Shop Around for a Mortgage

There can be benefits to creating a lasting relationship with a broker or bank, but that doesn't mean you shouldn't shop around any time you buy a home or refinance.

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There are plenty of lenders and brokers competing for borrowers' business. Putting the competition among institutions — including your current broker or bank — to work for you is likely to result in significant savings.

RELATIONSHIP PRICING

Relationship pricing is a term used to describe discounts lenders provide to customers with whom they have an existing relationship. For example, if you have multiple accounts with a financial institution, including checking, savings, money market accounts, credit cards or loans, your bank might offer discounted rates on new accounts.

These discounts typically range from 1/4 to 1/2 of a percentage points, which can translate to thousands of dollars in savings over the life of the loan. For this reason, when you're shopping for a loan, you should always contact institutions with which you already have a relationship. Be aware, however, that you should still compare your bank's loan estimate to those available elsewhere.

COMPARE APPLES TO APPLES

When you apply for a mortgage, lenders are required by law to provide a loan estimate within three days. This is done before you get too far into the process and without you having to provide extensive documentation of your income and assets. This estimate makes it easier to compare your mortgage options.

Mortgages are complicated financial products, with varying terms, rates and rules. When you are comparing mortgage estimates, it's important to know which numbers to compare. The Consumer Financial Protection Bureau recommends buyers compare the following items in the loan estimate, line by line:

- The loan amount.
- The interest rate (including the highest possible rate on an adjustable rate mortgage).
- The monthly principal and interest payment.
- Any monthly mortgage insurance payment.
- Your total monthly costs, which include not just principal and interest, but also mortgage insurance, monthly escrowed property taxes and homeowners' insurance, and any home owners association dues.
- The upfront loan costs.
- The lender credits.
- The amount of cash you'll need to bring to closing.

CFPB also recommends that buyers calculate the five-year costs of loans, since that is the average amount of time people keep a mortgage before selling or refinancing. Each loan estimate should include a five-year cost analysis, including the total dollar amount you will pay over five years (including principal), as well as the amount of principal you will have paid off after five years. Compare these numbers.

Don't forget to also compare the annual percentage rate, a number that takes into account not only interest but also fees.

BE HONEST

Be honest with any lenders you're working with about the fact that you're shopping around. It can only work in your favor, as they will be more likely to offer you the best possible pricing when they know they have competition. Don't be shy about asking lenders to reduce rates and fees to earn your business.

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REAL ESTATE 101

Get a Sample

Even the three pages of a loan estimate can be overwhelming for the layperson to understand. The Consumer Financial Protection Bureau offers a sample loan estimate to help borrowers break down the numbers. See the sample at **https://bit.ly/2RVlsZc.**

HOMEWISE GLOSSARY

Force-placed insurance: insurance your servicer may require when you do not have your own insurance policy or if your own policy doesn't meet your servicer's requirements. Force-placed insurance usually protects only the lender, not you. The servicer will charge you for the insurance. Force-placed insurance is usually more expensive than finding an insurance policy yourself.

SOURCE: Consumer Financial Protection Bureau

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