



BUSINESS: How to Get a Great Deal On Your Mortgage

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Most people understand that buying a home is the biggest investment they will ever make. But did you know that how you finance it is one of the most important decisions?

The implications of finding the right loan to finance your dream home can be far-reaching. In the worst case, borrowers who choose the wrong mortgage could end up losing their homes. And savvy buyers who find the right loan can come out ahead with extra cash for other investments and a more enjoyable lifestyle.

If you are looking for a new home or simply need to refinance the home you own, where do you start? There are many factors that influence the cost of your loan, both upfront and over the long term.

Know Your Needs

When evaluating mortgage loans, understand the difference between getting a great rate and finding the best loan. Getting the best loan means choosing a loan product that meets your personal needs, not just the one the lender suggests.

Consider how long you will be in the home and your financial goals, such as maximizing cash flow or owning your home free and clear. Are you a risk taker or risk-averse? Do you want a consistent monthly payment, or are you willing to deal with future uncertainty to get a lower payment now? Do you have a lot of money to put down, or do you simply want to get into a home and start building equity for the future?

The answers to those questions can point you in the right direction.

Compare Loans

There are hundreds of loan products available, and many of them can be confusing. From fixed-rate loans to ARMs (adjustable-rate mortgages), interest-only loans and reverse mortgages, the options are nearly endless. The best advice for borrowers is never to buy a loan product you don't understand. Ask your lender to explain all the terms of the loans you are considering so you can make an educated decision.

Fixed-rate loans, in which the rate does not change during the term of the loan, are a solid, predictable way to finance your home because your principal-and-interest payment stays the same. For borrowers who plan to be in a home for a relatively short period of time, say three to five years, an ARM can be a good choice.

If you chose an ARM, know what index the rate is based on (such as the LIBOR) and the margin added to the index to calculate the rate. Understand the rate caps that govern how much your rate can go up or down, and when. Be mindful that if rates go up significantly, your payment could go up dramatically.

You may have heard of the "no closing cost" loan, which any lender can offer with an above-market

mortgage rate. The loan is then sold for more than the mortgage amount (an "over par" price), and the lender uses the additional funds to pay the borrower's closing costs. This is generally good only if the borrower intends to sell the property or refinance within four or five years.

Shop Rates

Two ways to compare loans are the interest rate and the APR. The interest rate is used to figure your monthly payment and directly affects how much principal and interest you pay every month. Interest rates vary widely depending on the type of loan, the term or length of the mortgage, how much you borrow, and the size of the down payment.

APR (annual percentage rate) is a complex calculation designed to reflect the total cost of a loan. APR includes the note rate and the lender costs. These lender costs include a number of fees and charges that come into play when looking at your total cost of borrowing but do not affect your monthly payment. Because the APR can be influenced by the fees a lender includes, compare rates, rather than APRs, actual lender fees and closing costs to get the best deal.

Chose Your Lender Wisely

Selecting the right lender can be almost as complicated as finding the right loan.

There are different type of lenders, including mortgage bankers, mortgage brokers and online lenders.

Getting a mortgage online can be a great option for borrowers because online lenders have lower overhead. In addition to providing 24/7 access to rate searches and tools like mortgage calculators, an online lender may offer the best deal on the mortgage you want.

Find a good lender by asking friends and neighbors for referrals. If you are buying a home, your Realtor may recommend a local lender. Chose a lender you trust and feel comfortable working with and someone who is open about answering your questions.

Be aware that some lenders offer low rates but charge high fees to make up the difference. Others may suggest a loan product that is not suitable for your personal financial situation. Know your credit score, what rates you qualify for and what your goals are, and you'll be able to make the right choice.

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