

What Mistakes Do Mortgage Shoppers Make?



Q: I am about to shop the mortgage market. Can you give me a handy list of the mistakes I need to avoid?

A: Here are some of the worst.

Select The Loan Provider Offering The Best Price Over The Telephone Or In The Newspaper ADVERTISEMENT

If you cast a wide net, you are bound to find a rogue who will beat all the other prices, but has neither the capacity nor the intention of delivering such prices. His objective is to rope you in and move the process along until it is too late for you to back out. At that point, he raises the price using any of a dozen tricks available for that purpose.

Remember: Because the market is constantly changing, you can't hold a broker or lender to a price quote until you lock the prices. A lock is the lender's agreement guaranteeing the prices.

Assume That You Can Shop Lender A Today And Lender B Tomorrow

Because of market volatility, prices obtained on different days are not comparable. Unless you shop all sources on the same day, you are wasting your time.

Solicit Price Information Without Providing All The Information About Your Loan That May Affect The Price

Prices vary with numerous borrower, property and transaction characteristics that lenders believe affect their risk and cost. These include loan size, credit rating, type of house, your ability to document income and assets, etc.

Unless informed to the contrary, lenders quoting prices assume a set of standard specifications that generates the lowest price. If the specs on your loan differ at all, the price will be higher.

For example, lenders assume you are purchasing a single-family house as your permanent residence. If in fact you are buying a condo, or the house is intended as a second home, expect to pay more.

Accept a Mortgage Broker's Verbal Assurance That You Have Been Locked With The Lender

Some brokers tell the borrower the price has been locked, but don't lock with the lender. If interest rates don't rise between the supposed lock date and the closing date, the broker makes an extra profit. If interest rates spike during that period, which is unlikely but always possible, you're left holding the bag.

Don't be afraid to ask for written confirmation of the rate lock.

Allow The Price To Float Without An Agreement With The Loan Provider Regarding How The Price Will Be Determined At Closing

Some borrowers elect to allow the price to "float" -- change with the market -- until shortly before

closing. Such borrowers are told they will receive the "market price" at the time they lock. Few loan providers, however, explain how the market price is determined.

The market price at closing should be the price available if the loan were delivered immediately. This is also the price quoted to new customers electing to float on the day you lock. Because the lock price is always higher than the float price, floating should save you money if interest rates don't rise.

The reality, however, is that in the absence of an agreement to the contrary, the market price at closing is what the loan provider says it is. And many say that it is the 30 or 45-day lock price, rather than the float price.

Assume That The Loan Provider Who Offers The Best Price On One Type Of Loan Will Also Have The Best Price On Another

It is common for borrowers to shop the loan they think they want, then change their mind later in the process. For example:

*They begin thinking they want a fixed-rate loan, then switch to an adjustable.

*They begin thinking they want a 30-year term, then switch to 15-years.

*They begin thinking they want a zero-point loan, then switch to 3 points.

Such switches may invalidate their shopping because the loan provider with the best price in one loan category may not have the best price in another.

One way to avoid this mistake is to retain an Upfront Mortgage Broker (UMB) to shop for you.