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A Savvy Mortgage Shopper Understands the 'Loan Estimate' and Why It Can Vary

Let's Talk Home Financing

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You've heard the buzz about interest rates being at the lowest rate in 7 months, and perhaps you are deciding to venture out into the market again.

I spoke with **Jaxzann Riggs**, owner of **The Mortgage Network** this week. She confirmed that for some loan types, interest rates have fallen almost one half of one percent in the past few weeks. While enthusiastic about lower rates, she also cautioned that sometimes, borrowers who are excited about falling rates do not do the research they should. This is something that can cost hundreds of dollars each month. She suggests that you pay close attention to the following…

Federal regulations require that lenders provide potential borrowers with a "Loan Estimate" within three days of loan application. Federal law also requires that ALL lenders use the same form (Loan Estimate) when showing fees and it prohibits any increases in many of the expenses that are shown on that form. When comparing loan quotes, many people look primarily to the APR (annual percentage rate) when selecting their lender. On paper, the APR is the total cost of the loan, the interest rate plus points, broker fees, and added charges associated with obtaining the loan, expressed as a percentage. While the Federal Truth in Lending Act names which fees should be included in the APR formula, there can be variations from lender to lender in which fees they include in the APR calculations. When shopping for a lender based upon APR, it is wise to ask the lender which fees they include in their APR calculation. This allows you to compare "apples to apples" as it relates to the APR.

The Loan Estimate form provides a much broader explanation of all the costs associated with a loan. Examining the first section on the second page titled Origination Charges is a useful starting point. Here you will find the charges or discounts offered for the rate. Other expenses that can vary between lenders are: processing, origination, underwriting, administrative and application fees. Do not be wowed by a low interest rate without checking for any "points" that serve to lower the rate or excessive lender fees which will increase the amount of cash that you need for closing.

While most underwriting factors that establish your rate will be the same with any lender — for example, your credit score, income & liabilities, and cash for down payment — there are other factors that can vary between lenders.

A Mortgage Insurance (MI) policy is needed on loans when a borrower puts less than 20% down on their new home. MI premiums are based on credit score and loan-to-down-payment. Like all types of insurance, your insurance premium will also be based upon the insurers underwriting standards. ***Some borrowers are unaware that there are many mortgage insurers, and that they can use a wide range of factors to calculate monthly premiums. There can be significant variations in the monthly MI fee for the same borrower between different lenders and insurers***. As an example, for a borrower with a 700 FICO score, $500k purchase price, and 3% down, the monthly mortgage insurance premium can range from $218/month up to $400/month. The savings of $182 each month in MI would increase the buying power of the borrower by $30,000. An experienced mortgage broker (Jaxzann has 30+ years of experience) will shop for the best MI premium that is available to you based upon your circumstance.

The bottom line is that savvy borrowers should feel free to "shop" for their loans. You can reach Jaxzann for a loan quote at **(303) 990-2992.**