Shopping for a mortgage

Shopping around for a mortgage takes time and energy. But it can save you thousands of dollars. Make it your goal to compare at least three loan offers from different lenders.

Get at least three preapprovals

The Internet and newspapers are a good place to start your search. Contact banks, credit unions, mortgage lenders, and mortgage brokers.

Ask at least three different lenders for "preapproval." This means that the lender looks at your finances and estimates how much you can borrow and what interest you'll likely pay. Preapproval lets you try out each lender to see what kind of loans and prices it offers. When you get all three preapprovals within 45 days, there should be no major impact on your credit score.

You'll come back to these lenders when you've made some decisions, and ask them for loan offers.

Shop for loan terms, interest rate structures, and programs

Loan term: Longer or shorter

In general, the longer it takes to repay the loan, the lower your payment. But you'll pay more in total over the life of the loan, because you'll pay more interest.

- **30-year:** Most homebuyers choose a 30-year loan because payments can be low.
- **15-year:** Payments are typically higher than for 30-year loans, but your loan is paid off in 15 years.

Lenders may offer other lengths, like 20 years, 7 years, or even longer than 30 years.

Loan interest rate structure: Fixed rate or adjustable rate

Fixed-rate loans are common. Your initial payment may be lower with an adjustable-rate loan, but if interest rates rise you might face sharply increased payments.

- **Fixed-rate mortgage:** Your interest rate and monthly payment will stay the same for the life of your loan.
- **Adjustable-rate mortgage (ARM):** Your interest rate typically is fixed for the first few years of the loan. Once the fixed period expires, the rate adjusts at regular intervals based on the market, and this means your payment amount changes. Details are included in the quote you receive from the lender.

Loan program: Conventional, FHA, or special program

There are many loan programs, and some are set up to help make mortgages available to people in certain circumstances or groups.

- **Making a down payment of 5% or more?** Ask about a Fannie Mae or Freddie Mac eligible loan, often called a "conventional" loan.
- **Making only a small down payment?** Ask about an FHA-insured loan.
- **Servicemember or veteran?** Ask about a VA-guaranteed loan.
- **Buying a home in a rural area?** Ask about a USDA-sponsored loan.
- **First-time homebuyer with low or moderate income?** Ask about loans available through your state's housing finance agency.

Compare loan offers

Now, it's time to start the official application process. Ask your lenders for offers of loans that reflect your choices for loan type, program, and term. Then you'll be able to make apples-to-apples comparisons.

First, compare the basic parts of the loan:

- What is the term of the loan?
- What is the interest rate?
- What down payment amount is the loan based on?
- How much is the monthly payment?
- For adjustable-rate mortgages, are the payment adjustments and the interest rate capped? Does the interest rate go down if market interest rates fall?

Next, compare the rest of the details that can affect your cost:

- When will my payments pay off my principal?
- Will the payments change over the life of the loan? How high can my payment go?
- Does my payment include property taxes and insurance? If not, can I afford to pay those separately?
- What costs and fees will be added to my initial payment? To my ongoing payment?
- Do I need to pay points (upfront fees that reduce your interest rate)?
- What fees and costs are included in the amount I'm borrowing (typical for a "no closing cost" loan)?
- Does the written offer match what I was told about the loan?
- Can I get a better deal on settlement services from different service providers?
- Can I repay the loan early without penalty?

Ask for a better deal

Once you see the offer from several lenders, ask if they can do better. There's no harm in asking, and the lender may be able to waive or reduce one or more of the fees, or lower the interest rate or points.

Make sure that the lender doesn't lower one fee while raising another, or lower your interest rate but raise your points.

For help

Call the CFPB at 1-855-411-CFPB (2372) and speak with a representative who can connect you to a HUD-approved housing counselor.