Shopping For a Home Loan: Be Confident

When shopping for a home loan rates are always on the top of one's mind. After all, it is the thing you remember most after the loan closes. However, rate alone may not determine the best deal. The other determining factor is what it is going to cost to get the rate one is being quoted.

A lower rate can almost always be purchased, but will the lower rate actually save you money? That is the question that needs to be answered.

With the numerous loan choices and various ways to structure a loan, it can be daunting to shop for a home loan. There are three basic steps to follow:

1. Determine the loan product you desire and best fits your long and short term plans. This may be the most difficult step of all. A good mortgage professional can help with this decision. The good news is fixed rates are at historic lows, which can make this decision much easier.

2. Get good faith estimates from mortgage professionals for the *specific* loan you desire. It is important to compare apples to apples. In other words compare a quote on a 30 year fixed to a 30 year fixed.

3. Once you get the quotes, do a basic comparison. There are two ways they will compare. The first and most simple possibility is that one of the good faith estimates has a lower rate with lower fees than the others. This makes the decision fairly easy. All things being equal, a lower rate with lower fees is always good.

The second and more likely scenario is one of the quotes may have a lower rate, but with higher fees. Is the lower rate automatically the better deal? Not necessarily. Now the question arises, is it better to pay now (higher fees, but lower rate) or to pay later (lower fees, but higher rate)? This too can be an easy decision.

Simply take the monthly savings of the lower rate and divide that into the additional costs. For example, the lower rate may save $20 per month, but it costs an additional $1,000 for the loan. The formula is as follows:

$1,000 divided by $20 = 50

Thus, it will take 50 months for the lower rate to pay for itself. If one plans to have the loan more that 4 years the lower rate would begin to make sense. However, if you are not planning on keeping the loan for that long it is better to keep the $1,000 in your pocket.

COMPARING FEES

When comparing fees be careful just looking at the bottom line. It is best just to focus on the lender and broker fees. The third party fees such as escrow, title insurance and county recording fees should be quite similar from estimate to estimate when working with seasoned professionals. If there is a big difference, certainly ask why but do not get too focused on these.

So which fees are attributed to the lender and/or broker? These fees should be labeled with an 800 number and are toward the top of the good faith estimate. They would include, for example, the origination fee/ points, discount points, a processing fee, underwriting fee and document preparation fees. Every institution charges differently for these and that directly affects what you re paying for a loan in both the short and long term.

The bottom line is you can make an informed decision and get the best deal for your specific situation. Be confident. Don’t be intimidated. Always compare. And do not ever hesitate to ask questions.