



11/08/2006

Comparing Loans by Different Mortgage Companies - Part I

If you are in the market for a home loan, you probably already know how important it is to shop around and compare mortgage companies. What you may not know is how to effectively compare different mortgage companies and their products. Here's the first part of an easy seven-step how-to guide that will save you time and effort in your home loan comparisons to make sure you get the best deal.

1. Keep the Comparison "Apples to Apples." Have you ever heard the old saying that you shouldn't "compare apples to oranges" but only "apples to apples?" The idea also applies when shopping for the best home loan. Don't compare the rates and fees on one lender's 15-year fixed mortgage to another lender's 1-year adjustable rate mortgage (ARM) terms. The comparison will not be equal because you are comparing one class of product to a separate class. Keep your mortgage search simply "apples to apples" by choosing one loan type, preferably one that best suits your needs, and comparing mortgage companies' rates and associated fees. This will give you a solid idea of who offers the most cost-effective loan.

2. Lock Your Rate and Throw Away the Key. Another factor to hold constant in your search is the rate lock. Many mortgage companies will offer you a certain interest rate, for a limited time that is. Interest rates change constantly and if you do not get a rate lock, the rate you are quoted may be completely different from what you get at closing. Get the mortgage lender to give you a promise to hold the rate for you, otherwise known as a rate lock. The catch is that the longer the lock-in period, the higher the price you will pay in fees. Typical rate lock periods include 30, 45, or 60 days. Choose one that best suits you and get quotes from all your comparison lenders with the same rate lock period.

3. Seize the Day. Each day counts when you are applying for a mortgage. Because interest rates can be so volatile, you may get a quote from a lender one day and get a higher or lower rate the next day. This is important in comparing lenders' rates. Make sure you get all your quotes on the same day to insure a truly fair comparison of the competition.

4. Find the (Best) Rate. Once you have gotten several different mortgage quotes on the same day with identical rate locks, now you can start comparing. First comes the interest rate. While not the only consideration, keep in mind that the difference of one percentage point in interest rates could mean the difference in paying an extra \$30,000 - \$40,000 on the cost of your loan. That said, it should now make sense why there is so much talk and hype about interest rates in the mortgage business! You will definitely want to find the best rate possible, just make sure it does not come at the cost of higher fees and points.

Look for the second half of this article to reveal and explain the last important tips, steps 5 – 7. All together these pointers will help you find the best overall loan program from among the possible mortgage company candidates.