

How to Choose the Best Mortgage Rate

Although interest rates continue to remain low, shopping around for a mortgage product could result in substantial savings. “In seeking the best mortgage rate for you, it’s important that you talk with more than one lender,” says Sue Travis, director of mortgage lending at Texans Credit Union. “and be sure to compare the same plans—apples to apples”

A five-year adjustable rate mortgage (ARM) will have a lower rate than a 30-year fixed, she says. For some first-time homebuyers, it may be more advantageous in terms of managing their cash flow to consider an adjustable-rate loan versus a fixed-rate loan. “It all depends on your financial situation.”

If you think an adjustable-rate mortgage is right for you, ask the lender how your rate and loan payment will vary. Be sure to ask whether your payment will go down if interest rates fall. Before you mortgage away your future, consider such factors as how long you anticipate you’ll stay in the home, the growth of your family, your career path and potential salary increases and the value of nearby homes. A lender may approve you for a bigger loan than you can comfortably afford.

“We’ve all heard about people who are house poor”, Ms. Travis says. “You may be able to afford to live in the house of your dreams, but if your monthly mortgage payment is likely to keep you from enjoying anything else, you should reconsider.” When shopping around for the best rates, remember the impact your credit history will have. By paying your bills on time, you’ll present a lower credit risk and likely get a lower rate.

I recommend checking and updating your credit report before starting to look for a home”, she says. “Make sure it’s accurate”. But a minor credit problem doesn’t necessarily mean you have to pay a higher rate. Explain to a lender about any unusual circumstances, such as illness or loss of income, that might have negatively affected your credit score. Also, it never hurts to just come out and ask what you can do to get a better rate.

Compare the different types of mortgages and the interest rates offered by different lenders. Be sure to ask whether the rates quoted are the best for the day or week. “Then have the lender validate your calculations and agree that you are qualified for a home loan and monthly payments of that size,” Ms. Travis says. “Get prequalified.”

Finally, understand the deal, she says. “Ask about closing costs and other fees before you sign the documents. Ask about whether you will incur costs if you refinance or prepay your mortgage. And remember, a small point difference may not mean much when it comes to working with a lender you are comfortable with. On a \$200,000 mortgage, the difference between 6 and 6.5 percent is only about \$30 a month.”

Fees typically cover loan origination, broker fees, underwriting fees and the transaction, settlement and closing costs. Make sure your potential lenders provide a clearly written and understandable explanation of all fees to avoid any confusion.