# Smart Mortgage Loan Shopping

Many people feel like there are few options when it comes to mortgage loans so they don't go to great lengths to shop. Generally the real estate agent has a relationship with a couple of institutions and buyers select from those options.

A Fannie Mae study in 2012 indicated that higher income households were more likely to research and shop before making a decision. Lower income respondents were more apt to only get one quote from one institution. A guess would be that lower income consumers are used to having fewer choices than their higher income counterparts, when it comes to anything financial.

The same study concluded that low income buyers ended up paying higher closing costs and more, simply because they did not shop.

Fannie Mae Chief Economist, Doug Duncan stated, *"Although a home purchase is the largest financial obligation most people will ever make, many borrowers do not fully understand their mortgage products and costs. As a result, some homeowners in this position may find themselves with unsustainable payments down the road."*

## Understanding Mortgage Pricing

The maddening part about shopping for a mortgage loan is that the loan officers know the ins and outs and you have to rely on them to educate you to all options. Sometimes they do and sometimes they just want to hustle the buyer into the best deal for the institution.

It pays to understand how mortgage funding is priced. Not all mortgages are alike, even if the amounts are the same. For example, a 30-year fixed-rate is priced differently than a 15-year fixed rate of the same amount. Some are interest-only and carry a balloon payment, while others penalize for early pay-offs.

Each mortgage has 2 different levels that should be considered:

- Interest rate and how it is derived over the life of the loan
- Closing fees and how they are determined

Then there's the down payment. There are different requirements for those who put down less than 20 percent than those who make deposits that are above that amount.

## Rate/Percentage Schedules Determine Price

Some lenders have several combinations (formulas) to give them flexibility to make the most money based on your decisions about:

- your down payment amount
- life of the loan
- interest type

So the real price of a home is much more than the sticker price, which seems to surprise first-time mortgage loan borrowers everywhere.

## Mortgage Prices Change

If you stay current with the news, you know interest rates and mortgage loan products change frequently. Because of this, it is fairly common to get a price quote from yesterday's pricing. Additionally, it is also common to get a higher price than what the institution is posting. This is because prices are so volatile, they can get away with posting a price almost no one will receive.

This practice is intended to bring in new customers and the industry has taught buyers that all prices and fees, except the purchase price, are going to keep changing until the deal is locked in with an approved application.

## Tips to Remember

1. *Assume you are getting low-balled unless the loan officer has all of your pertinent information.*
2. *Make sure the lender has all of the property's information, such as location, property type, type of occupancy (residence or rental, etc.)and value.*
3. *Give yourself enough time to understand the estimates each institution provides.*
4. *Don't allow the realtor to push you into a relationship, even though it will seem convenient.*


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