

Mortgage Shopping Secrets

by Howard Davies

Three Ways You Can Profit From This Book

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Acknowledgment

This book is dedicated to my clients who have followed me over the years from firm to firm. I appreciate your loyalty and all the trust you have placed in me. It has been a privilege serving you.

I am also grateful for the referrals and testimonials you have provided without solicitation. You and your families have become close friends and it is those relationships that kept me focused and motivated.

This book is also dedicated to the many outstanding Mortgage Loan Professionals and Realtors® who work with integrity, pride, skill and enthusiasm in what can be a highly challenging and demanding environment. I have the utmost respect for those of you who go the extra mile to provide quality service to your clients and place their interests before your own.

Howard Davies

"Strategic advantage lies in the leverage of knowledge."

-- Robert Buckman, leadership coach

Dear Friend,

If you've found mortgage shopping confusing, stressful, and time consuming this book is for you. It will help you and the people you care about save time, money, and frustration. It will also protect your sanity!



Education, and knowing who and where to turn to can make all the difference in any financial undertaking. You wouldn't go to the pet store to get medical advice for your cat or dog would you?

Many mortgage shoppers are initially attracted by flashy TV infomercials or slogans on the internet proclaiming "we have the lowest rates" or "no broker fees" only to find that it was hot air and dishonest advertising. You're about to learn how to cut through the hype. After reading this book you'll find those commercials and their smoke-and-mirror techniques quite humorous!



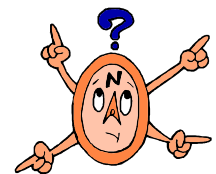
Mortgages are unique, and you can't shop for one using the same strategy you would for other products. Making important decisions for you and your family based on hype instead of substance will put you in a weak and vulnerable position and drains your precious time, energy, and money. If you don't understand the mortgage market like those on the "inside" you can easily fall prey to a dishonest bank or mortgage broker. You're going to get an insider's view of the mortgage application process and the "quoting" system that is used. It's kept secret from consumers for a reason!

What you're about to discover will shed some light on the lending process and pitfalls you should avoid. **The next time you need a mortgage the odds will be in YOUR favor.** Throughout this book you'll be a "fly on the wall" in a lender's office where you'll discover some interesting secrets! You'll learn how brokers and lenders make money and how you can turn this knowledge to your advantage.

Whenever you see the phrase "call a broker" you can exchange it with the words "browse a mortgage website". The words "loan agent" and "broker" are also interchangeable. ***This is because conventional brokers work exactly the same as online brokers and usually work with the same lenders.*** If you prefer more personal service opt for the offline interface because rate and costs are likely to be the same. There are many large, well known online mortgage brokers and everything mentioned in this book applies to them too.

You'll notice the word "quote" in speech quotations throughout the book. That's because, in the recognized sense of the word a mortgage rate quote is not possible with high accuracy until you are firmly engaged in the process. Compare that to your expectations when you get a quote to paint your house, wash your car or buy a refrigerator. Comparing apples to apples when mortgage shopping is almost impossible.

A "rate quote" can only be an **estimate** at the inquiry stage. When you understand the dynamic nature of mortgage rates I think you'll agree. When you throw in prepayment penalties, impound accounts and a multitude of other variables the muddy waters you are wading in can soon turn to quicksand. Buyer beware!



Borrowers are often advised to obtain a Good Faith Estimate ("GFE"). Regulations regarding federal GFE's are constantly changing, however at the time of writing California brokers are required to provide a Mortgage Loan Disclosure Statement ("MLDS") to the borrower with a "best estimate" of loan terms, and lenders are required to provide a GFE with more accurate numbers once the application has

reached the submission stage.

After reading this book you'll know more about mortgages than most consumers. And if it sounds like overkill to read a book on the subject, think again! If you put these techniques into practice and slash your mortgage payment by \$100 per month – **you could save up to \$36,000 over the life of the loan!** That's not far off the average annual income in the US. If it takes you half an hour to read, isn't that a great investment of your time?

Who Gave You This Book, and What Does it Tell You About Them?

You're about to learn how the mortgage market works and how to get the best rate and overall costs next time you need a mortgage. It's a great item for professionals in every field to pass on to their clients, friends and family.



The person who gave you this book obviously cares about you, your interests and your well being. It may have been given to you by a friend, a Realtor®, a mortgage professional, or a professional from another field. They've taken the time and effort to share it with you so you can learn the tips, techniques and tricks it contains.

The most successful professionals in every field depend on referrals for a large part of their business. Please remember that, and reciprocate their thoughtfulness.

Why Mortgage Shopping Is Different - And How You Can Profit From This Knowledge

Imagine you're in the market for a mortgage. You do some research and narrow it down to two brokers and one direct lender. They all offer you the same product; a 30 year fixed mortgage with no prepayment penalties or impound account.

Your first reaction might be; "Isn't a 30 year fixed mortgage essentially the same product regardless of the lender?" And you would be correct. However, because the interest rate and terms are normally not locked (fixed) until you have jumped through certain hoops (filled out a loan application, signed numerous disclosures, and supplied your paystubs and bank statements etc.) there is a lot of "wiggle room" for lenders and mortgage brokers to give you a low-ball "quote".

Getting your estimate in writing via a Good Faith Estimate "GFE" (or an MLDS if you live in California) is a smart move, but remember; **the interest rate and costs are only good for the date and time it was generated.** If your rate is locked at the time "the quote" was generated, that's a different story. But virtually no lender or broker will lock your rate until they have a full application package and your supporting documents. That could take days!

The only time you can interpret a GFE or MLDS as anything more than an **estimate** from a lender or broker is if they inform you in writing that your rate and costs are **locked**. Hence the word "Estimate" in the documents' title!

After you have done your due diligence you may choose **not** to go with the lowest **upfront** cost in order to get the best service and **long term savings**. By doing so you'll be choosing the **lowest overall cost** versus the **lowest price**. And while it is true to say that the two rarely go together, it is doable if you know how.

You should also know that closing costs and mortgage rates are very much a commodity in a highly competitive, cut-throat market.



What is not, and never will be, a commodity is the attributes of the mortgage professional you select. This person....

- Is easy to get hold of and quickly returns both your calls and emails and those from the multitude of other players in the loan transaction
- Will put YOUR interests above their own and always give you the benefit of the doubt
- Has the ability and organizational skills to be working on multiple files simultaneously
- Remains calm under pressure and is a great communicator
- Is flexible, adaptable and ready to do whatever it takes to close your transaction
- Understands the highly time sensitive nature of mortgage transactions
- Has a strong resume which includes client testimonials and a list of achievements and maintains a “clients for life” mindset

Try and commoditize that list!

Now, more than ever you need to form a relationship with an honest, trustworthy and accessible mortgage professional who has all the above attributes and more.

On a personal level; if I’m considering doing business with someone who doesn’t return my calls quickly I look somewhere else. **In the time-sensitive world of mortgage applications where rate locks and purchase contracts are for a finite length of time it is *critical* that your loan officer responds to you and the multitude of other players in a refinance or purchase transaction very quickly.** Failure to do so could cost you your rate lock. This could translate into a lot of money if rates are

higher at lock expiration. On a purchase transaction you could also lose the house you have fallen in love with and your good faith deposit. Ouch!

The comparison shopping method you use when buying a dishwasher, a bedroom suite or a pair of shoes doesn't work well when mortgage shopping because the "product" you are shopping for (interest rates) **is a constantly moving target and can change several times a day**. Therefore a different, more street-wise, strategy is needed. Using the techniques in this book you'll avoid the frustration and disappointment of ineffective mortgage shopping. You'll also avoid wasting money both upfront and over the life of the loan.

Many mortgage applicants have bad experiences because they compete on an uneven playing field on which brokers and lenders understand the mechanics of the market more than they do.

A good example is the misconception that (short term) interest rate changes by the Federal Government have a direct impact on (long term) mortgage rates. The Fed changes rates a handful of times in an average year whereas mortgage lenders can (and often do) change their pricing several times a day!

Mortgage rates are a leading indicator ahead of news. Even if Fed increases did affect mortgage rates directly they would be anticipated and priced into the market by lenders weeks or even months ahead of the Fed's announcement.



No-one (despite the claims of the so-called "experts" and the talking heads you see on the news) can predict the direction of mortgage rates. A seasoned mortgage professional however who understands the correlation between mortgage rates and Bonds, market trends and technical analysis can do more to help you secure a low rate than any hyped up website which employs "order takers" to process your loan.

Four “Insider Secrets” That Will Put YOU In The Driving Seat Next Time You Talk To A Broker or Lender

When shopping for a mortgage understand that:

- The interest rate normally isn't locked (fixed) until the lender has all your paperwork
- Mortgage price changes can occur numerous times throughout the day
- Brokers and lenders must give you a Good Faith ESTIMATE or in California at least an MLDS, **and this can only be an estimate** until you have jumped through several hoops or they inform you in writing that the rate is locked.
- Until you jump through those hoops, and your rate is locked, the actual lender and appraiser are unknown. And because each lender and appraiser has different fees there is no way the broker can possibly know what your **exact** closing costs will be.

One Important Question You MUST Know The Answer To Before You Shop For A Mortgage

When you ask a broker or a direct lender for "their rate" or a "quote" or see rates posted on a website, what exactly does this "quote" actually mean?



Is it the rate they're locking in for applicants who filled out an application several days ago, who are qualified, and have signed their disclosures and supplied their supporting documents?

Or is it the rate they're locking in for applicants who applied several weeks ago and whose files are now fully underwritten and can be locked for a lower rate than today's new applicants?

Is it a rate the broker or lender is *guessing* will be available in several days time when you have supplied all your paperwork?

Or finally; is it a lower than market rate you are "quoted" in order to make you think the lender or broker has access to rates which are miraculously lower than the competition?

As you can see: the description of what a "quote" is largely depends on who you are speaking to or which website you are browsing! *Therefore you cannot accurately compare two "quotes" when making a decision. Unless of course you are shopping for the "best guesser"!*

These are good questions to ask when you call for a rate "quote". Be prepared though for some "squirming" when you ask them!

How Mortgage Brokers Give “Quotes” - And Why You Should Know!

You'll usually get the *lowest overall cost* and the *lowest interest rate* by working with a broker instead of a direct lender.



A broker is a professional mortgage shopper who has access to a large number of lenders whereas a direct lender only has access to loan programs and interest rates associated with their bank.

While this may seem obvious the implications should not be taken lightly. Lenders have a habit of throwing in last minute conditions, and sometimes they can kill a deal!

If this happens to you on a refinance you could lose all the benefits of the refinance. On a home purchase transaction the outcome could be much worse: you could lose your new home and even your good faith deposit. In a best case scenario you'd be left scrambling for alternatives.

And while no broker can *guarantee* that a lender won't kill your deal at the 11th hour, at least he or she has all your documentation and can switch to a different lender if needed. ***This ultimately could save your deal and reduce your stress considerably!***

A broker shops dozens of lenders in your state. At the click of a mouse they can find out the underwriting turn-times for each lender and which one has the lowest rate and costs. And if they are highly seasoned they'll know which lenders offer the highest probability of closing successfully within the lock period (and the contract expiration date on a purchase transaction).

Let's take a closer look at the way brokers make their money and what it means to you when they give you a "rate quote"

The agents who are tasked with originating and closing your loan go by a number of terms like: "loan agent", "loan officer" or "loan consultant". They are normally independent contractors, commission-only employees or minimum-wage-plus-commission employees. In many states they need a Real Estate Salesperson license (the same license Realtor's® need). The Broker's who employ them have passed the more stringent Broker exam and are required to renew their license on a regular basis.

Let's imagine for a moment you're in the market for a refinance. For the purpose of this illustration we'll use the word "call" – you can replace that with the phrase "browse a website" if you prefer.

It's 8.30 am on a Monday. You call several brokers. They ask you questions about your credit history, the value of your home, and your income etc. Their "quote" assumes that you score highly in those areas because the better those numbers are, the lower your rate and/or costs will be. *Obviously, brokers and lender's want you to think they have lower rates and costs than the competition!*

Each loan scenario (and therefore each "quote") will be different. The *size* of your loan, *your exact credit score*, the *county* you live in, and at least ten other factors are what affect your "quote". As you can see; there is a lot of moving parts and already we have the opportunity for misleading "quotes" and lots of confusion!



If you speak to a live person the likelihood of misinformation is reduced because a sharp and experienced loan agent will ask a lot of questions in order to give you something that resembles a "quote". A truthful agent, high in integrity will inform you that this is only an estimate!

The loan officer inputs your credit score, loan size, property value, and other variables. When they hit the “submit” button their search tool prices dozens of lenders to receive live costs and rates.

What we have discussed so far will not be of much benefit to you unless you pick up the phone and talk to a live person because no website I know of will ask you ALL the questions needed to give you anything close to an accurate “quote”.

Returning to your research, it is now 9:45 am on the same day and you are starting to see some different “quotes”. But wait a minute – don’t brokers mostly work with the same lenders? And isn’t this a highly competitive arena in which the “product” (interest rates) and lender costs are a virtual commodity? Then why are there differences? The answer is simple: rates can change several times a day and it is now 45 minutes since you began your search.

No broker in the world can predict which lender will have the lowest rates even in an hour’s time (never mind in several days time when you’ve supplied all your documents). And because lenders all have different underwriting and appraisal costs how could the broker give you an accurate lender “quote” ahead of time? Everything is guesswork - including the information on your MLDS or Good Faith Estimate. If not, the government or your state would make broker’s give you a Good Faith Guarantee!

Unfortunately most consumers, unaware of the dynamic nature of mortgage rates and the unknown quantities brokers are working with, misinterpret the rate and cost estimates as “quotes” that are set in stone.

Even worse, they try to use them for comparison shopping. By carefully selecting a mortgage professional you trust you could end up with a lower rate and points than you were quoted. This is important. All these variables; real time price changes, the misinterpretation of estimates as hard quotes and lenders moving in and out of

competitiveness, make an apples to apples comparison impossible. This is good news for those who produce the “we have the lowest rates” infomercials or websites - but not good for YOU or for the honest brokers or lenders who tell you the truth.



Fortunately, armed with the information in this book you'll be less vulnerable and more street-wise next time you need a mortgage and you can thank the person who gave you this book for that! If it was given to you by a mortgage, real estate, or professional from another field they probably work “by-referral-only”.

Most loan officers, whether they work for a direct lender or a broker are honest and trustworthy, but like every industry it has its share of “bad apples”. Ask your friends for a referral to a mortgage professional they know and trust rather than browsing the internet or responding to ads and your chances of a positive outcome will be far greater.

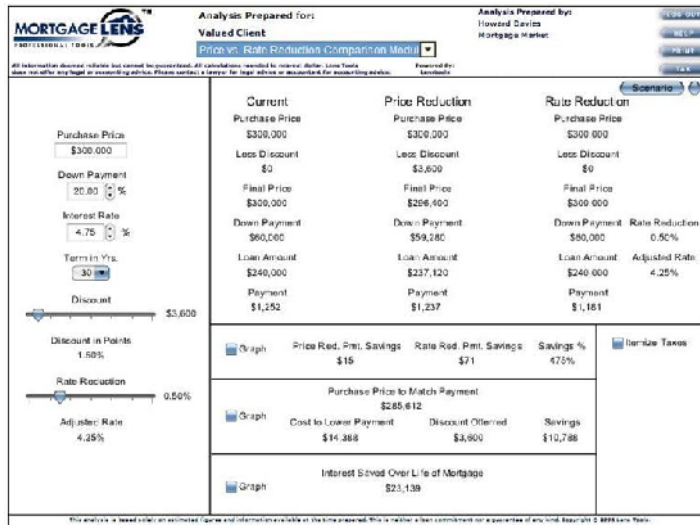
Take a Holistic Approach and Align Yourself With a Team of Trusted Professionals

Rich people build networks of trusted financial professionals who help them both save and make more money. A top class Realtor® for example may negotiate seller-paid points on your next home purchase thus lowering your mortgage payments.



They also know great ways to maximize your sales price and provide you with tax advantages when selling your home. These “cream of the crop” Realtors® know many tax and savings strategies and I strongly suggest you work with one on your next transaction. They will save you a LOT of money both in the short and long term. If you own property in California I can refer you to a Realtor® who knows and uses these advanced techniques; email or call me and I'll connect you.

Work With a True Consultant and Not an “Order-Taker”



There’s a big difference between a true mortgage professional whose goal is to watch out for your bottom line, and an “order taker” armed with a rate sheet and not much else! By carefully analyzing your goals and giving you quality advice your mortgage professional can save you a lot of money.

The diagram on the left shows an analysis I ran for a client to illustrate the benefit of having the seller pay points to reduce her interest rate instead of reducing the sales price. I also run the numbers for clients who are looking to sell so they can look at the numbers from that angle.

The diagram on the left shows an



The graph to the left shows a Ten Year Treasury Note (“T-Note”) chart. I analyze this for my clients when it is time to lock their rate.

While no-one in the world can predict the direction of mortgage rates with anything more than gamblers luck (because no-one can predict wars or economic / natural disasters) a true professional can do some technical analysis of the T-Note chart for you. If not, they may subscribe to a Rate Lock Advisory service. This, by the way, is all mumbo-jumbo to an “order-taker” 😊

While no-one in the world can predict the direction of mortgage rates with anything more than

Putting it All Together - A *Proven* System For Successful Mortgage Shopping

Now you know the “inside scoop” you are *much better informed* than most consumers and can shop for a mortgage like a pro. Here’s the strategy I recommend:

1. Maintain an attitude of healthy skepticism. Remember; brokers use mostly the same lenders, and these lenders have very similar interest rates and pricing.
2. Understand that what will save you the most money both in the short term (in the form of lower closing costs) and in the long term (in the form of lower mortgage payments and lower taxes) is a relationship with two important professionals:

First you need to work with a seasoned mortgage professional who is not just an order taker but someone who understands and can present several options and advanced strategies that will save you money. Also on your team should be a top class Realtor® that understands **advanced strategies** that save you time and money. If your property is in California I can refer you to such an agent.

3. Know that a rate “quote” can *only* be an estimate. No-one (including your broker) can predict which lender will have the best rate *one hour* from now, never mind in three or four days time when they have your all the documents you provide!
4. *Be wary of a broker or lender who quotes you significantly lower rates and costs than you are seeing elsewhere or who implies that the interest rate and costs will e known before you submit your application and supporting documents.*

5. Call around or go online to get an *approximate* idea of current rates so you have a benchmark number to work with. Even the most aggressive “low-baller” won’t normally “quote” more than 0.250% below the market rate.
6. Ask your friends for 3 referrals, and interview them like you would an architect, contractor, or a CPA. Can they provide you with client references? What is their track record and their accomplishments? Who is their priority; YOU or *them*?

If you follow this advice your chances of **a successful outcome with no surprises** will be high. You can thank the person who gave you this book for that. Happy shopping!

Frequently Asked Questions

Can I get a lower mortgage rate by shopping several mortgage brokers?

No broker, however large, will be approved with EVERY lender in your state. It is neither practical nor is it necessary. Mortgage rates are a *commodity*, and like all commodities the price (interest rate) is the only thing lenders can compete on. Therefore, any deal you can get from one broker *should* be obtainable by any other broker or at least very similar.

If some “magical” lender appears offering below-market interest rates you can rest assured that every broker in the state would know about it in a heartbeat and send your application to that lender.

Can I get lower closing costs by shopping various mortgage brokers?

Until you’ve submitted your application and all your supporting documentation the broker won’t know which lender they’ll send your file to. Every lender has different appraisal and underwriting fees, so how could they know the fees ahead of time? Legally, all the broker has to do is give you an estimate and to protect themselves some brokers like to quote on the HIGH side and so in the end it all boils down to trust.

Some brokers charge a processing fee and some don’t. While outside the scope of this book, rest assured that if a broker charges no processing fee it doesn’t mean they are less expensive than ones that do. Overall costs should be similar across the board.

If you live in a state where title companies are used then title fees, just like mortgage rates, are highly competitive. I’d be surprised to hear of any title company

whose total fees are \$150 above or below the average. Their fees are constrained by the Department of Insurance in California. All other third party providers (ie: appraisers) have very similar costs.

A very large online mortgage broker is advertising ‘no broker or lender fees’. Is that true?

No lender will process an application for free. If you refinanced a month later they'd lose money because of the costs involved in acquiring your loan. This type of advertising is “smoke and mirrors” and is simply a result of the broker massaging the numbers. A shell game.

One website quotes fees that are much less than I am being quoted elsewhere. The rate is lower than average also. Is this real?

The mortgage market is highly competitive and closing costs and interest rates are a moving target until your lender has been selected and your interest rate is LOCKED. I would recommend you start off doing some research on the internet and then asking your friends and relatives for a referral to a mortgage professional they have worked with and trust.

Tell the professional the results of your research and if it is an authentic “quote” you received then he or she should be able to match it.

About the Author



Howard Davies immigrated to the US from England in 1991 and obtained a California real estate license in late 1998 followed by a Broker's license in 2006. In his first year he closed 90 mortgage transactions with a volume of over \$25,000,000 making him the runner up in the annual Mortgage Originator Magazine "Nationwide Rookie Of The Year Award".

Since then he has closed hundreds of loans and received dozens of testimonials from delighted clients. You can view a sample at: www.howardEdavies.com

At the time of publication Howard is affiliated with Mortgage Market Inc., in Dublin, California. They have access to numerous California lenders and do conventional, FHA and VA residential mortgage loans. He works with a handful of top quality Realtors® who understand the advanced strategies alluded to in this book and who are high in integrity and skill.

From time to time Howard takes on new California clients if there is a good fit for both parties. He spends most of his time ensuring that loans in his pipeline close on time and this enables him to work mostly by referral.

For FREE California mortgage advice or questions, call Howard at: (925) 951-8896. Also, visit his blog: www.howardEdavies.com to review his resume, client testimonials, video introduction, and hot mortgage tips.

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