

Topic 6: Shopping For A Home Loan

Topic objective: To educate home buyers on how mortgage companies make money and how to better their own odds of saving money.

Most consumers do not realize the various ways banks and mortgage companies add costs to a loan. While there are many excellent companies that provide good service and reasonable charges, there are many companies that over charge consumers who lack the knowledge needed to protect themselves. Presently, the court system has many cases of fraudulent practice filed against companies that fall into this latter group.

The major question is, how do you protect yourself from unethical practices? If you follow these three steps you will avoid many problems.

1. Ask your loan representative many questions. Refer to information found in this topic.
2. Call three or more loan companies to shop for your loan.
3. Ask your exclusive buyer agent to assist you with evaluating your loan options.

Consumers should consider the history of how well a bank or mortgage company services a loan. Often, the only way to determine this is by asking your real estate agent if he or she has had any experience with the company. History reveals that many Internet-based companies do a poor job of servicing loans. Many of the problems are experienced at closing time and result in the buyer missing the closing schedule.

Most loans are processed to meet Fannie Mae and Freddie Mac standards and are sold to secondary investors. As a result, all companies processing loans for this market must meet the same loan qualification criteria. Often, the servicing of these loans after closing is performed by companies that specialize in loan servicing. If you are concerned about who services your loan, be aware that some banks and savings institutions portfolio their loans, keeping the loans in-house rather than selling them to a secondary investor. This may be preferable to some buyers.

Most mortgage companies make their money by income generated from the spread of the interest rate sold to the home buyer and the interest rate placed with the secondary investor. In addition, the companies will cover operating expenses with junk fees such as origination fees, administrative fees, processing fees, and underwriting fees. It is these fees that the consumer should be concerned with. Often a company will promote interest rates lower than the competition, however, they will add additional charges in junk fees. One would like to believe that local banks are trustworthy, but even bank loan originators have been caught hiding some of these "up charges" in what was supposed to be the monthly PMI charge.

When shopping for the best loan, a consumer should create their needs as follows.

I need a ____% loan for a \$_____ purchasing contract. I will want a fixed rate, ____-year conventional loan. I have sufficient savings for a ____ % down payment and moderate closing costs. The contract calls for closing in 30 days . I will want an interest rate that can be locked immediately.

Three or more loan companies should be contacted within an a.m. or p.m. block of time of no more than three hours. The request should inform the loan representative that you want a "good faith estimate," including all costs faxed or e-mailed to you within the three-hour block of time.

After getting the returns, the home buyer should contact his or her buyer agent and ask for assistance in evaluating the good faith estimates. Often, the agent will know a company that may beat the interest rates and fees quoted .

Generally, loan originators are going to want to talk about the closing cost fees. They do this because they think most consumers do not understand that "junk fees" such as origination, administration, processing, and underwriting fees are costs found in all loan closing costs

The following are universal closing charges that will be about the same on all home loans:

- Appraisal fee
- Credit check fee
- Closing fee
- Title insurance
- Survey
- Termite inspection
- Recording fees
- Courier/over night shipping charges

In addition to the above, the home buyer will need to have an insurance company provide a statement for a one-year home insurance premium. With this premium figure, the loan processor will create a pre-paid charge including the following.

- The one-year insurance premium
- Three monthly payments for the escrow
- Tax payment escrow (varies as to time of the tax cycle) what time of year you are buying?

Any fees in addition to the above closing costs are most often considered junk fees and may be able to be negotiated out of the loan costs. If an interest rate is quoted that is significantly lower than the other rates as offset by junk fees, you should be suspicious as to whether this is a loan that can be delivered as promised.

Self evaluation on shopping for a home loan

1. The best way to protect yourself when selecting a home loan is:

- a. Ask many questiona
- b. Call three or more companies
- c. Ask an exclusive buyer agent to assist you
- d. All of the above

2. All loan companies will charge junk fees.

True False

3. Closing costs are the same among all loan companies.

True False

Answers:

1. (d) 2. (False) 3. (False)