Finding the Best Mortgage Rate

If you're ready to get going in your search for the best mortgage rate, here are four tips that will ease your search. If you're unsure of the type of mortgage you'll need, make sure you read my summary of the different kinds of mortgages further down in this post.

Tip #1: Find a Good Lender

When you find the home of your dreams, chances are your real-estate agent will direct you to certain preferred lenders that he or she has worked with before. That recommendation is usually the best place to begin because your realtor as confidence that the recommended lender will deliver a comparable rate on time. Timeliness is important in this process. A good local lender is worth 10 internet lenders; you may find great rates from online lenders, but they often have built in fees and are not always current; be suspicious. Online lenders and major banks will usually pass you off to a loan center where a clerk will handle your loan. Most lenders, if honest, will quote the same rate on any given day. You want service! Find someone who will work with you directly and be available when you need them, especially at closing.

Tip #2: Polish your credit score

Keeping your credit in top shape is paramount, especially if you're applying for a conventional loan. The higher your score, the better your interest rate and the more loan choices you'll have, up to a point. Above a FICO score of 740, credit score will not change the rate..

A good lender knows how to work with the credit bureaus to raise your credit score and should be able to tell you whether it is worth the effort to do so.

Tip #3: Beef up your down payment

It can be painful to save enough for a down payment, but paying more up front can help you nab a better interest rate and save you money as you pay down your loan. It may also save you the cost of mortgage insurance, which many lenders will charge if you have a lower-than-normal down payment. Explore options to paying mortgage insurance.

If I put the recommended 20% down, or $40,000, on a $200,000 home in Tennessee, I'd pay as little as $730 a month in mortgage payments, according to this Bank of America calculator. This assumes a 3.7% APR, solid credit, and a fixed 30-year loan. If I could only scrape together $25,000, I'd suddenly be paying $798 a month. And then there's $70 a month in mortgage insurance, which I'd have to pay since I couldn't put 20% down. That brings my monthly payments to just under $870.

Tip #4: Consider how long you'll be in your house

If you know you'll be in your home for a relatively short time before selling, looking at adjustable-rate mortgages can make more sense. That's because you can take advantage of the ARM's low initial interest rates, then sell the home before your rate begins to reset. Be absolutely sure you will only be in your home a short while. Many homeowners were banking on ARMs, but suffered rate increases when the value of their homes fell in 2008 and they were unable to sell.

You can often shorten the term of the mortgage by making bi-monthly payments. Ask your mortgage professional about this option.

Finding the Best Mortgage Lenders

Taking out a mortgage can be a time-consuming, confusing, and even emotional process. For that reason, we encourage you to look beyond getting the best mortgage rates when choosing your lender. The top mortgage lenders will not only give you a competitive rate, but make the process as seamless as possible. Here are a few tips that can help you find the best mortgage companies.

Tip #1: Get a referral from your realtor

Your realtor works with mortgage lenders every day and can tell you who does a good job in finding you're a good rate, but more importantly, giving you a good service. Start here.

Tip #2: Ask friends and family

Local lenders may not have as many online reviews, so asking around can be crucial in helping you find the best mortgage companies in your area. Conduct a quick survey of your family and friends, especially if they've recently purchased or refinanced a home. Ask whether they felt they understood the lending process, whether their agent was prompt and courteous, and whether they feel they got the best rate they could.

Tip #3: Take note of how you're initially treated

If you call a lender for information and don't receive it quickly, consider that a red flag. Similarly, any lender who is unwilling or unable to clearly answer your questions -- or acts like it’s a pain to do so -- will probably be less than pleasant to deal with further down the line. Several of our calls to prospective lenders went unreturned, and we crossed those companies off our list immediately. Your mortgage might be the biggest financial transaction of your life, and you should feel comfortable with your lender.

Common Types of Mortgages

Obtaining a mortgage doesn’t always mean you’ll be coughing up 20% down and forking over the same payment for 30 years. Take a look at today’s most common types of mortgage so you understand what’s the best for you -- and obtain the best mortgage rate in the process.

Fixed-rate mortgages

A fixed-rate mortgage is by far the most common type of home loan. It’s also the easiest to understand. Though the proportion of principal versus interest on your bill will change over the course of the loan, you still pay the same amount every month. Your interest rate is locked in when you close on the loan, so you aren’t vulnerable to sudden increases in interest rates.

Of course, while you aren’t vulnerable to interest-rate increases, you’ll lose out if rates decline -- you’ll be stuck paying that higher rate. It can also be harder to qualify for a fixed-rate mortgage if your credit score is less than stellar, particularly if interest rates are high. Down payments are typically high, too, with most lenders requiring 20% of the loan to avoid pricey mortgage insurance.

Fixed-rate mortgages are most often offered for 10-, 15- or 30-year terms, with the latter being the most popular choice. Longer terms generally mean lower payments, but they also mean it will take longer to build equity in your home. You’ll also pay more interest over the life of the loan.

We opted for a 30-year fixed-rate mortgage when we bought our most recent home. Because we closed at the beginning of 2013, when rates were at historic lows, we were reasonably confident about locking in our rate. Though we still have to pay mortgage insurance because we didn’t quite have a 20% down payment, we’re able to afford it, and we don’t mind taking a while to build equity since we believe we’ll be staying put for a long time. It’s also easy to budget for the same payment every month.

Adjustable-rate mortgages (ARMs)

ARMs make home-buying more accessible for more people. Typically, they offer lower down payments, lower initial interest rates, and lower initial payments, making it easier for a wider range of people to qualify for better homes. The interest rate remains constant for a certain period of time -- generally, the shorter the period, the better the rate -- then rises and falls periodically according to a financial index. If you know that you are going to sell or pay off the loan in five or seven years, look at an ARM. You may be able to reap substantial savings.

The main downside is obvious: If your ARM begins to adjust when interest rates are climbing, your escalating payments could start to squeeze your budget. It can also make annual budgeting tricky, and if you want to refinance with a fixed-rate loan, the cost can be quite steep. Ultimately, with an ARM, you're accepting some of the risk that your mortgage lender would absorb with a fixed-rate loan.

There are several kinds of ARMs. One-year ARMs typically offer the best mortgage rates, but they're also the riskiest because your interest rate adjusts every year. At slightly higher rates, hybrid ARMs offer a longer initial fixed-rate period. Common hybrid loans include 5/1 mortgages, which offer a fixed rate for five years and then and an annually adjustable rate for the next 25 years.

Government loans: FHA, VA loans and USDA

FHA and VA loans are government-backed mortgages. FHA loans require much smaller down payments than their conventional counterparts. In fact, you may qualify for an FHA loan with as little as 3.5% down. They may also be available to those with less-than-perfect credit. However, you'll likely be on the hook for mortgage insurance each month in order to help the lender blunt some of the risk. That makes FHA loans a good option for those with a steady, healthy income without enough savings for a huge down payment. My husband and I purchased our first home using an FHA loan and roughly 10% down. Though we did have to pay mortgage insurance, we received a good interest rate and could easily handle the payments with our income -- and of course, we were happy to start building equity instead of paying rent month after month.

VA loans are also available with low (or even no) down-payment options, minus the mortgage insurance required on FHA loans. However, the VA typically charges a one-time funding fee that varies according to down payment. You must have a military affiliation to get a loan -- active-duty members, veterans, guard members, reservists, and certain spouses may qualify.

Santa Fe is somewhat unique in being able to offer USDA qualified homes that are closeby. USDA offers very good rates and no down payment for borrowers who qualify both in where they are purchasing and how much they earn. Ask you mortgage lender about this.

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