

## Shopping for a Mortgage—Questions to Ask the Lender

### **How much do I qualify to borrow?**

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Remember to only borrow what you can afford.

### **What is the interest rate?**

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The interest rate for mortgage loans is determined by your level of risk and the market. As the interest rate goes up, what you can afford to pay for a home goes down. Usually when people shop for a mortgage loan, they want the lowest interest rate. The interest rate is important but it's not the only factor to consider.

### **What is the annual percentage rate (APR)?**

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One way to compare the cost of mortgage loans is with the annual percentage rate (APR). The APR is the annual cost of the loan, stated as a percentage of the loan. It combines the interest rate, loan fees and other costs.

### **Will I be charged points?**

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One point equals 1% of the loan. Points are used by lenders to describe origination fees (fees charged by the lender for processing the loan) and discount points (used to pay down the interest rate). Both origination fees and discount points are paid at closing.

Most lenders charge one point, or 1% of the loan amount for origination fees.

Discount points reduce the interest rate. Although this saves you money over the life of the loan, paying discount points is expensive. For example two points, or 2% of the loan amount, only lowers the interest rate about a half a percent. Because of the high cost, most first time homebuyers do not choose to pay discount points, unless the mortgage loan requires it.

### **Which type of loan is best for me?**

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You learned about the different types of mortgage loans in Session 4, Mortgage Basics. Generally, the best type of loan for first time homebuyers is a 30-year fixed rate loan.

### **What is the Loan to Value (LTV)?**

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The loan-to-value (LTV) is the relationship between the loan amount and the value of the home. It is described as a percentage and determines how much you have to pay for the down payment.

If you apply for a mortgage loan with a 95% LTV, then you can borrow up to 95% of the purchase price. The remaining 5% is the down payment.

### **Will I pay mortgage insurance?**

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Depending on the mortgage loan, you may be required to pay private mortgage insurance (PMI) or if it's an FHA loan, mortgage insurance premium (MIP). If you have to pay mortgage insurance, ask lenders for an estimate of the monthly cost. High monthly premiums lower the amount you can borrow to buy a home.

### **Are there prepayment penalties?**

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Prepayment penalties mean that if you pay the mortgage before the end of the term, including when you sell your home, you are charged a fee. Most loans have no or very low prepayment penalties.

### **Can I lock in the interest rate?**

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After you've been preapproved, some lenders allow you to lock-in your interest rate for a set amount of time, 30 to 45 days. If you lock-in your interest it will not change while you shop for a home. Most first-time homebuyer mortgage loans required a signed purchase agreement before they can guarantee the interest rate and loan.

### **What are the closing costs and other fees?**

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When you apply for a loan, lenders are required to give you a Good Faith Estimate (GFE) within three business days. A GFE gives you an estimate of your closing costs. As of January 2010, all lenders are required to use a standard GFE form. The standard form makes it easier for you to compare the cost of loans.

Although lenders are not required to give you a GFE until you submit a loan application, most lenders will give you a GFE if you tell them you are comparing and shopping for the best loan.

### **How long does it take to close the loan?**

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Ask how much time it takes to schedule the loan closing once you find a home and sign the purchase agreement. Generally it takes a few weeks, but sometimes longer.

### **What will my monthly payment be?**

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Lenders will estimate your monthly payment. The estimate should include principal, interest, taxes and insurance (both homeowners and if applicable, mortgage insurance) PITI.