

Negotiate hard to get the best loan at the best rate on the best terms

by *Ilyce_Glink*

When it comes to shopping for a mortgage, the most important thing to remember is that the best loan for you may not be the cheapest loan you're offered, or the loan with the cheapest monthly payments. The loan you choose needs to work for your personal finance situation not only on the day you close, or for the first year, but for the entire time you plan to live in the property and keep that loan. In the past few years, hundreds of thousands of buyers have flocked to subprime loans like moths to flame. Even those with perfect credit found themselves signing on the dotted lines for loans they thought offered an interest rate of only 1.99 to 3.99 percent, as opposed to the 6 to 7 percent those loans were actually carrying. Choosing the best loan means you have to take the time to understand both what your needs are, and what kind of loan will meet those needs. Do you want the stability of a fixed-rate loan? A loan that is part fixed, part adjustable? Or, are you a risk-taker who might benefit from an adjustable rate mortgage (ARM)? Once you decide which loan you want, here are some tips for negotiating for the best deal:

1. Know what you want before you call the lender. The mortgage market is extremely competitive for conventional loans, that is, for loans that are \$417,000 or less. To find lenders, you can look at BankRate.com, but you should also ask your real estate agent to recommend several lenders her clients have worked with successfully. Ask your friends who they worked with, and don't forget to check out the biggest national lenders, including Bank of America, Countrywide Financial, Wachovia and Chase, as well as local banks.
2. Consider using a mortgage broker: Brokers often have access to more than a dozen end investors, and their job is to do the shopping around for you. Just don't be fooled into thinking that the mortgage broker is on your side. Mortgage broker are paid by the end lender (the practice is called a "service fee premium") and they receive a higher fee if they sell you a more expensive loan. So choose a reputable mortgage broker and ask him to disclose in writing what his fee will be from the end lender.
3. Stay on top of interest rates. Interest rates change frequently during the day. If you decide to float your loan, watch the bond market activity closely. If rates seem to be dropping, you'll be able to react quickly and call in your lock. (Be sure to get confirmation in writing that your loan has been locked and at what interest rate.) Many lenders will offer you the opportunity to reduce the interest rate on your loan at least once between the time you apply and the closing date. You may want to look for a loan that offers this feature.
4. Watch the points and fees. The number of points and fees can change as frequently as interest rates, as lenders struggle to stay competitive with each other. You may see zero-point, zero-fee loans being offered, but lenders will often give you a higher interest rate in exchange for paying points and fees upfront. This may sound good, but you're effectively financing those points and fees over the life of the loan. As we went to press, Bank of America was offering loans at competitive interest rates without any points and fees. Other lenders may offer similar programs. It pays to shop around - particularly if you can save \$3,000 to \$8,000 or more on the purchase of your home.
5. Don't be afraid to ask for what you want. In a buyer's market, lenders are hungry for business. If you ask them to reduce the fees (without raising the interest rate), they may well do it. Ask each lender you're working with to provide you with a detailed listing of the fees and charges for your loan. Then, you can compare lenders on an apples-to-apples basis. Then go back to each lender and ask for the elimination of specific fees. Basically, you're asking the lender to bid on your business. It's takes moxie, but is perfectly doable.
6. Consult with your real estate attorney before you apply for the mortgage. Although attorneys aren't used in every state to help buyers and sellers close on their homes, I believe they provide a useful service. (Full disclosure: I'm married to a real estate attorney.) If you live in a state where real estate attorneys are used, you'd be smart to consult with yours before you apply for your mortgage. Real estate attorneys who do a lot of house closings will be a tremendous source of information about good home inspectors, title companies and mortgage lenders. They can give you resources, point you in the right direction and help guide you to a successful house closing.

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