Why The Lowest Rate Isn't Always Best (And Three Other Factors to Consider)

Mortgages are confusing and involve a lot of moving parts. Interest rate is one of those parts, but its importance and impact on your mortgage are often overstated because it is a metric that everyone can understand. Low interest rate = less money = good deal, right?

Not necessarily.

In order for you to be successful in choosing a mortgage and building wealth through homeownership, it's important to understand that **the best interest rate with the wrong mortgage strategy is *much* more expensive than a competitive rate from a certified mortgage advisor.**

The Danger of Rate Shopping

We get it – everyone wants to get a good deal and we all hate paying full price for anything.

Now there's nothing wrong with doing your homework, asking around, and getting quotes from different lenders. Unfortunately, many homebuyers who do this and are focused only on interest rate lose out on getting the ***best value*** on their home loan – especially in an environment today when rates are rising for everyone.

Sometimes this works out, but most often the rate you are shopping for is not even close to the rate you will actually see on your mortgage statement.

This is because rates advertised online are typically associated with the best-case financing scenarios, meaning they are only available to borrowers with high credit scores, low debt-to-income ratios, and enough cash for a significant down payment.

Additionally, low rates advertised usually come with points. This is a fee that YOU have to pay to the lender in order to trim the interest rate from where the market currently is. The posted rate may even be for a 2 or 5-Year Adjustable Rate mortgage rather than a 30-Year Fixed option.

Rates that lenders advertise are also only for specific borrowers with specific financing needs at a specific time. Interest rates change multiple times a day due to economic instability and buyer demand, and to get the deal advertised your application will have to be submitted and processed quickly so your loan officer can lock in the rate. This process can take several days and involves many variables you do not have control of as a buyer.

How to Choose the Right Mortgage

Now, we are not saying interest rate is not an important factor to consider when choosing a mortgage lender, but what good is a low rate when the lender cannot follow through on closing your loan?

In today's market, just a few hours wasted by lack of communication from your mortgage advisor (like missing documentation you didn't know you needed or processing delays) means the rate you were so excited to get is now gone.

It happens way too often, and we hate hearing about these situations because they are easily avoidable by considering more than just rate when shopping for a lender.

Here are a few things to look for in a mortgage lender other than rate.

1. Choose a lender who offers a pre-approval that is fully underwritten

We are living in a seller's market – the number of hopeful buyers far exceed the amount of homes for sale.

As a buyer you want to be the MOST prepared and proactive if you want to succeed in getting your offer accepted. To do this, you need to go beyond pre-approval and choose a lender who offers a fully underwritten credit-and income-approval.

Yes, this may be more work on your part as you will need to supply all the necessary documentation and have your mortgage credit report run. However, once an underwriter has reviewed your loan package you will have the ability to close much faster because you have been underwritten and approved.

That way, as long as you can find a home and submit an offer while the pre-approval is valid (usually 60 days), your financing does not have to be reviewed again before your loan is submitted for processing. This means your loan processing can move faster and you are more likely to be able to secure the interest rate that your lender locked for you.

2. Choose a lender who can show you the total cost of all your mortgage options

Investing in real estate is a great way to build wealth, but there are many different ways to do it. Mortgage planning is not one size fits all. If your goal in buying a home is to find financial security in the long term, you should consider the impact your mortgage will have on your entire financial picture.

Maybe it's better to put less money down, take a higher interest rate, and use the extra cash to pay off high-interest debts.

Or, if you know you'll be staying in your home long-term, it might be better to take a higher rate now and then refinance in the future when rates drop (which they always do).

It may even be better for you to pay extra money to buy down your interest rate.

The choice you make depends your specific financial situation and goals for building wealth. A mortgage advisor who will take the time to learn about your goals for saving, investing, and retirement will be able to provide you with mortgage options that allow you to meet those goals in the timeframe you want with the lowest possible cost.

At NEO Home Loans, we use a tool called a Total Cost Analysis to make this possible. It is an interactive, digital report that clearly compares the overall cost of the best loan options available to you, advising you on ways to pay off your mortgage and consumer debts faster and with much lower cost – all while maximizing your real estate wealth. The goal is to focus on your long-term wealth strategy rather than the short-term mortgage transaction.

Click the play button to view an example of a Total Cost Analysis.

3. Choose a lender who can help you get your home offer accepted

We can talk about interest rate and mortgage strategy all day, but what good is any of that if you can't even get your home offer accepted?

Your mortgage lender can help you get a great rate and choose a loan that will help you achieve your financial goals, but there is nothing they can do about the low supply of homes and the overwhelming demand. What they CAN do is give you the tools necessary to increase your chances of getting your offer accepted.

At NEO Home Loans, we do this through our **Bulletproof Buyer program**. This is a four-step process our mortgage advisors use to solve the challenges homebuyers are facing today and help you get your home offer accepted even when faced with the stiff competition.

Here's how it works:

Step 1: Execute an upfront market analysis.
We help you study historical data and future projections of the housing market so you know what you are up against.

Step 2: Prepare an Appraisal Gap Strategy
We create a plan for how to approach a low appraisal from the beginning so your purchase does not get derailed.

Step 3: Obtain a fully underwritten pre-approval
This make it possible to remove the loan contingencies and offer the fastest closing timeline possible.

Step 4: Submit an all-cash offer
Our Trade Up program allows you to purchase your home in all cash so you can beat out other financed buyers.

The Bottom Line

Interest rates are set by the market and do not vary widely from lender to lender. If you find a lender who is advertising a drastically lower interest rate than the competition, be wary and look at the fine print – it is highly likely they are asking for points to be paid and near-perfect credit and income qualifications.

Want to learn more? Please schedule a call today!

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