

SHOPPING FOR A MORTGAGE

Shopping for a mortgage is essentially the same as shopping for a boat or a car or any other big ticket item. The harder you look and the more you do your homework, the better your chances of not only getting the best rate but also of getting a mortgage that is specifically suited to your particular situation.

A lot of people fail to realize that all mortgages are not the same. Features such as prepayment privileges, open versus closed terms, portability, payout penalties, balloon payments, amortization periods, assumability and the like can be almost as significant as the interest rate. If you do not know what these terms mean before you make your choice, you may find it very expensive finding out later, especially if that doesn't happen till it is too late to do anything about it.

Another misconception held by many is that their bank or banker owes them some sort of duty to not only lend them money but give them the very best rate out there. They arrive at this erroneous assumption because they know they have been a good customer for a long time. Often they are surprised to discover that their bank does not always agree with them when it comes to matters of loyalty.

Banks will give some weight, certainly, to past financial dealings but they primarily base their decisions on the present and the future. If the property can't support the debt or if your income is such that you are unable to service the payments it is unlikely that your bank will give you the loan no matter what your history is with the bank or how much you made for them in the past. In the final analysis, any lender is going to make a decision based on the bottom line, the numbers, and the likelihood of getting their money back.

Getting mortgage financing is similar in many respects to other financial negotiations. As most house mortgages are in the six figure range, a small change in interest rates, amortization periods, penalties or prepayment privileges will make considerable differences over the entire life of the loan.

Large differences can mean thousands of dollars. For this reason alone, you should approach such negotiations with caution. It also doesn't hurt to get advice from people who understand those things.

One possibility that should definitely be explored is the use of a mortgage broker. That is a person who, in effect, does your mortgage shopping for you. With the exception of those brokers who work exclusively for one lender (obviously limited) or for private lenders, most brokers do not charge you for their services.

Most brokers will require you to cover the costs of the required appraisal but their regular fees are usually paid by the lender who grants the financing (usually one-half to one percent of the loan). Since many mortgage brokers represent several lenders (often fifteen or more different banks, trust companies or pension plans) and since they deal with nothing else besides mortgages, they are well suited to help you find the best rates and the best terms. They can also assist you by explaining what

all the various features are and custom matching your financing needs to your financial situation.

While most lenders offer fairly similar terms, anomalies can occur. If, for example, a bank has cash reserves that are too high, they will likely want to get their money out working for them as soon as possible. One way to do that is to offer what amounts to a "sale" on mortgages. They have to turn the deposits on their books to loans or they will not make any money.

They may advertise the sale generally, pay all or part of your legal costs just for switching to them or they may simply authorize their lending officers to reduce the posted rate by an eighth or a quarter or maybe even up to one-half of a percentage point. While it doesn't sound like a lot, half a point on a six-figure mortgage means at least fifty dollars a month less in payments.

Over a five-year term that same discount can mean thousands and thousands of dollars in savings. If you don't ask or if you don't get knowledgeable advice, you may get very annoyed when you talk to a neighbor who did (and got all the savings).

Remember, the lenders are not there to try to save you money. If you don't shop around or inquire about better rates, that is your problem, not theirs.

For most people, a residential mortgage represents the single largest financial burden they will ever have, just as their home is often their single most valuable asset. The choices you make when negotiating your mortgage can significantly impact your entire life. As with so many things, the more you spend on preparation and research, the better off you will likely be in the end.