

Home Buyers Roadmap – Shopping for a mortgage

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Last week we discussed the importance of getting pre-qualified for a loan. Hopefully you have located a Lender that you are comfortable with and it is time for the education process to begin.

Take the time to meet face to face with the Lender. An experienced Loan Officer will be able to provide the best advice and plan of action after reviewing your entire financial scenario and listening to your goals.

Your Lender will counsel from different perspectives. You can discuss the maximum amount of loan you can qualify for, or compare loan amounts on different loan programs that will all provide your desired monthly payment. Often a Loan Officer will make recommendations to consolidate non-mortgage debt to improve monthly cash flows and take advantage of maximum interest deductions.

The Lender you select should pull a credit report and share this with you. You want to review this carefully to make sure that all information reported is accurate. If there are discrepancies, your Lender can provide guidance to correct your report.

There are many different loan programs to evaluate. Your Lender will assist in selecting a product that meets your criteria. In evaluating loan programs, make sure you understand the pros and cons of each. Make sure you know whether the loan has a prepayment penalty, is it assumable, can the interest rate adjust, etc? Your Lender will likely provide a couple of options for your review.

Loans will either be a fixed rate or variable interest rate. Fixed rate loans have the same principal and interest payment or same interest payment (if an interest only loan) for the term of the loan. Variable rate loans can have different "indexes", "margins" and "caps" that will determine how and when they adjust.

When comparing loan products, you want to understand not only the interest rate, but the points and fees being charged. Typically you will be given options

to pay “no points” in connection with a slightly higher rate or pay more points for a lower rate. A “point” is equal to one percent of the loan amount. Your Lender will assist in recommendations as to whether to pay points or not based on your expected time in the home.

A document called the Truth in Lending disclosure will show the “Annual Percentage Rate” (APR) and this takes into account all fees paid to obtain a particular rate and is a good tool to compare different interest rate and fee options.

The “Good Faith Estimate” will show the closing costs and “pre-paid” items charged in conjunction with purchasing a home.

The “closing costs” are the one-time fees paid for settlement services such as points, appraisal, credit report, underwriting, etc.

The “pre-paid” items are pro-rations for real estate taxes, property insurance, mortgage insurance (if applicable) and flood insurance (if required). These monies are deposited into an escrow account so that the Lender/Service can pay the amounts when due. Typically, these items will range from one to two percent of the amount of the mortgage.

If you are making a down payment of less than 20% on a conventional loan, ask your Lender for a comparison of a first mortgage with mortgage insurance (which is typically required for loans over 80% the value of the home) and a first and second mortgage option that will eliminate mortgage insurance.

Most importantly, shop for your mortgage loan locally where you know the Lender’s reputation, and that they are experienced in closing loans in your market.

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