

# Refinancing or Borrowing During Recessionary Times

## 10 Questions to Ask Your Mortgage Lender

When considering a loan, a lender's reputation should be an important part of your consideration when refinancing or borrowing money for a purchase. Local lenders can offer much more than you realize. When shopping for a loan, ask questions.

### 1. Which type of loan is best for you?

Your lender needs to understand your situation before she can recommend the best loan product for your needs. Be prepared to provide a general overview of your assets, liabilities, and income. Ask about the pros and cons of Fixed-rate loans, Adjustable-rate loans, Interest-only loans, and Negative-amortization loans.

### 2. What is the Interest Rate & Annual Percentage Rate

The Federal Truth In Lending law requires lenders to disclose the Annual Percentage Rate (APR) when they advertise a rate. Example: 30-year fixed, 8%, 1 point, 8.107% APR.

To compute the APR, the lender calculates the interest rate and all other related lender fees and divides it by the loan's term. It is a complicated calculation and there is no way to accurately compute the APR rate for an adjustable-rate loan.

The goal of the APR is to measure the "true cost of the loan" to level the playing field and prevent lenders from advertising a low rate and hiding fees. Unfortunately, lenders calculate APRs differently because the rules to compute the APR are not clearly defined.

If you are quoted an adjustable rate, ask about the Adjustment frequency, Maximum annual adjustment, Highest rate (cap), Index, and Margin.

### 3. What are the Discount Points and Origination Fees?

Each "point" is equal to 1 percent of the loan amount (2 points on a \$100,000 loan cost \$2,000). Find out if the lender will charge origination fees in addition to points. Typically, the more points you pay, the lower the interest rate, which is why you should compare the APR rates on the different products. Points are also tax deductible.

#### **4. What will the loan cost? Ask for a Good Faith Estimate.**

The Real Estate Settlement Procedures Act (RESPA) requires the lender to provide you with an itemized list of estimated fees and costs associated with the loan within 3 days of applying for your loan. The costs include such items as loan fees, appraisal and credit report fees, title and title insurance premium, inspection fees, escrows, recording fees, and taxes.

Lenders are not required to guarantee their Good Faith Estimates, but if your lender is not willing to stand behind it, keep shopping.

#### **6. Can you lock the rate?**

With the fluctuating interest rates, you may want to consider locking in the rate. Ask your lender:

- Is there a fee to lock the interest rate?
- Will the lock-in protect all the costs of the loan?
- How long is the rate lock good for?
- Can you get it in writing?

#### **7. Is There a Prepayment Penalty?**

If there is even a chance that you may pay this loan off early with a refinance or sale of the property, you should understand the penalty up front.

#### **8. Will your application be reviewed by an in-house underwriter?**

It may take longer to process a VA or FHA loan, but some lenders are equipped to handle the government requirements to approve or disapprove the loan.

#### **9. How soon can you close?**

This is particularly important to know before you engage in a purchase and sale contract to insure that you will have the funds available for closing. Ask about turnaround time, possible obstacles, and how soon can you close after your application is approved.

#### **10. What is the Yield Spread Premium?**

A Yield Spread Premium (YSP) is a commission paid directly by the lender to your representative (mortgage broker) and will be disclosed on the settlement statement at closing. Ask up front and negotiate – at the closing table is just too late.