Ten ways to find the mortgage that's best for you
By Erin K. Witt

Many consumers become so absorbed in finding the "perfect home", they forget that finding the "perfect mortgage" is just as important. Even with interest rates at a historical low, prospective homebuyers should shop around to find the mortgage—and the mortgage provider—that best meets their needs.

The following 10 tips can help you find the best loan and lending institution for your own unique needs.

Tip #1: Investigate the interest rate. To determine exactly what you'll pay over the term of the loan, you need to know the rate. Rates change quickly, and if your credit is less than perfect, you may not be offered the lender's lowest figure. To effectively compare different lenders' programs, ask for the annual percentage rate (APR) of the mortgage interest, which is generally higher than the initial quoted rate because it includes all of the lender's fees. Consumers should know, however, that the advertised APR could be misleading. Mortgage lenders may not include all the fees they charge in the calculation that determines APR, so customers who use that figure to shop rather than an itemized breakdown of rates, points and fees may be making a decision without all the facts.

Tip #2: Ask about discount and origination points. Lenders may charge prepaid mortgage interest points to lower your interest rate, or other points that have no benefit to you at all. Find out how many you'll be expected to pay and which kind of points they will be.

Tip #3: Demand a good faith estimate of closing costs up front. Mortgages come with fees for various services provided by lenders and others involved in the transaction. Determining those fees as soon as possible can make planning easier for buyers. Most reputable lenders will provide a written good faith estimate of closing costs within three days of receiving a loan application. Be extremely cautious of a lender or broker who is unwilling to do so.

Tip #4: Ask about fees for locking in the interest rate. Your interest rate may fluctuate between the time you apply and closing. To prevent it from going up, you may want to lock in the rate—and even points—for a specified period. Ask your lender if lock-in fees apply.

Tip #5: Be aware of any prepayment penalties on your loan. Some penalties are one percent of the loan, while others are equal to six months' interest. Some apply only when you refinance or reduce the principal balance by more than 20 percent, and activate if you sell your home. Learn about the duration of any penalty period and how the penalty is calculated. Some lenders will even offer lower interest rates to buyers who accept prepayment penalties.

Tip #6: Know the minimum downpayment required for the loan. The rate and terms of your loan will be based on a downpayment figure, typically between 5 percent and 20 percent of the purchase price. If you can put more money down on the purchase of your home, you may be able to lower your rate and improve your terms. However, if you come up short, you may be required to purchase private mortgage insurance (PMI).

Tip #7: Understand all the qualifying guidelines. These requirements usually relate to income, employment, assets, liabilities and credit history. First-time homebuyer programs, VA loans, and other government-sponsored mortgage programs are typically easier to qualify for than conventional loans.

Tip #8: Know what documentation you will need to provide. Most lenders will require proof of income and assets before approving your loan, and may require other documents as well. Buyers with excellent credit may qualify for a no-documentation or “no-doc” loan, but they can expect to pay a hefty down payment and higher interest rate.

Tip #9: Get a timeline of how long it will take to process your loan application. This answer will usually depend on a number of variables. When the loan business is brisk, underwriters get backed up, verification takes longer, appraisals move slower and other hurdles can backlog the loan process. Lenders may estimate two weeks, but in most cases, 45 to 60 days is probably more realistic.

Tip #10: Understand factors that might delay approval of your loan. If you provide the lender with complete, accurate information, the loan process should run smoothly. If the underwriter discovers credit problems, however, there could be delays. Make sure you notify your lender if you change jobs, increase or decrease your salary, incur additional debt or change marital status between the time you submit an application and the time the loan is funded.