5 Mortgage Secrets

That Will

Save You Thousands!

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Part One: Introduction

The problem

Getting a mortgage has traditionally been a difficult and confusing process. Based on a recent survey* of homeowners, 81% admit to being confused about the mortgage process and over 90% admit to being surprised at closing when the terms of their financing had changed from what they were quoted. Specifically, borrowers reported that they did not know how to compare interest rates and loan programs, choose the right lender, negotiate their mortgage terms and fees, or hold lenders accountable to their original quotes.

> ** Results are from a recently conducted Focus Group of homeowners commissioned by Jammony and conducted during the months of August and September 2008.*

As if the process weren't difficult enough, the current economic climate and lending practices employed by brokers in the run-up to the mortgage crisis have left borrowers more unsure and confused than ever. They ask themselves…

- *Is it the right time to buy or refinance my home?*
- *Would I even be able to get a loan right now?*
- *How can I compare interest rates the right way?*
- *Which lenders can I trust?*
- *How do I know the terms are the best I can get?*
- *How do I ensure my mortgage terms don't change at closing?*
- *Does my broker have my best interest at heart or is he just looking to get the best possible commission?*

The solution

To resolve the problems associated with getting a mortgage, borrowers must find a way to:

> *Get unbiased information about lender qualifications and mortgage options.*
>
> *Compare loan quotes and terms in an apple-to-apples format.*
>
> *Protect their identity while shopping for a lender to avoid on-going solicitations.*
>
> *Negotiate interest rates and closing costs so they the best deal possible.*
>
> *Hold the lender accountable.*

Part Two: Five Mortgage Secrets

If used properly, the 5 secrets of the mortgage industry described below can save you thousands in closing costs and potentially tens of thousands over the life of your loan.

Mortgage secret 1: You can shop for a lender

Just like shopping for groceries, you can shop for a mortgage. The main difference is that the mortgage process usually takes much longer than going to the store and is confusing to most borrowers without a financial background. These realities are enough to deter most from investing the time and energy necessary to effectively shop for a mortgage.

As if the complexity of the mortgage process weren't enough of a problem, loan officers are most often paid on commission. This compensation structure often results in teaser quotes that are frequently a very best case scenario so the loan officer can get your business. However, over 90% of borrowers report that, at the closing, the terms of their financing are worse than what they were quoted.

Shopping for a lender and comparing at least 3 quotes side-by-side is the best way to avoid deceptive sales tactics and ensure that what you are being told accurate. To do this, borrowers must ensure the quotes are requested on the same day and that the information provided to each quoting loan officer is the same – otherwise the comparison will not be apples-to-apples.

Learn more about comparing quotes in Part Four: Insider Tips & Suggestions

Mortgage secret 2: You can negotiate your fees

Negotiating for a loan is similar in many ways to negotiating the price you will pay for a car. Just as is the case for buying a car, there are many options available to borrowers and, if borrowers aren't careful, they will most certainly pay a higher price from one lender than from another.

In order to effectively negotiate mortgage terms and closing costs, you must understand 3 things:

1. The difference between fixed and negotiable fees

2. Which parties charge what fees

3. The difference between reasonable and unreasonable fees, including the compensation paid to the loan officer or lender

Once you understand these items, negotiating is not a difficult process. In fact, frequently it is as simple as asking the responsible party to drop their fees to a specific amount.

If the service provider (loan officer, title company, insurance agent, etc) is not willing to negotiate to the levels you are looking for, that is the point at which you use the details and service providers listed in your other quotes as leverage to obtain the deal you are looking for. If they still are unwilling to drop their fees, then you simply need to find someone else.

Don't be scared to ask for a lower fee – most service providers are more scared of losing your business than you are of asking the question.

Learn more about negotiating your fees in Part Four: Insider Tips & Suggestions

Mortgage secret 3: There is no such thing as a "no cost" loan

Frequently, we hear advertising for "no cost loans." In reality, is there is no such thing as a "no cost loan."

Every person involved in the mortgage process is doing their job so they can be paid, and lenders are no different. However, unlike buying and selling groceries, lenders can make their money by either charging you closing costs (usually paid at closing or added to the loan balance) or by charging you a higher interest rate (we'll discuss how this makes them money in Secret 4).

It is important to understand that while there may not be any out of pocket expenses or closing costs, you are still paying something for the loan through a higher than average interest rate. A higher interest rate, for example, can result in ten of thousands of dollars in extra cost over the life of the loan.

Mortgage secret 4: Mortgage brokers also get paid by the lender

Loan officers can be paid either by you, the lender, or a combination of both. The way that you as a borrower pay loan officers is generally though fees shown on the settlement statements such as Origination Fees, Discount Points, Processing Fees, Administrative Fees, and Broker Fees. In addition to being negotiable, these fees are all required to be disclosed on the closing documents.

The lender, on the other hand, often compensates the loan officer through what is called a Yield Spread Premium (YSP). This is a payment which is not a direct cash cost to you and is therefore not always required to be shown on closing documents (depending on the type of lender they are and in which state the loan was originated).

The amount of the YSP paid to loan officers varies from lender to lender and from day to day, depending on interest rates. This amount is typically represented to the loan officer as a percentage of the loan amount. There is nothing wrong with asking your loan officer to disclose to you the amount of his Yield Spread Premium – in fact, we encourage you to ask.

If you understand the ways loan officers are compensated, you can more effectively negotiate the fees that you will pay for the services they provide.

Here's an illustration of how lender fees might work for a $200,000 loan:

Lender Fees	Quoted Rate	Yield Spread Premium		Total Paid to Lender
$3,500	5.000%	0.000%	($0)	$3,500
$3,500	5.250%	0.125%	($250)	$3,750
$2,600	5.500%	0.625%	($1,250)	$3,850
$1,550	5.750%	1.125%	($2,250)	$3,800
$750	6.000%	1.750%	($3,500)	$4,250
$0	6.250%	2.000%	($4,000)	$4,000

Note that typically, the lower the Lender Fees, the higher the Interest Rate and the higher the YSP.

Which is the better loan for you? Which is the better loan for the loan officer? Which is the "no cost loan"? In this illustration, the "no cost loan" comes with a 6.250 interest rate. Over the life of the loan, that "no cost loan" will cost you over $50,000 more in interest expenses than the 5.000% loan with $3,500 in fees.

We recommend negotiating a fixed fee for service agreement, where the total paid to the lender is a fixed amount. Any extra should be rebated back to you at closing. Learn more about this in Part Four: Insider Tips & Suggestions.

Mortgage secret 5: You can back out at the closing

As mentioned previously, over 90% of borrowers report to have experienced surprises at closing. These surprises are almost NEVER in the favor of the borrower.

Some times these are relatively insignificant and can be kept or modified without material impact to the terms of your financing. However, many times the change in terms can result in extra costs to the tune of thousands of dollars.

Here are some situations that you should look out for at the closing:

- The lender has changed
- The terms of the loan have changed (such as years, adjustment periods, pre-payment penalties)
- The interest rate or fees are not what you expected
- Not all the necessary documents are fully completed
- You are asked to sign incomplete documents
- You are asked to "take their word for it"

If any of these situations exist, you should be willing to walk away from the closing table until they are resolved.

Contrary to the emotions you likely are feeling at being able to see the finish line, it is far better to resolve any issues BEFORE you sign rather than dealing with the long-term consequences afterwards.

In most cases, you'll be able to resolve these issues the same day. Everyone is motivated to close. After all, no one gets paid until you close.

In the rare case in which an agreement cannot be reached, you are NOT required to sign. Ultimately, that decision ALWAYS up to you. In a worst case scenario, it is very likely that there is someone else out there that is willing to earn your business by putting a rush on it.

Bottom line is that you should NOT be intimidated to withhold your signature and find another solution.

Learn more about holding your lender accountable in Part Four: Insider Tips & Suggestions