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Find Your Mortgage 'Niche' Before Going Shopping

To truly find the best deal on a mortgage loan, it is essential to first determine what type of loan you need. The mortgage industry has been extremely adaptive in creating all sorts of loans designed to fit all sorts of borrowing needs. Because of this, home loan lenders have become highly specialized in the programs they offer. Each of these lenders will be able to offer you better rates on their specialty program than they would on other loans. Figuring out exactly what type of home loan your situation calls for will help you know where to start shopping.

Here are some helpful questions that can aid you in determining what type of loan and what type of lender you need.

First, how much do you need to borrow? Some lenders only loan up to the Fannie Mae conventional loan standards (currently $417,000) while other will have jumbo loan programs available (any loan above $417,000.)   How much of a down payment can you supply? There are lenders that only make loans to those with at least a certain amount for a down payment, while others specialize in “no down payment” loans.   What type of loan term are you looking for? Most offer 30-year fixed loans, but others will offer 15-year loan terms, and some will even offer 40 or 50-year terms.   How much documentation are you willing and/or able to provide? Although they are becoming less popular with lenders these days, you can still find “no-doc” or “low-doc” loans that do not require you to provide proof of income or other financial factors.   Are you applying for a loan for a single-family home, a condominium, or a unit in a duplex or triplex? There are lenders that specialize and can provide the best rates for each of these types of dwellings.   Do you need a loan for an original mortgage, a second or vacation home, for an investment property, or for a refinance on your primary residence? Lenders specialize in different loans based on the purpose of the requested money.

Of course, there are still other factors that could determine which lenders you need to approach but the above questions will give you a good start. You can probably now see why mortgage brokers have become such a popular choice among borrowers – they have connections to many different lenders and it is their job to find a lender that specializes in your particular type of loan needs!

It is also important to note that some types of loans are always going to be more expensive than others, no matter which lender you turn to. The cost of a loan is determined by the various risk factors involved. A basic example is the risk of a borrower’s credit score. A borrower with excellent credit is going to find better interest rates with any lender than a borrower with poor credit will.

Another example is the difference between original and second home mortgage loans. Second mortgages also use the property as collateral, but if the borrower forecloses on the loans, the holder of the first or original mortgage gets priority in trying to sell the property to recover losses from the loan. Second mortgages are therefore considered much riskier for the lender than an original mortgage. You will find that interest rates on second mortgages will be universally higher than for first home loans. As you shop, be sure to compare apples to apples and not apples to oranges!