**How to Shop For Interest Rates**

Before embarking on a loan shopping expedition, several things must be clearly understood:

1. Most rates published never get offered to anyone. Bait and switch is par for the mortgage course.
2. Interest rates change on a daily (sometimes multiple times per day) basis, just like the bond or stock markets.
3. A legitimate rate quote always considers a borrower's credit score, debt-to-income ratio, loan-to-value, loan amount, property location, and a commitment time period.

The only way a mortgage rate comparison works is to ensure that it is a true apples-to-apples comparison. Unfortunately, the rigors of the regulatory environment, combined with the typical lender's intention to make difficult any real comparison, make it a very tough thing to actually accomplish.

Here are some pieces of advice, learned over the years, beginning with my first job with a mortgage company in early 1991:

**Start With a Mortgage Broker**

A good mortgage broker has a menu of wholesale lenders from which to choose. My company, Shore Capital, has relationships with over 50 different companies and each of these lenders compete with one another on a daily basis. Any professional mortgage broker is in the exact same position.

Unlike a bank, which will have its own daily offering of rates and terms (as well as its own service levels and methods of doing business), a mortgage brokerage has a buffet of options. This almost always means that they will be able to identify and have access to the most aggressive and lowest pricing on any particular day. If one is dealing with a bank or direct lender, that company may have the most competitive rate that day, but they also may not. Any particular company's appetite will change on a day-to-day or week-to-week basis.

Dealing with a broker will put you in a position to benefit from whichever company is offering the lowest rates at that time.

**Know Your Credit, Debt, and Income Facts**

As mentioned above, a rate quote is always predicated on the borrower's specific financial information. It's a useless piece of information to discover that a company is offering X.XX% at $Y.YY but you cannot get it due to your situation. Go to [FreeScoreOnline](https://www.freescoreonline.com" \t "_blank) or some such service to get your credit scores. Lenders will look at all 3 credit scores and pick the middle one when offering a rate. A "well, my credit is pretty good/bad/great/awful/perfect" isn't sufficient to get a meaningful rate quote.

Everyone is entitled to an annual copy of their credit reports, as well, and these can be obtained at [AnnualCreditReport.com](https://www.annualcreditreport.com/index.action%22%20%5Ct%20%22_blank). The detailed information in your credit report contributes to the credit scores that you receive. Do not make the mistake of just relying on [CreditKarma](https://www.creditkarma.com" \t "_blank) or some other service, as they won't give you the full picture.

Part of understanding your credit qualifications is precisely knowing your monthly debts. Any credit card, revolving account, car or school payment, alimony or child support, and/or any other monthly obligation will contribute to your debt-to-income calculations. It's a rare person, in my experience, that can accurately estimate the total of their monthly obligations. So don't estimate yours, if you want to wisely shop loans. Get all of your recent monthly statements and put together a detailed list that includes the payee, monthly minimum required payment, and total outstanding obligation.

Furthermore, make sure you fully understand how a lender will evaluate your income and be prepared for a detailed conversation. For some, this is easy. If you're a salaried individual with no bonuses, commissions, or over-time pay, it's simple. But if your income includes any of these variables, it's more complicated. If you're self-employed, it's even more complicated. Before you have a conversation with a lender, have at hand copies of all of your income documentation: W2s, 1099s, federal tax forms, social security and/or pension award letters and statements, and a month's worth of pay stubs.

**Understand How Rates Work**

There isn't just an interest "rate," there are interest "rates" and each one has a cost or credit associated with it. This is the case even when all of the various contributing factors (credit score, debt ration, loan-to-value, location, and time period) are taken into consideration.

Here's is a screenshot of a partial page of a 10-page rate sheet from UnionHomeMortgage, the country's largest wholesale lender:



If you don’t know what you're looking at, it certainly look like something written in another language. And this screenshot doesn't take into account all the adjustments that apply, such as for credit score, loan-to-value, purpose of loan (purchase, rate and term or cash-out refinance), loan amount, and state.

Note that the far left column is the rate (ranging from 3.625% to 5.125%) and that every column to the right identifies time period (15, 30, 45, or 60 days) for which the rate would be locked.

The pricing for each rate is a percentage of the loan amount:

1. 3.875% (in red) is at 98.568. This means that it costs 1.432% (100-98.568) of the loan amount in discount points to purchase this rate. On a $200,000 loan, the cost would be $2,864.
2. 4.125% (in yellow) is at 100.060. This means that there is a .060% credit back on this rate. On a $200,000 loan, the credit back would be $120.
3. 4.375% (in blue) is at 101.327. This means that there is a 1.327 credit back on this rate. On a $200,000 loan, the credit back would be $2,654.

If one qualified for this particular rate matrix, you can see that there are many options within it, depending on whether you want to pay for a lower rate or get a credit back against closing costs. When rate shopping, it's very helpful to know ahead of time whether you want to pay (or be paid) for the rate you want.

**Ask About Additional Fees**

In any mortgage transaction there are lender-related fees and fees from other third parties (such as title, escrow, appraisal, credit, and more). Make sure to understand what the lender fees will be, if any. They can be identified as underwriting, processing, or something else of that nature. Even if two different lenders are offering an identical rate and cost, there could be a dramatic difference in the additional fees involved.

For the sake of simplicity, I always make sure that the additional lender fees total up to $0. It may be easiest, when obtaining a quote from a lender, to request the same.

**Now You Can Ask the Question**

Understanding all of the above, some version of this question should be asked:

*"I want to know the discount cost/credit and rate you could deliver today on a $XXX,XXX loan amount for a 30 day lock on a XXX middle credit score, XX% debt-to-income ratio, XX% LTV, here in XX county."*

This question covers (almost) all of the bases and allows the minimum possible amount of wiggle room.

Obviously, I'd be thrilled to help you and answer this question! Get the answer [**HERE**](http://financingtool.hausamgroup.com)!!!

Thank you!

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