The Top 9 Secrets to Secure Your Best Mortgage Rate

Today's mortgage loans are a function of interest rates, loan fees, and the actual terms of the loan. We have provided you with a breakdown of what the best loan program for you should look like:

1.) Loan Terms. There are several types of standard loan terms. This includes the length of the loan. The most common are known as Fixed Rate loans and they are typically fixed and fully amortized over 30 or 15 years. You can also elect for 20 or 10 year fixed terms as well. There is also an option that is popular with our borrowers which allows you, as a borrower, to select a fixed rate term based on your actual term that is currently left remaining.

For example, let's say you have 26 years remaining on a 30 year fixed loan that you took out four years ago and do not want to lose the four years that have already been amortized from the loan. You now have the option to select a new loan term based on your existing loan (26 years fixed), thus not requiring you to recast your loan period and start over again into a 30 year fixed term. This can also help get you into a better interest rate, as interest rates typically improve with shorter terms.

2.) Adjustable Rate Mortgages. Commonly known as ARMs, are becoming more popular as the real estate market starts to become bullish. ARM's are a practical way to help borrowers save money in the short run. This is especially true for Jumbo loan amounts where the borrower is borrowing a larger sum of money and want to help lower their monthly payment. ARM's are typically fixed for a specific period of time (typically 5, 7, or 10 years), and then adjusts once a year to the market rate after the initial period is over. They are typically fully amortized over 30 years. Although there are myths that ARM's have a tendency to increase suddenly after the initial period is over, this is not the case. They are regulated as to how much they can increase after the initial start period. While the interest rate can eventually increase, and should be expected to increase, ARMs can prove to be advantageous to younger borrowers who are entering the housing market.

3.) Costs. Loan costs are often underestimated by most borrowers when they finance a mortgage. Typical loan costs can range variably and are categorized into two types:

Non-Recurring Closing Costs: These closing costs are all fees that pertain to cost of the transaction itself. This includes loan underwriting, escrow, title insurance, appraisal and all other transaction related fees..

Recurring Closing Costs: These are all closing costs that are associated with maintaining property ownership, such as property taxes, homeowners insurance, and mortgage interest. These are all costs that will continue to remain for the life of the loan.

4.) Points. Borrowers have an option to pay points to buy the interest rate down. Essentially this is a way to pay a fee (or a percentage of the loan amount) in order to acquire a lower interest rate. This also goes the other way. If you are worried about not having enough funds to cover closing costs, ask your loan officer if you can get a lender credit by taking a slightly higher interest rate to help offset your closing costs.

5.) Loan Application. When applying for a loan you will need to complete a loan application which asks about your employment history, income, liquid assets, housing history, credit score, and debt obligations. There will also be a list of supporting documents needed to go along with the loan application. Your loan officer will be able to help you through the loan application and tell you what specific documents are needed.

6.) Underwriting. Once you have completed your loan application and collected the needed supporting documents, your file is ready to be submitted to underwriting. Underwriting is where you file is reviewed to decide whether or not you will be Approved. Most often, files receive what is called a “Conditional Approval”. This means that you will be approved once certain conditions are met. These conditions range from the need to explain/source a large deposit made into your bank account to having to show proof of homeowner’s insurance to having to provide a copy of your Trust. Your loan officer will help you work through the conditions and clearly communicate what is needed from you to get a Final Loan Approval. The more clear and organized the documentation, the better it is for procuring a favorable interest rate.

7.) Floating/Locked Interest Rates. When going through the mortgage application process, one of the steps is locking in the interest rate. Each interest rate has a specific price that is determined by the market and changes everyday. When you lock in the rate, you lock in that day’s pricing regardless if the pricing improves or gets worse. Generally, interest rate locks are good for 30 days which means the loan will need to be completed within 30 days. If the lock needs to be extended for whatever reason, it can have a negative impact on your interest rate and/or lender credits.

8.) Interest Charges. All mortgage payments are made in arrears, which means that your mortgage payment is actually for the month before. For example, when you make your payment on August 1st, it is actually for the month of July. When refinancing your mortgage loan, the consumer often has the option to roll the mortgage interest payment that is due for the month into a new mortgage loan. Basically, this defers the mortgage payment by allowing it to be rolled into the new loan and allows the consumer to “skip a mortgage payment”. This is often marketed incorrectly by some lenders as a free mortgage payment.

Although it is not “free”, it can provide payment relief to any borrower who is in the process of refinancing to help alleviate some of the burden of the mortgage payment. This may increase your loan balance and perhaps your interest rate as well.

9.) Down Payment. Many borrowers have the misconception that they have to have 20% down in order to purchase a home. There are a variety of loan programs available that offer different, minimum down payments options that go as low as 1% down. There are different caveats and pros/cons that come with these loan options. Ask your loan officer about the different down payment options to find out which one is best for you.

If you have any questions about this or would like to explore your mortgage options, feel free to reach out to us directly at (760) 930-0569 or email us at sam@bluefiremortgage.com.

We LOVE having visitors and If you are in the area, please drop by our offices. We are located at 2121 Palomar Airport Road Suite #204, Carlsbad, CA 92011.