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Look for the Best Deal, Not the Best Rate

The interest rate you receive on your mortgage loan is incredibly important. The difference of half a percent could end up costing you tens of thousands of dollars in extra interest payment on your mortgage. It is no wonder that people pay so much attention to the direction of national interest rates.

Yet getting the lowest interest rate does not necessarily mean that you are getting the best deal on your home loan. Some lenders will advertise their low rates in huge letters, while they add on extra fees and charges in the fine print. In order to determine which loan package is the best deal, you need to take a look at all the costs as well as how long you plan to stay in the home before selling.

First, consider the extra costs. In addition to the interest you will pay over the life of your loan, there are several upfront charges to be paid. Most lenders will charge you a sum for closing costs. These include the appraisal fees for assessing the home you want, attorney’s fees, loan processing, title searches, and other involved services.

Some lenders will also charge you origination or discount points. A point is 1% of the loan value and points are paid to the lender essentially in order to buy down the interest rate on your loan. They are not like a down payment that goes toward paying down your loan; points are completely the profit of the lender.

Additionally there may be other fees that lenders tack on to the loan price. In the end, depending on the lender and the price of the home you buy, your total fees could be as low as a couple hundred dollars or as high as almost ten thousand dollars. You can see now why the loan interest rate is not the only important factor in a home loan!

It is best to compare loans based on the APR or annual percentage rate, which takes into account all of the extra fees and the interest rate. You simply take a look at the APR and determine which loan has the lower rate. This way you will know which loan is truly cheapest in reality.

The other consideration is how long you plan to stay in the home. The average homeowner will sell or refinance after about seven to ten years. If this is your plan, it may be more in your best interest to find a loan with low upfront fees and a slightly higher rate. You need to basically amortize the upfront fees over the course of the loan, just like the interest is, to determine the real cost of the loan. Make sure that the upfront costs are not too high to make the lower rate profitable in the next seven to ten years.

Finding the best deal on your home mortgage can seem like a daunting process, but once you realize what factors go into a mortgage the search will be simplified. Shop around and ask the lenders for a quote on the entire loan package, interest rate plus fees. This will help you avoid getting sucked into a loan that only offered “the lowest rates” but at the expense of thousands in extra fees.