherwise, one should talk to at least six possible sources from advertisements that are readily obtainable. Regardless, one should always remember **RULE # 6:** The "entity" is not important. The individual that provides information you requested in a timely manner, that communicates a genuine interest in being your mortgage consultant and not just say, "I'll get you the best loan", is the person to whom you should entrust your mortgage needs.

As surely as the sun will come up tomorrow, there will be those who will continue to shop for the best loan on a "What are Your Rates & Fees?" basis. And as surely as I have no financial gain from providing you the above, you will get the "BEST LOAN" if you follow the blueprint provided, leaving the abuses that will be suffered to the rate and fee shoppers who do not possess the vision to understand that shopping for a mortgage requires real professional consultation.

AN ENJOYABLE MORTGAGE EXPERIENCE IS NOW YOURS FOR THE ASKING!

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