

Six Things Your Mortgage Lender or Bank Doesn't Want You to Know!

1. The Facts about “No-Cost” Loans.

The greatest truth I can possibly tell you it's something already know:

“There is NO FREE LUNCH”

Burn that into your brain. No one can work for nothing. You can't afford to go to work and not get paid. Neither can a loan officer, mortgage company or bank possibly afford to do a mortgage loan for absolutely nothing. The loan officer can't feed their kids and the mortgage company or banks can't stay in business. If you can believe that mortgage companies do loans for no profit just about as much as you can believe car dealers sell their cars “at or below factory invoice.”

Even if the loan officer and the company were willing to do the loan at a true “no cost”, there are other “hard costs” involved in the loan. Items like: lender fees, attorneys fees, title search, intangible taxes, recording fee; just to name a few, must be paid by someone.

So how can a company offer a “No Cost Loan”?

About the only way this can be done is through a concept called “**Above Par Pricing.**” Most people have heard of paying “**discount points**” to buy a rate down. That is, someone (in the old days it was usually a builder), would pay a discount (a “point” is 1% of the loan amount) to the lender so the buyer/borrower would give a lower rate.

You see, mortgages are priced just like bonds. There is a “**Par price**” and then there is a **discount price** and an **above par price**. So, instead of someone paying discount points to buy a rate down, if a mortgage company provides a loan where the rate is above par, the mortgage company receives a **premium**. This is usually called a “**Yield Spread Premium.**”

In a “**No Cost**” **Loan**, the mortgage company uses the **Yield Spread Premium** to cover all the costs of the loan and the mortgage companies profit as well.

So, does this mean the mortgage company is cheating or ripping-off the consumer? **No, not at all,** It all boils down to options.

For instance, **on a purchase the borrower has three options:**

- a. Pay the closing cost out-of- pocket
- b. Negotiate for the seller to pay the closing cost.
- c. Pay a slightly higher interest rate on the loan and have lower cash out of pocket.

On a refinanced the borrower has three options as well:

- a. Pay the closing cost out of pocket;
- b. “Roll” the closing cost into the loan. This simply means that the costs are added to the loan so the costs are being financed into the loan amount. This reduces the borrower's equity.
- c. Pay slightly higher interest rate on loan and have no cash out of pocket and not invade their equity.

Any of these options can be good or bad depending upon the individual borrower's situation. That's why a competent mortgage professional will ask lots of questions before proposing a loan program and providing an interest rate.

And that takes us to #2

2. Asking for a Rate Quote without Giving More Complete Information.

At least two dozen times a week we had people call us and ask, “What’s your rate on a 30 year fixed rate?” Most times when we try and get additional information from the potential borrower. Unfortunately, for both the caller, and us they don't want to tell us anything. “I already know what I want, just give me a rate,” is the usual response.

Now, I'm not encouraging you not to shop around for the best rate.

But, asking for a rate without giving more information is a bad idea. Why? Because frankly, anybody can give you any rates quote they want over the phone, there is no way you can hold them to that rate. You see, there are two kinds of mortgage companies out there, those that are only interested in you as a loan customer and those that look at you as a client for life._

Those companies that want a fast buck no they can quote you anything they want just get you in the door, then they can use

whatever excuse to “**convert**” you to a different loan with a different rate.

Those companies that want you as a client for life, will take the time to ask for as much information as possible, upfront, so they can not only give you the best rate possible, but they can also quote you the best loan program for your situation.

Additionally, **far too many people think they already know what loan program is best for them.**

You may think you're ready and know what you want, but unless you know all of the options in the marketplace you may miss an opportunity for a better loan program or situation that you didn't know existed.

Let me ask you, have you ever gone into a store to buy a specific product, but came out with something entirely different? If you did it was probably because you didn't know the new product even existed or a knowledgeable person in the store gave you new information that helped you make a better informed decision.

The job of a competent loan officer is to use their years of expertise to help you select the best option for your situation.

Please, don't assume you know what's best for you.

Now, I'm not saying that you shouldn't make the final decision. After all, it is your **money, your home and your financial future.** However, there is no harm at all and letting a competent, well trained mortgage professional give you several options, then you select which you believe is best for you.

2a. Finding the lowest interest rate is not always the best deal.

(This is so closely related to number two don't count it as a separate issue.)

Some loans have very attractive interest rates (also known as teaser rates) but you may be hit with higher up front charges. Points and or origination fees are the most common ways to lower the rates and charge upfront cost. When searching for a mortgage, ask the lender if they are charging points or origination fees. Points and origination fees are calculated as a percentage of the loan amount. See example below.

\$220,000 Mortgage

1 Point = 1% of the loan amount \$2,200 paid
at closing

2 Points = 2% of the loan amount \$4,400 paid
at closing

Beware of most adjustable rate mortgages (ARM'S) and Balloon Mortgages.

Arm rates adjust differently depending on the loan program. The ARM rates may adjust as often as every six months but in most cases they adjust after 1,2,3, and 5 years. With interest rates at the historic lows, interest rates on ARMS are far more likely to go up when they adjust. The Balloon Mortgage requires the borrower to pay the loan off when it matures.

There are many lending tactics to sell the borrower on a low rate and then charge outrageous fees and costs. Don't fall into the “**bait and switch**” lending ploy.

That being said, there are several excellent adjustable rate loans that are perfect for the right situation. Keep in mind, we don't try to force everyone into the same mold or in this case the same loan program. With over 2,300 loan programs available, we can almost always custom tailor a loan to fit most clients' wants and needs.

3. Getting Your Mortgage Loan from the Internet May Cost You.

It could be a costly mistake if you get a loan online from a company in different parts of the country. There are different rules and guidelines for different states, cities, and even counties. It can be risky to obtain a mortgage loan from a company across the country if they are not familiar with the rules that govern the area where the property is located.

Typically local companies will be more concerned about their reputation and doing a good job for the customer. I operate from referrals so it is very important that I meet my customer's expectations. Getting a loan online can also take longer because they will not have service companies (title companies, appraisers and others) to do the job in a timely manner.

Mortgage loans are **complex** and may not make sense to purchase online. This is especially true if the borrower is looking for maximum service and care.

Another simple fact, most **Internet sites** are not run by mortgage brokers or lenders. They are run by "**Lead Companies**"

As an example, there is one well known Internet company. I bet you know who they are. You've seen the commercial a dozen loan officers all dressed alike lined up the stairs, all waiting to court the arrogant young couple for their loan. Well, this company is not a mortgage lender or broker, they are information brokers. They are in the business of selling information to "up to four lenders"

You see what happens is that mortgage companies around the country pay a fee to the Internet company for the right to see your information. The mortgage company reviews your information, and then decides if they want your business. If they do the mortgage company will respond to your request and send you a quote.

Keep in mind three things:

1. Your personal financial information, credit information and Social Security number are floating around on the Internet, being sent to several companies for anyone in their offices to see.
2. Whatever rate quote you get is only going to be as good as the information you input on the computer screen. The lenders "approval" is subject to review of all of your information.
3. You receive no personal attention. No warm body to help you, just a cold click of a mouse.

Dealing with a reputable broker or lender right here in town, gives you local accountability, and frankly, there is very little or nothing a company in Denver, Los Angeles, and Las Vegas can do that a local company can't.

4. Lenders vs. Brokers

Ah, yes. The on-going controversy, Mortgage Lender vs. Mortgage Broker. There are strong feelings on both sides, and since I am a mortgage broker, naturally, I'm prejudice. However, let me try to give you both sides of the argument, as unbiased as I can.

First, let's define what we're talking about:

A **Mortgage Lender** , in theory, is loaning their own money. Lenders are usually, but not always, large national or regional banks, or a mortgage company that is a direct affiliate of that bank.

A **Mortgage Broker** is in the business of placing loans with a wide variety of mortgage lenders. They are not loaning their money, but are acting as “brokers” for the wholesale lenders with whom they do business.

And the easy way to compare a mortgage lender to a mortgage brokers to look at the insurance industry. Your neighborhood Allstate or State Farm agent does a great job of offering you their own companies’ products. If you need something other than their company's products, you need to go to an independent insurance agent who can offer you the products of a number of insurance carriers.

Advantages and disadvantages of a Banker

If you are a major customer of the bank, then it is you have substantial deposits with the bank, you may be able to get a special deal on a mortgage loan only because the bank doesn't want to lose your deposits. Occasionally, a banker may have a loan program unique to them and this may offer you a limited advantage. A disadvantage of the banker is that they only offer their own loan programs, and if your situation does not fall into one of their limited programs, they cannot help you.

A banker has “in-house underwriting”. That means the person that actually approves your loan worked for the company. This is usually touted as meaning the banker can give you faster service. Sometime that is true. But when the underwriter is then North Carolina and his underwriting of loan applications from five states, how much of an advantage is it when you're here in Illinois? Also, if the banker's underwriter declines your loan application for any reason, what can the loan officer do? **Nothing!** They can't send the loan to another company. Their, and your, only option is to transfer the loan to another company. That means you practically have to start all over.

Additionally, most bankers don't really loan their own money. They do close the loan using their own money, or money borrowed from a warehouse line of credit. Then they almost immediately, with usually within one to five days, sell your loan to someone else and are immediately paid back the money they put out to find your loan.

Advantages and disadvantages of a broker:

The mortgage broker does not loan you their money. They search the marketplace to try to find the best combination of the loan program and rate to fit an individual borrower's situation. This means that a broker is not limited to just the few programs their own company may offer (like the bank). The broker has the full range of programs available to as many wholesale lenders as they choose to do business. If one wholesale underwriter doesn't like your loan; the broker can simply send your loan to another lender for consideration. You are not stuck with only one person's opinion of your loan.

For example: One of my past employees was head of processing and worked for the mortgage division of a large regional bank for over eight years. When she couldn't get a loan approved, all she could do is apologize to the borrower and offer to transfer the loan to another company. Now if she cannot get the loan approved at one lender, she can contact one of over 200 potential lenders to review the loan file. This gives her a huge advantage over her previous situation.

But, doesn't it cost more to do business with a broker?

That is the myth perpetuated by blunders.

One reason it appears that way has to do with **Yield Spread Premium** we discussed earlier.

There is a little-known quirk in the law that says a mortgage broker must reveal all of their compensation, including **Yield Spread Premium** received. That same law also says that a lender or bank does not have to reveal any **Yield Spread Premium** they receive.

Example:

A broker offers you a 30 year fixed rate loan at 7.25 interest rate. Let's also say that the broker is going to pay all of your closing costs totaling \$1,900. The broker is required to disclose on the Good Faith Estimate and the Closing Statement all of the funds they are receiving, so they will show that they are receiving, say \$3,250 in **Yield Spread Premium**. Keep in mind, in our example; the broker is covering \$1,900 of your costs, so the broker is making \$1,350 for doing your loan.

Now, a lender is going to do the same loan for you at the same rate and term, and the lender is going to cover your closing costs. The closing statement will show that the lender paying \$1,900 in costs for you, but since they are not required to show **Yield Spread**

Premium, it appears that they are really good people and are not making a dime on your loan.

It's the same loan, probably eventually going to be packaged and sold to the same company. So who is being more upfront with you?

As an aside, virtually all large national and most regional banks have a wholesale lending division that does business with mortgage brokers. In most cases we can offer our clients the same loan the "big bank" down the street can, plus the loan programs of the bank across the street, around the block, across town, or across the country.

And, in almost every case, a broker can offer the same bank program at a lower interest rate.

What? Are you kidding? No! It's simple math.

When the broker sends a wholesale banker a loan, the bank doesn't have to pay a loan officer, or provide that nice bank building, or advertise, or provide a processing staff; all the things the broker has to pay for. So, the big bank can afford to offer the same loan to the broker at a lower cost (i.e. interest rate).

5. Pre-Qualification vs. Pre-Approval:

Not a single day goes by that we don't have it least someone call and say something along the lines of, "I've already been pre-qualified for a loan of XXXX dollars, I'm just checking on rates."

Although we are more polite to say so, in our minds we're thinking, "Pre-qualified, Big Deal

My point is simply this - a Pre-Qualification is worthless. Anybody can give you a pre-qualification. It doesn't mean anything; it has no value to you.

Why? Because all pre-qualification means is that someone took the word of a potential borrower regarding their income, debts and credit standing and said, based upon what you're telling me, you fit within the parameters of some possible loan programs.

You can call five mortgage companies this afternoon and get five pre-qualifications. The problem is trying to get any of those five companies, including ours, to honor that prequalification. Since none of the information has been verified there is no way to force any company to honor any pre-qualification.

Don't waste your time.

What you want and need is a Pre-Approval or Loan Commitment

A Pre-Approval is based on solid, verified information about your situation, credit, income, savings, debt and is based on the specific requirements of a specific loan program. A Pre-Approval in the form of a Loan Commitment is money in the bank.

At least in our company, a Loan Commitment/Pre-Approval means that your loan application has been presented to an underwriter or has been submitted to one of the few electronic underwriting systems and has received an approval.

With a pre-approval in hand, your ability to negotiate on the purchase price of a home goes way up. Think about it. Your agent has submitted your offer from the home of your dreams, but so have two other potential buyers. Which one does a home seller take? Assuming all bids are about equal, your agent has presented, along with your contract offer, your written pre-approval for a loan to buy this house. The other bidders didn't.

Whose offer is the seller more likely to take? The one with the guaranteed closing or the one that has to wait to get their loan approval. The downside of a pre-approval is that in order to get one, you are going to have to make a full blown mortgage application with a mortgage company. Nobody, except a complete fool, would provide a potential client with a mortgage loan commitment (Pre-Approval) without having the potential borrower complete and execute (sign) a full application and all disclosures; gather basic information and documents; and present the information to someone with the ability and authority to say "Yes" to the loan application.

So, in order to get a Pre-Approval, you are going to have to select a mortgage company.

SPECIAL NOTE:

Two or three times every week we get a call from someone asking about rates. Usually after speaking with them just a few minutes, I find out that they have already made an application with another company and are "just shopping rates." Well, at that point in the

conversation, my policy is to, as politely as possible, disengage from that person. I **don't want their business.**

Let me state that I, unequivocally, want your business, period. I want your friends business, your family and co-workers business. I want the business of everyone you know. I am going to do everything I can, morally and legally, to convince you that you should be doing business with me. However, I don't want someone else's business.

I will not pirate business from another mortgage company.

First, it's wrong. They won the clients business fair and square. They have already invested time, money and effort on that client's behalf. It's not right for me to try to take that away. Second, if a customer would walk away from another mortgage company for a few dollars, I know that customer has no loyalty, no honor. They will walk away from me just as quickly. I don't want that kind of business.

There are legitimate cases where I will work with a client that has made an application with another company. There are circumstances where another company has “dropped the ball.” They can't meet their commitments; they won't return the clients phone calls they cannot get the loan approved; there is a serious personality conflict between the borrower and the mortgage companies personnel, etc. However, I do “due diligence” to make sure there is a legitimate problem with the other lender.

6. Good-faith estimates and rate quotes.

I hear it every day, “give me your best rate on a 30 year fixed rate and send me a Good Faith Estimate.”

I politely decline.

Why?

Because preparing a Good Faith Estimate for someone who is not seriously considering making a loan application is a waste of our time and the caller time. A Good Faith Estimate without an application is not worth the paper it's printed on.

It's a lot like a Pre-Qualification, it's meaningless. You can't hold me, or anyone else for that matter, to the numbers. And since the mortgage company doesn't have complete information about the

borrower and their situation, everybody involved knows ahead of time that the numbers can't be right.

Plus, **interest rates change daily**, sometimes more than once in 24 hours. So any rate someone receives today won't be good tomorrow. **No one can lock-in and interest rate without an application.**

Why is it so hard to give an accurate estimate of the cost? You see, the actual cost of \$100,000 loan, for example, are different for and FHA 30 year fixed rate then a conventional 30 year fixed rate, and different for a non-conforming 30 year fixed rate. If that same \$100,000 loan is an 80% loan to value refinance, the cost will be different than if it is a 100% purchase.

Loan to value, purchase, rate and term refinance, cash out refinance, with or without an escrow account, owner occupied, second home, rental property, fully documented income verification, stated income, no income verification, borrower's credits, all of these factors effect interest rate on a loan. In addition to all the factors above, other things like which closing attorney we have to use, which county the property is located in, what day of the month we are closing, which insurance company is writing the hazard insurance policy; mandatory homeowner association dues, and more going to the actual cost of loan.

There are certain costs that are going to be the same regardless, which mortgage company you select. Intangible taxes, paid to the State of Illinois, are different in each county. Appraisals are usually pretty much the same base and the loan type.

And **don't rely on percentages of the loan amount as a guide to closing cost either.** There is no good rule of thumb. For example, the appraisal, credit report, attorney fees, recording fees, survey, tax service, flood certification, courier, will be roughly the same dollar amounts on virtually any loan from \$50,000 to \$300,000. But as a percentage the numbers change dramatically.

Let's take something as simple as an appraisal. A conventional racial usually cost around \$300. Using \$300,

That's a full half- percent (.50%) of a 50,000 a loan,
but

Only 1/10th on a percent (.10%) of a \$250,000 loan.

Ultimately, what you really want to know are four things:

- 1. What are the details of the loan program?**
 - 2. What is the interest rate on the loan?**
 - 3. How much cash on a packet do you need, if any, to close loan?**
 - 4. How does that compare with other companies in the marketplace offering the same or similar loans?**
- If you truly want a solid, truthful answer, be prepared to give some detailed information.**

Yes, there are loads of companies that will give you a rate quote over the phone and fax a Good Faith Estimate to you with little or no hard information from you.

The good companies, and we believe we are one of those, aren't so desperate for your business that they have to misquote you. They don't hope to bait and switch you with low costs and a Good Faith Estimate today in order to get you in the door only to find some excuse not to give you that deal tomorrow.

The good companies are more than willing to disclose the real cost of a loan to a legitimate potential client. But the good companies also don't want to mislead that potential client. They prefer to give you a very high level of service to their serious clients. That service starts with a careful and complete analysis of the clients needs and wants, then offering the client detailed information, including all cost and interest rates on a number of possible options to help the client make the best and most decision for that client's unique circumstances.

Frankly, you wouldn't expect an auto mechanic to give you a reasonable estimate to repair your car over the phone based on what you tell them, "Well, the car makes a pinging noise when I go above 60 miles per hour." They couldn't possibly tell you what is wrong with the car and give you an accurate repair estimate until they drove your car, put it on a diagnostic machine and determine exactly what is wrong.

Isn't the purchase or refinance of your home more important to you than that?

Regardless of which company or Loan Officer you choose to do business with, you owe it to yourself to take the time to give the mortgage companies represented enough information so they can give you a more complete and accurate answer to your questions.

Email Louis Vela with any questions you may have in the pursuit of purchasing a new home. Email Louis Vela at LVELA@PMFMTG.COM. Call Louis Vela at (708) 243 - 1915. Visit