



FixedFeeMortgage™

The Nation's First

Insider's Guide to Mortgage Financing

Good Stewardship Begins With Your Mortgage!

by A. Eugene Frost

Table of Contents

Foreword: The Ministry of Fixed Fee Mortgage

Chapter 1	Mortgage Bankers and Mortgage Brokers
Chapter 2	Wholesale Interest Rates
Chapter 3	How Do Mortgage Lenders Make Money
Chapter 4	Three Options On Every Mortgage
Chapter 5	Understanding Closing Costs – what should I pay
Chapter 6	Should I Lock or Float
Chapter 7	How To Shop for a Mortgage
Chapter 8	Your Biggest Challenge
Chapter 9	Thank You

Fixed Fee Mortgage, LLC
www.fixedfeemortgage.com

Toll free: 866-433-6266

The Ministry of Fixed Fee Mortgage:

“To educate and empower you with the tools needed to make a good investment or stewardship based decision on your mortgage!”

Knowledge is power! The following information will provide you with insight on how mortgage lenders generate revenue and the entire mortgage lending process. All of this information is based on conventional lending guidelines of which, provide the lowest cost loans available. The conventional loan limit for a single family residence for 2010 is \$417,000 in most states. **What you are about to read will be the education of a lifetime and extremely valuable, saving you thousands of dollars on your next mortgage!**

1. ***Mortgage Bankers and Mortgage Brokers***

The mortgage industry consists of bankers and brokers. A **mortgage banker** has a “pool” of money to lend for mortgages. The banker composes the underwriting guidelines (who gets their money and why) and primarily makes money two ways: interest on the mortgage and/or selling the mortgage. A mortgage banker typically sells a mortgage to free-up their “pool” so they can secure additional mortgages. Very few bankers keep their loans for the entire term of the loan. Mortgage banking is extremely competitive with Fannie Mae leading the industry as the largest entity in the U.S. while Freddie Mac is right behind them. Both of these were established by the federal government and currently own around 50% of the mortgages in this country. If a mortgage banker plans to sell the mortgage, they will likely follow Fannie Mae/Freddie Mac guidelines so they have the ability to sell the mortgage to Fannie or Freddie. Fannie and Freddie will not purchase a loan if it does not comply with their underwriting guidelines hence the term “conforming loan.”

Lighthouse: When your mortgage is sold, do the terms of your loan change?

No. Remember you have a loan agreement clearly stating the terms of your loan. Among your closing documents is a **Servicing Disclosure**. This disclosure informs you of the percentage of loans the lender services and/or sells and the chances of your loan being sold?

Mortgage brokers were created by bankers to “broker” or market a mortgage banker’s loan products. This reduces overhead for the banker and typically provides you, the borrower, greater options on your mortgage. Your mortgage, when secured by a broker, will usually close in the name of the mortgage banker, not the broker. An effective broker should shop your mortgage and secure the lowest total cost available for your individual needs. In 2001, approximately 55% of the mortgages in the United States were secured through brokers. That number increased to 80% in 2006. Brokers routinely have less overhead and have the ability to work with an unlimited number of mortgage bankers. Over the past 3 years, the number of brokers have dramatically reduced to the crisis of the mortgage and real estate industries.

2. ***Wholesale Interest Rates***

The foundation to all costs of a mortgage is based upon a wholesale interest rate sheet distributed by the mortgage bankers on a daily basis. Fixed rate mortgages are available in 10, 15, 20, 25, and 30 year terms. Fixed rate mortgages traditionally have been secured by long-term bonds but the industry is beginning to see the Treasury Bills secure fixed rate mortgages because of shorter-term stays in mortgages. When you understand how mortgages are secured, it makes sense that lenders would have the same wholesale interest rates. Just think

about it, would the true cost of money be different from one bank to the next? Of course not. Wholesale interest rate sheets are distributed daily by the mortgage bankers typically before 10AM EST. **The wholesale interest rate is defined as the lowest rate available to consumers without the cost of points.**

If all lenders have the same wholesale interest rates, why do you get different rates quoted from different lenders? The same reason automobile dealerships sell the exact same vehicle at different prices. Some companies want to make more money per transaction than others. If you know what the wholesale rate is, there's no need to shop interest rate. Fixed Fee Mortgage will readily provide you what the wholesale interest rate is on a daily basis. It is also important to note that over 70% of all mortgages over the past 10 years have closed with an interest .25% higher than the wholesale rate!

3. How Do Mortgage Lenders Make Money?

The most common ways mortgage lenders generate revenue are origination fees, points, retail interest rates, and junk fees. Let us look at each of these in greater detail.

Origination Fees were the most prevalent way of generating revenue about ten years ago. This fee covers putting your loan package together with the supporting documents and overseeing the process of getting your mortgage closed. When quoted, this fee is typically 1% of the loan amount. If you are not paying an origination fee, your interest rate will be higher than what you qualify for which compensates the lender through higher interest payments! The majority of lenders today are not quoting origination fees so it is more difficult for you to understand what you are paying a lender for their time to close your mortgage. As you continue your reading in this booklet, you will understand how to overcome this challenge.

Lighthouse: Is the time and effort on a \$1,000,000 mortgage any different from a \$100,000 mortgage?

NO. For this reason, why pay a percentage-based fee? A mortgage is a service, not a product. If someone wants to come to your home and clean your carpet, you have a pretty good idea of the costs involved. As a result, if the cleaning company quotes you an absurd amount of money to clean your carpet, you are quick to say no thank you! What then is a fair amount of money to pay for a mortgage?

Points or **Discount Points** are most commonly used to "buy-down" the interest rate and are usually charged in 1% increments of the loan amount. It is very important to understand that points are negotiable! This is true because it is seldom that lenders will quote you the ACTUAL cost of buying a rate down. Remember that the wholesale costs are far less! With a traditional lender, you lower the interest rate .125% for each Point you pay (mortgage interest rates are predominately in .125% increments). Most often when paying Points, you are paying MORE than the wholesale cost to buy the rate down which creates revenue for the lender! The actual cost of buying a rate down is typically about .375% of the loan amount for each .125% drop in rate. This varies everyday and can change within a day so frequent communication with your lender is a must when contemplating paying points. When paying Points, you should calculate your return on investment! Here's an example:

\$150,000 loan amount 30 year fixed term 6.5% interest rate
6.5% rate = \$191,318 in interest charges over life of loan
1 point (\$1,500) buys you a 6.375% interest rate
6.375% rate = \$186,893 in interest charges over life of loan

If you invested \$1,500 (cost of buy-down) for 30 years, would it earn more than \$4,425 (the difference between \$191,318 and \$186,893)?

Remember this example used the traditional cost (1%) of points. If the true cost were .375% of the loan amount, it changes the analysis substantially. We are readily available to assist you in calculating this return on investment so feel free to contact us.

Retail Interest Rates is the most common way lenders generate revenue today. You probably have not heard of retail interest rates but in reality, there are wholesale and retail interest rates! The wholesale interest rate is defined as the lowest interest rate available to you without a cost of Discount Points. If you accept a retail interest rate, you will pay more in interest charges and the lender will make more money over the life of the loan through interest you pay!

Lighthouse: If all lenders in my region have the same interest rates, why do interest rates vary from one lender to the next?

Lenders quote higher rates to make more money and some may quote interest rates lower than wholesale to lure you in! In my opinion, one of the biggest challenges in the mortgage industry revolves around the quoting of interest rates and closing costs.

The mortgage industry is a “pay now or pay later” industry. The higher your interest rate, the lower your closing costs should be. The lower your interest rate, the higher the closing costs.

Lighthouse: How long do you have to stay in a mortgage to get your closing costs back? What is the return on investment?

Great question is it not! Our experience has shown that borrowers have never thought about a mortgage return on investment. It usually takes 3-5 years to get your closing costs back! The average life of a mortgage in the United States is 5 years. This means there are a lot of consumers either losing money or barely breaking even on the total cost of their mortgage. The old saying you have to lower your interest rate by 1-2% to make a refinance worthwhile is SELDOM the case if the lender is providing you access to wholesale interest rates and wholesale costs on a mortgage!

Due to Retail Interest Rates, you actually have the ability to receive a ZERO CLOSING COSTS mortgage. Now we all know there are costs involved in closing a mortgage but the question becomes “who’s paying them?” As the rate increases above the wholesale interest rate, the lender’s ability to pay your closing costs increases. When would a “no closing costs” mortgage be a good investment? If your answer is always, that is INCORRECT. The answer should be based on how long you plan to stay in the mortgage. If it is long-term, you lose BIG! You have a higher (retail) interest rate resulting in higher interest charges. This also results in less principal being paid with each payment so your equity in the home will not grow as quickly. On the other hand, if it is a short-term mortgage, it is ideal. By taking a retail (higher) interest rate, the lender can pay some or ALL of your closing costs so you do not have to worry about losing your closing costs on a short-term mortgage.

To place greater relevance on a “no closing costs” loan, we would like to share this example of a customer. He called inquiring about a mortgage to purchase a home and stated his annual income was \$150,000. He also added he was somewhat embarrassed because he did not have any money to buy a house and wanted to investigate his options. He had been transferred 4 times in 3 ½ years and during that time, purchased 3 homes. He spent \$28,000 on closing costs on three mortgages which at this time had depleted his savings. Simply speaking, he lost

\$28,000 in 3 ½ years! Was this his fault? Not at all. He did not have the knowledge of the “no closing costs” mortgage option. It is worth mentioning in this example that the lenders did not offer this option either. Needless to say, he is much happier to learn of this option!

Junk Fees are the last revenue generator we will discuss. These fees relate to charges disclosed on your Good Faith Estimate (GFE) and/or your HUD1 (final statement of your closing costs) which are charged to simply generate revenue. They are not associated with actual cost of services provided. Some lenders may charge a costly application fee or rate lock fee to discourage you from going to another lender after the loan process has started. These are examples of junk fees pressing you into action. A lender may also “mark-up” any service such as credit reports, appraisals, title work, and recording fees. **You have the federal right to shop these services and inform the lender who to use.** The lender must also disclose any financial relationships they have with providers of third party services and disclose the dollar value of this relationship so you can compare the cost of these services elsewhere. Referral fees among lenders, real estate agents, and title companies are very common today although they violate federal law! Lenders are not allowed to pay or receive a referral fee of any kind! Do not be afraid to ask questions if you are strongly referred to any service provider. Referral fees, besides being illegal, usually drive your closing costs up! Later, we will discuss in great detail the typical closing costs associated with a mortgage. Hopefully, this discussion will assist you in gaining a complete understanding of how to identify junk fees, inflated fees, or referral fees.

Lighthouse: What is the best way to shop for a mortgage?

Look for a bid, not an estimate on your mortgage! If you were building a house, would you start construction using bids or estimates? There is nothing holding the contractor to an estimate. With a bid, you have the total cost identified and an understanding of what and when things could change. Thanks to new laws that went into effect January 1, 2010, the Good Faith Estimate you now get is a BID, not an estimate! Closing costs controlled by the lender CANNOT exceed the total that's presented on the Good Faith Estimate. If any costs change on the estimate, lenders must re-disclose a new estimate to you reflecting the changes. This is a tremendous change for the industry and consumers and one we have welcomed for years. Feel free to contact us regarding questions on the new estimate used today.

4. Three Return On Investment Options On Every Mortgage

We have discussed the common revenue generators of mortgage lenders so let us take a closer look at the three options you have on every mortgage, and identify when each of them becomes a good investment. The three options are Par, Discount, and Retail.

Par is the first option we will discuss. Par is defined as an interest rate that has no cost (Discount Points) or lender's rebate associated with it. The Par option is usually best taken when you have no idea how long will you be in the mortgage.

Pros = lowest rate with no cost, conservative, indefinite length of stay
Cons = money needed for closing costs, standard tax deduction

Discount Points (Points) is the second option and is most commonly referred to as the buy-down option. Points are typically paid to the lender to secure an interest rate lower than Par. As a result, interest is reduced and the monthly payment is lower. Earlier, we discussed how to calculate the return on investment regarding the payment of Points. This option could be ideal for the borrower who plans on staying in the mortgage for a long time. Your closing costs are higher because of the Points paid, but the savings on interest make it worthwhile. Remember,

90% of the time when borrowers are paying points today, they are not actually buying the rate below the wholesale rate!

Pros = lowest interest paid, lowest monthly payment, long-term stay
Cons = most costly to close, lowest tax deduction, greatest risk

And finally, the **Retail** option. This option results in you taking a higher interest rate than wholesale and in return, the lender will pay some or all of your closing costs. This option is great for the short-term mortgage. Short-term is defined in different ways based on the rate and term of the mortgage but routinely benefits a mortgage lasting five years or less.

Pros = little or no closing costs, greatest tax deduction, short-term stay
Cons = higher interest rate, more difficult to qualify for, highest payment

Fixed Fee Mortgage is dedicated to helping you make a good investment regarding your mortgage. Start by answering the question...

How long will you be in the mortgage?

Determining how long you will be in the mortgage will quickly eliminate one of the three options mentioned above and provide you two options for analysis. Numerous other factors should be taken into account while calculating a return on investment but they are difficult to do on a manual basis. We have developed the first Mortgage Return on Investment Analysis comparing several loan options side-by-side looking into the future making it easy for you to determine your best option! Our company found it interesting that such a calculator did not exist in 1998 so we had to create it. If the mortgage industry cared about your return in investment on a mortgage, wouldn't this calculator exist?

Lighthouse: What is the average life of a mortgage in the United States today?

Approximately five years! To clarify, mortgages in this country are either refinanced or the borrower sells their home on average every five years. Which mortgage option should be the most prevalent today?

5. Understanding Closing Costs – what should I pay?

Every lender is required to send you a Good Faith Estimate within 3 days of the date you complete a mortgage loan application. Some closing costs can be third-party fees of which you may pay directly to the third party. It is not uncommon for lenders to mark-up third party fees to the borrower so be aware of the “going rates” in your area. The Good Faith Estimate is now a THREE PAGE document effective January 1, 2010. Lenders are now held accountable for these estimates and by law, closing costs cannot exceed what was given on the estimate! There are a couple of things to be aware of though.

Lenders are not required to use the Federal Good Faith Estimate to provide you an estimate of charges. This is a shame but reality. As a result, many banks and lenders will provide you an “unofficial” estimate so they are not held by the Federal guidelines. Once they have you hooked, they will provide the legal form with the rest of your paperwork so it gets “hidden”. MAKE SURE you receive the new THREE PAGE Good Faith Estimate before moving forward with a lender! If you don't receive one on the front end, things can change later.

Let us review the GFE starting from the top.

Lender's name and address should appear signifying the lender you are filing mortgage application with.

Property address should be the street address of the property you are seeking a mortgage.

Sales price is the purchase price of the property.

Base loan amount is the amount of money you are seeking to borrow. On a purchase, this would typically be the purchase price minus down payment. On a refinance, this would be the amount of money needed to payoff any existing liens (first mortgage, second mortgage, HELOC, etc.) you desire to payoff and all or part of the closing costs if you choose to finance them. In most cases, you do not have to payoff subordinate liens (liens other than the first mortgage). This option is called resubordinating. However, each subordinate lender must sign a Resubordination Agreement agreeing with the terms of your refinance prior to closing. The base loan amount could also include any debt you desire to payoff along with the first mortgage. We strongly encourage you to evaluate your return on investment when taking this option! This option typically results in borrowers turning short-term debt (credit cards) into long-term debt (mortgage) creating greater debt for the borrower.

Total loan amount on a purchase transaction is typically the same as the base loan amount. On a refinance, the total loan amount often includes the closing costs associated with the loan. Please remember your three loan options and exercise the one providing the best return on investment. This will determine your total loan amount.

Interest rate is the rate being quoted for the mortgage.

Preparation date should be either the date you completed a mortgage loan application or a date within three days after you completed an application.

Line:

- 801 **Origination Fee** is the fee being charged by the lender to take your loan to closing.
- 802 **Discount Fee** is typically the cost of any Points being paid by the borrower to the lender. This fee could include buying the interest rate down or any fees attached to the loan due to loan type or risk of loan. All non-owner occupied properties, for example, carry "percentage of loan" fees the borrower must pay to secure the mortgage.
- 803 **Appraisal Fee** is the cost of the property valuation. There are several types of appraisals with varying cost. (typically a third party fee)
- 804 **Credit Report.** A credit report is a near first step to secure a mortgage.
- 805 **Lender's Inspection Fee** is typically related to a construction loan that requires inspections before a draw can be made.
- 806 **Mortgage Insurance Application Fee** would be paid to the lender to secure mortgage insurance. This fee is typically a junk fee and should be scrutinized heavily.
- 807 **Assumption Fee** is associated with a mortgage that is assumed from a previous borrower and lender. Most conventional loans are non-assumable so this fee is not relevant.
- 808 **Mortgage Broker Fee** is an origination fee charged by a mortgage broker. This fee is negotiable. Some brokers may choose to disclose their fee for service on line 801 instead of 808. This is not a problem just make sure you understand exactly how they are being paid.
- 810 **Tax Related Service Fee** is paid to the mortgage banker. This fee is competitive within your region and is associated with every mortgage regardless of whether it is disclosed. This fee covers the cost of a company monitoring your property tax payments during the life of the loan to ensure timely payment.
- 811 **Application Fee** is a fee to watch closely. It is common for lenders to charge a non-refundable application fee of several hundred dollars to get the borrower

- “handcuffed” to the lender. The money paid makes it difficult for the borrower to switch lenders after the process has started.
- 812 **Commitment Fee** should not be paid.
- 813 **Lender’s Rate Lock-in Fee** is the fee paid to the lender to lock the quoted interest rate for a period of time. There is typically no upfront cost to lock an interest rate for less than 120 days. If locking for longer than 120 days, an upfront, non-refundable fee is usually involved.
- 814 **Processing Fee** is a routine fee being charged to cover the processing of your loan. More and more banks are outsourcing loan processing services so this fee will be more prevalent going forward.
- 815 **Underwriting Fee** is paid to the mortgage banker and will be associated with every mortgage. This fee can sometimes include the Tax Service Fee, Flood Cert Fee, and other fees paid to the mortgage banker. This fee covers the time necessary for your application, supporting documents, appraisal, and other necessary information to be reviewed by the banker’s underwriter. The underwriter determines whether your loan gets approved. This fee should be competitive in your area.
- 816 **Wire Transfer Fee** is associated with the cost of wiring funds from the mortgage banker to the title or closing attorney for appropriate distribution, or vice versa.
- 901 **Prepaid Interest** is calculated by counting the number of days left in the month after the day you close on the mortgage and multiplying this by the daily interest charge associated with the mortgage. If a loan is closed within the first 5-7 days of the month, this fee can be “credited” (zero costs) by the mortgage banker and the first mortgage payment will be due on the first day of the following month in which you closed. If any Prepaid Interest is paid, you will skip a month before your first mortgage payment will be due. Payments are usually due on the first.
- Example: close on Oct. 8 = first payment due Dec. 1
- 902 **Mortgage Insurance Premium** is the fee paid for a single payment premium for mortgage insurance. All conventional loans with a first mortgage greater than 80% Loan To Value require mortgage insurance. A single payment premium is not a common option taken by borrowers. A single payment premium can often be financed in the loan, therefore creating a tax deduction. Mortgage insurance premiums paid on a monthly basis cannot be financed. MI premiums were recently approved as a tax deduction on income tax returns. These premiums are very competitive among the MI companies but be aware that a trend started in late 2003 of mortgage insurance providers paying a rebate to lenders who charge the borrower a higher premium than is necessary. It is typically a better investment to take a first and second mortgage to stay out of mortgage insurance versus a single loan with mortgage insurance.

Lighthouse 6: What is Loan To Value (LTV)?

LTV for a purchase is calculated by dividing the total loan amount by the purchase price or appraised value, whichever is LESS. LTV on a refinance transaction is calculated by dividing the total loan amount by the appraised value. Combined Loan To Value (CLTV) is calculated by using all liens or mortgages.

- 903 **Hazard Insurance Premium** identifies the annual premium for homeowner’s insurance. On a purchase transaction, a one-year policy must be prepaid at closing. For refinance transactions, typically a one-year policy must be prepaid if less than three months exists on the current policy. The borrower determines the insurance company.
- 904 **County Property Taxes** includes property taxes and they must be prepaid at closing if any are currently due.

905 **Flood Insurance** premiums must be paid if the property is located in a flood zone.

Escrow section

If mortgage insurance is required (LTV of first mortgage is >80%), an escrow account must be established at closing. Escrow is a non-interest bearing account managing (on behalf of the borrower) the payment of homeowner and flood insurance premiums, property taxes, and mortgage insurance premiums. If mortgage insurance is not required, the borrower may waive escrow, however, mortgage bankers charge a one-time fee of typically a .25% of the total loan amount to waive escrow. You might ask, "Why do I have to pay a fee to have the ability to pay my own bills?" Great question! Regardless, it is most often a good investment to waive escrow if you have the desire and discipline to pay your homeowner's insurance and property taxes yourself. Lines 1001 thru 1006 itemize the costs associated with setting up an escrow account. Currently, escrow accounts can be "padded" by two month's of insurance and two month's of property taxes.

Total Estimated Monthly Payment section

This section identifies all of the monthly costs associated with principal, interest, taxes, and insurance (PITI). This section is critical in the underwriting process for qualification purposes because PITI typically cannot exceed 28% of your gross monthly income (adjusted gross income for self-employed borrowers). This percentage may increase if your other debt is minimal and/or your cash reserves are strong. All applicable taxes and insurance must be disclosed in this section regardless of the need for an escrow account.

All fees associated with lines 1101 thru 1108 are third party fees.

1101 **Closing or Escrow Fee** is paid to the title attorney or company handling the closing of the mortgage. This fee can be absorbed on Line 1107 or 1108 as well. Title companies are very competitive with their fees but the borrower should always call one or two companies to get a quote for their title insurance policy and closing fees. These may be increased to cover a referral fee being paid by the title company to a lender and/or real estate agent.

1102 and 1103 are commonly absorbed in Line 1101, 1107, or 1108. A title search on the property is always performed by a title attorney to disclose all liens, existing deeds, and paid property taxes associated with the property.

1105 **Document Preparation Fee** is charged by the title company to prepare all the closing documents to be signed. This fee can also be absorbed within Line 1101, 1107, or 1108.

1106 **Notary Fee** is seldom itemized on a GFE.

1107 **Attorney's Fee** is paid to the title attorney for handling the closing. As mentioned in 1101, this fee should be shopped within the area to ensure a competitive rate.

1108 **Title Insurance** is required by the mortgage banker to protect the property against pre-existing liens that went undisclosed. This fee pays for a lender's policy, not a borrower's policy. The borrower may purchase a policy if they choose. It is imperative to shop this fee to ensure a competitive rate is charged.

Government Recording and Transfer Charges section

This section itemizes the charges associated with recording the mortgage and deed of trust for the property. These fees will be within dollars of each other regardless of the lender of choice.

1301 **Survey** is the fee paid to have the property surveyed. State laws and/or the mortgage banker will determine whether a survey is needed to obtain a mortgage.

1302 **Pest Inspection** (termite inspection) is typically required by the mortgage banker on purchase transactions. (third party fee)

1303 thru allow additional closing costs to be itemized. One cost associated with every mortgage that might appear is a Flood Cert Fee. This fee is paid to cover the cost of having the property researched to determine if it is located in a flood zone. This fee can also be absorbed in line 801 or 815. Other costs itemized in this section should be questioned to ensure full understanding.

You should also receive a Truth in Lending (TIL) along with a GFE in accordance with Federal guidelines. The TIL provides you the Annual Percentage Rate (APR) of your mortgage. APR is commonly mistaken as the interest rate on your mortgage so please remember, this is NOT your interest rate! APR is the measure of how much the mortgage is going to cost you based on the closing costs you pay and the interest rate associated with the loan. The APR was established by the federal government to assist you in shopping for a mortgage. The lowest APR should result in the lowest cost mortgage. Notice we said "should" because it is very common for lenders to calculate APR incorrectly. Another important feature of the Truth In Lending is to disclose whether a pre-payment penalty exists on your mortgage.

Hopefully this chapter has provided a greater understanding of the closing costs associated with a mortgage and the relevant disclosures required to be given to you within 3 days of application.

6. *Should I Lock or Float?*

All amortized mortgage loans must have a locked interest rate before they close. This allows the mortgage banker and title attorney to calculate the final closing costs accurately and prepare the closing documents. Whether to lock or float can be like playing Russian roulette. If you lock an interest rate and the rates go down, you lose. If they go up, you win. Be aware that the longer you lock an interest rate, the greater the cost. Lock periods are typically in 7 or 15 day increments and the most common lock period is 30 days. The main reason for this is to allow plenty of time for your lender to get the loan closed. It can be costly to extend the lock, so cooperate with your lender to assist them in closing on time. You can float the rate until the day prior to closing. **Remember rate locks typically do not cost anything if less than 61 days!** Be patient with this decision process and make sure you understand your return on investment options. DUE TO RECENT CHANGES in the industry, most locks can be relocked at a lower rate (if rates drop during the lock) at least once for a nominal charge!

7. *How To Shop for a Mortgage*

Comparing closing costs is actually quite simple because there are certain fees that are present on every mortgage. Find these first and compare, and then go to the fees that are different among the lenders. The fees that should be very similar in your area are: underwriting fee, credit report, appraisal, tax service fee, flood cert, closing fee or attorney's fee, title insurance, and survey (if required). Closing costs that are "Prepays" include prepaid interest, homeowner's insurance, property taxes, private mortgage insurance (if required), and flood insurance (if required).

Interest rates, origination fees, discount points, application fees, and processing fees will vary with lenders. These are the fees to evaluate very closely since they are the revenue generators.

Compare closing costs by ignoring Prepays. Remember to evaluate the fees according to the option providing you the best return on investment based on how long you plan on staying in the mortgage. Also remember every lender in your area has identical wholesale interest rates. Your best investment option will dictate the interest rate you should be looking to secure. It is
Version 072210

also very helpful to ask if you are working with a broker or a banker. A banker typically has higher overhead and therefore may tend to charge higher interest rates or fees. It is usually beneficial to seek a mortgage banker that sells every loan because they have less overhead and can afford to payout higher rebates if applicable.

When shopping for a mortgage, here are a few things to do to maximize your time:

1. When asking for a Good Faith Estimate, **tell each lender** what interest rate and loan amount to use so you can compare apples to apples (rate affects closing costs). This is probably a different thought process for you because you always shop interest rates on a mortgage right? Remember all lenders have identical wholesale interest rates. If you shop the same interest rate among lenders, it levels the playing field and discloses what they want to charge you for their time to close your mortgage. It is similar to shopping for a car. Why does the exact same car vary in cost from one dealership to the next? Some dealers want to make more profit than others.
2. Secure Good Faith Estimates from various lenders within a 4 hour time frame (rate and pricing can change daily and even multiple times in one day).
3. **Do not** compare the prepaids, reserves, escrow, title charges, and government recording sections of the estimates, they are not controlled by the lender.
4. Ask each lender to base the estimate on a 30 day lock unless you need longer.
5. If the loan allows you to waive escrow (paying taxes & insurance yourself), let the lenders know because this will affect closing costs.
6. If refinancing, let the lender know if you are pulling cash out. A cash-out refinance usually increases closing costs and potentially the interest rate.

Once your estimates are gathered, you need to evaluate which option provides the lowest total cost over the projected life of the mortgage. We are happy to assist you in doing this analysis so feel free to contact us. Let us know how to help you!

8. *Your Biggest Challenge*

The mortgage industry today has never been more unethical. The industry has produced several record-breaking years in a row regarding total origination and as a result, greed is driving the industry. Your biggest challenge is receiving a Good Faith Estimate that is provided to you in Good Faith! We spend more time showing consumers how lenders are lying to them in regards to an estimate given! That's right, lying! "Bait and switch" has become a prominent sales tool in the mortgage industry. Bait you in with a bogus estimate then switch things after you are hooked. This practice has been strongly addressed by the Federal government with the new Good Faith Estimate but if you don't receive an "official" estimate, the lender is not held by Federal guidelines. In other words, many banks and lenders will provide you an estimate of charges that is not on the Federal Good Faith Estimate form. This is not illegal so you must know what the new GFE looks like. There's plenty of information regarding the new estimate on the Internet or we can send you one for your review. Education is your biggest weapon against this practice. Take the time to fully understand closing costs and rates before proceeding with any lender. Let us know if we can help review an estimate for you. We are here to help!

9. *Thank You!*

We are the nation's leading mortgage lender in consumer education! We have a passionate desire to assist the public in making good investment decisions regarding their mortgage so we invite and welcome your assistance in helping us share with the public how to maximize the return on investment on a mortgage!

The Borrower's Rights according to Federal Law:

- shop all providers of settlement services and determine which provider to use.
- shop for the best loan and compare the charges of different lenders.
- be informed about the total cost of your loan.
- ask for a Good Faith Estimate of all charges before you agree to the loan and pay any fees.
- know what fees are non-refundable if you decide to cancel the loan.
- ask your mortgage lender to explain exactly what they will do for you.
- know how much the mortgage broker is getting paid by all sources.
- ask questions about charges and loan terms that you do not understand.
- a credit decision not based on your race, color, religion, national origin, sex, marital status, age, or any income from public assistance.
- know the reason if your loan was turned down.
- ask for a copy of the HUD settlement costs booklet "Buying Your Home."