

BBB Tip: Choosing a Mortgage Lender!

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The housing market is constantly changing. Whether it's competitive or slow, if you want to buy a home, you need to be prepared. As a prospective buyer, you can make your offers on homes more competitive by [getting pre-approved for financing](#) from a mortgage lender before even bidding on a house. This lets the seller know you're a serious buyer and provides reassurance that the sale will close without issues.

Fortunately, shopping around, comparing prices, and negotiating deals can save you thousands of dollars on a mortgage. To get the best deal, compare all the costs, and understand how mortgages work.

If you are buying a home, [refinancing your home](#), or taking out a home equity loan, follow these tips to help make your [search for a mortgage lender](#) a success.

How to shop for a mortgage lender

- **Know how much you can spend upfront.** Before you ask for information from a lender, it's a good idea to know how much you can spend on a loan and the maximum monthly payment you can afford. This information will be crucial to your home search and negotiations, so review your [budget](#) beforehand. Get familiar with interest rates, too. Depending on the economy and if [mortgage loan interest rates are high or low](#), this may impact how much you can spend on a home.
- **Get to know your loan options.** [Loan options](#) include loan terms, interest rates, and the loan type. The loan term refers to the length of the loan, which may be 15 or 30 years. Shorter loans usually have higher monthly payments with lower interest rates. Interest rate types may be fixed or adjustable. Fixed-rate loans are lower risk but carry higher interest rates. Adjustable-rate mortgages (ARMs) have lower interest rates, but the rates can change over time. Loan types may be conventional or part of a government program. A trustworthy mortgage lender can help you understand your options and choose the best loan for you.
- **Understand the difference between a broker and a lender.** According to [ConsumerFinance.gov](#), a lender is a bank or other financial institution that loans money directly to you. A broker acts as a middleman, comparing loan options on your behalf. The [Federal Trade Commission](#) adds, "It might not always be clear if you're dealing with a lender or a broker, so if you're not sure, ask." You'll want to know who you're working with since brokers usually pay a service fee separate from the lender's fees. There are brokers and lenders, so evaluate those differences and see what works best for you.
- **Get information from multiple lenders and brokers before making a decision.** The [FTC](#) advises getting as much information from each lender as possible. Keep your options open since different lenders may offer different rates. Ask about interest rates, loan types, annual percentage rates, points, down payments, mortgage insurance, and all other fees. This will help you get a clear view of the actual cost of the mortgage.
- **Understand whether you should pay points.** Your mortgage lender will likely give you the [option of paying for discount points](#). Mortgage points are fees you pay a lender to reduce the interest rate on a mortgage. Typically, one discount point equals 1% of the mortgage amount and will reduce your interest rate by .25%. Depending on how long you plan to keep your home and your mortgage, this extra cost may or may not make sense. This calculator will help you figure that out.
- **Be prepared to negotiate the best deal.** Loan officers and brokers can keep some or all of the overages (the difference between the lowest available price and any higher price you agree to) of a loan as extra compensation. This means you can negotiate a price lower than what they initially offered. The best way to negotiate is to have the broker or lender [give you a written list](#) of all the costs and fees of the loan. Then, ask if they will reduce or waive completely one or more of the fees. You can also show them a competitor's offer to see if they will give you a better deal.
- **Watch out for scams.** Shopping around for a mortgage lender will help you get a general idea of how much a loan costs, which will help you spot and avoid any offers that seem too good to be true. Be wary of unsolicited calls and emails offering you great rates on a mortgage or "no-cost" loans. Never give in to high-pressure sales tactics. [ConsumerFinance.gov](#) [warns about phishing scams](#) where con artists attempt to divert your closing costs and give in to high-pressure sales tactics. [ConsumerFinance.gov](#) [warns about phishing scams](#) where con artists attempt to divert your closing costs and down payment by suggesting you wire the money into a fraudulent account right before your loan closes. Never wire money until you verify the closing instructions in person with your trusted loan representatives.

For more information, visit BBB.org to review [BBB's Home HQ](#) for information on buying, selling, building, and where to find help for improving the inside and outside of your home. You can also visit the Consumer Finance Protection Bureau's mortgage page to learn more about how mortgages work.

Kelvin Collins is president & CEO of the Better Business Bureau serving the Fall Line Corridor, serving 77 counties in East Alabama, West Georgia, Southwest Georgia, Central Georgia, East Georgia and Western South Carolina. This tips column is provided through the local BBB and the International Association of Better Business Bureaus (IABBB). The Better Business Bureau sets standards for ethical business behavior, monitors compliance and helps consumers identify trustworthy businesses. Questions or complaints about a specific company or charity should be referred directly to the BBB at Phone: 1-800-763-4222, Web site: BBB.org or info@centralgeorgia.bbb.org.