

How to Compare Loans Amongst Different Lenders *by Martin Lukac*

Comparing loans of different lenders is often the most difficult part of mortgage shopping. Firstly, it is important to keep in mind that mortgage packages consist of more than interest rates. They consist of a quoted rate, points and closing costs. Points are an up-front fee paid to the lender at closing. Each point equals one percent of the loan amount. Points are charged, or paid, to lower or increase the rate on the loan. Most lenders will allow you to choose amongst a variety of rate and point combinations for the same loan product. Therefore, when comparing rates of different lenders, make sure you compare also the associated points. Closing costs typically consist of loan related fees, title and escrow charges, government recording and transfer charges and can add thousands of dollars to the cost of your loan. When comparing lenders it is important to compare loan related fees (i.e. the fees which lenders charge to process, approve and make the mortgage loan), since the other fees are typically independent of the lender.

Secondly, when comparing loans of different lenders you need to thoroughly investigate and compare all loan features: maximum LTV, mortgage insurance payments (if any), credit and cash reserve requirements, qualifying ratios, etc. Pay special attention to the presence of prepayment penalties and the availability and terms of conversion options (such as rate reduction option, or option to convert an ARM to a fixed-rate mortgage).

Thirdly, for each loan you are comparing find out the lock-in period, during which the interest rate and points quoted to you will be guaranteed. Lock-ins of 30, 45 and 60 days are common. Some lenders may offer a lock-in for only a short period of time (15 days, for example). Usually, the longer the lock-in period, the higher the price of loan. The lock-in period should be long enough to allow for settlement before lock-in expires.

Finally, make sure that you are comparing the interest rates on the same day. Rates change daily, if not a couple of times a day. So, what is the best way to compare loans among different lenders? First of all when you compare different lenders you should compare loan products of the same type (e.g. 30 yr. fixed). It does not make sense to compare different types of loan programs (e.g. 30 yr fixed vs. 15 yr fixed, or fixed vs. adjustable).

To compare loan products of the same type among different lenders:

1. Fix all lenders at one interest rate and lock-in period.

You have to compare different lenders on the same rate (e.g. 7.5%) and lock-in period, otherwise you will be comparing apples and oranges. Most lenders can offer you a variety of rate and point combinations for the same loan product and allow you to choose the lock-in period.

2. Add up the total lender fees for that rate including points and loan related fees.

There are a number of different fees paid in connection with loan, and some lenders have different names for them. One lender might offer to waive one fee and then add another one. So when comparing loans of different lenders you should look at the total sum of ALL loan related fees. These fees can include processing and underwriting fee, mortgage insurance premium, appraisal fee, the cost of a credit report, tax service fee, application, commitment, wire transfer fee, etc. Points can include discount and origination points and have to be converted into dollar amounts.

3. The lender that has lower lender fees has a cheaper loan than the lender with higher fees. Example: For a loan amount of 100,000 on a 30 yr fixed rate mortgage, lender A is offering you a rate of 7.375% with 0 points, 7.25% with 0.5 points, and 7.125% with 1 points. He also charges \$450 in loan related fees. Lender B offers you 7.25% on the same loan with 0.375 points, 7.125% with 0.875 points, and 7% with 1.375 points and charges \$680 in loan related

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fees. Both lenders are quoting rates on a 45 day lock.

About the Author

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