Mirror Mirror on the Wall:
How To Snag the Very Best Mortgage Rate of Them All

**Sponsored guest post by Jeannie Smith,**
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We all know interest rates are at record lows, we are beaten with this news every time we turn on the news. I mean, great rates are just a click away, right? Wrong! If you are basing your idea of the “best” mortgage rate on the rates you are quoted by lenders or ads on the internet, you may not be getting the best rate.

Sounds crazy, right? The web rules!

What most people don’t realize is that the rate quoted by a lender consists of four main parts: the mortgage-backed security pricing (MBS), the guarantee fee (G-Fee), delivery fees and profit margin. Don’t freak, we’ll clarify below.

We will examine conventional rates, which are applicable to mortgages of less than $417,000, and which conform to the underwriting guidelines of Freddie Mac or Fannie Mae, that other company you hear a lot about in the news.

Are you sitting down? Of the four rate parts, the MBS price and delivery fees are the only constant between all lenders. All mortgage lenders get the same MBS pricing and all mortgage lenders are using the same delivery fee rules, so the only difference in rates should be based on the lender’s performance – right? It should be, but it doesn’t work that way in reality, which can lead to unhappy borrowers at closing.

Mortgage companies, shocker, actually get slapped by the Feds occasionally for delinquencies and defaults, especially companies that deal in high volume or riskier loans.

We behave. Guardian Mortgage has the very highest and best rating for historical delinquencies and defaults with Freddie Mac and Fannie Mae, which translates into the lowest G-Fee for all lenders our size. This means our rates begin at the lowest point (the MBS price + the G-Fee) and allows us to be as competitive as possible with those rates. In addition, we service our own loans after closing, so our profit margin on rates is the priority for our company income. The servicing income earned allows us to be profitable at the lowest margin in the industry. And it also means you have a human being who may know a thing or two about your loan to talk to should the need arise.

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As a result, when we hear from a prospective customer, “This other lender offered me less than your rate,” we know that the probability of the borrower being closed at the rate that was just “quoted” to them is very low. We know what the very lowest rates are that day.

So how are these other lenders offering lower rates?

Most likely, they quoted the rate without understanding the customer’s situation – and thus have not calculated the correct delivery fee – or they plan to switch the rate at the last minute,
The delivery fee is complex and if your lender isn’t asking questions about your situation, they are likely to make a mistake – one that you pay for later.

What influences the delivery fee and how can you make sure it is accurate?

The delivery fee is a collection of standardized fees based primarily on the following factors:

- Credit Score
- Loan-to-value ratio
- Occupancy & Property type
- Cash-out for Equity
- Subordinate loans

Credit Score: If your credit score is 740 or above, you will get the best delivery fee rate. If your credit score is lower, your lender will charge more. If your credit score is 680 or above, you will get a very low delivery fee. If your credit score is below 680, you will not get a delivery fee.

Loan-to-value ratio: This is the difference between the appraisal value of the home and the loan amount. It reflects your equity in the property. If the home appraises at $200,000 for example, and you take out a loan for $150,000, your loan-to-value ratio is 75% and you will get the very lowest delivery fee. If your loan is $193,000, the ratio is 96.5% and your fee will be higher.

Occupancy & Property Type: Both primary residences and second homes are owner-occupied, so they have the same delivery fee. An investment property that is not owner-occupied, will have a higher delivery fee to reflect the higher risk. A single-family home will have a lower delivery fee than a condo or multi-unit properties like duplexes and apartments. Be sure your lender knows what you intend to buy. Often the lender finds out later in the process that the home is actually a condo or an investment property and then they have to inform the borrower that their rate is now higher.

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Cash-out for Equity: Are you rolling in a home equity loan (as many refinance situations)? Will you be taking cash from the equity in the home? These impact the delivery fee. Again, the more information you can give the lender up front, the more accurate your rate quote will be.

Subordinate loans: Are you combining a first and a second loan? The second loan was not used to purchase the home. If you are refinancing only the primary loan and leaving the second loan alone, there may still be a delivery fee depended upon the combined loan-to-value ratio. If you have a second mortgage on the property, be sure to mention the details to your mortgage lender!

Rate Periods

Once the lender has determined the correct delivery fees, they then provide the rate quote based on the correct time period. Your loan isn’t closing the day you get the quote, obviously, so in addition to rates, rating and delivery fee, your lender has to engage in a bit of forecasting before issuing a quote. They now decide what the rate is likely to be in 30, 45 or 60 days and offer you a quote that includes expected fees and rates.

A lender with a good pricing team will be accurate most of the time, which is good for you and for them. Once you lock your rate, both sides are committed. If the price team is off on forecasting and the rates go up, you are protected. If the rates go down (which is less likely in today’s environment of historically low rates) further, then the lender is protected.

It’s a complex financial process and anyone who gives you a quote without completing all these steps will not honor that quote in the end.

Certified Financial Planner™ Bill Shea recommends his clients consult with Guardian for their mortgage needs – and follows his own advice as a long-time Guardian customer. “Every client I have referred to Guardian Mortgage came back and told me that they were educated in the process. They were given a complete understanding of their costs and benefits and were confident they got the best mortgage for their situation. I feel comfortable making the referral because of Guardian’s strong underwriting and pricing skills. Because Guardian Mortgage services its own loans as well, the relationship will extend years beyond the close, which is also very comforting to my clients who want stability with their financial providers,” Shea said.

Definitions

MBS – the price for pools of mortgages that are securitized and sold in the secondary market, which is determined by the bid and ask price on the bond market for these securities. Just like the price for an equity or bond, the price for the MBS market changes constantly throughout the day given the supply and demand of these investments.

G-Fee – assessed by the investor – most often Freddie Mac or Fannie Mae. The G-Fee went up recently when Congress used the increase to pay for the payroll tax extension. This G-Fee applied to the MBS price to guarantee that the loans in a specific MBS pool have conformed to Freddie Mac and Fannie Mae’s specific underwriting guidelines.

Delivery fees – adjustments to the rate based on the specific loan criteria for each borrower. These are standardized by Freddie Mac and Fannie Mae to be applied by all lenders to conventional conforming loans.

Profit margin – added to the pricing by the lender to get their “gain on sale” of the loan to the investors. This margin is the most obvious difference from lender to lender and is set mainly on the lender’s costs (i.e. payroll and advertising/marketing), loan volume, competitive pressure and required return on origination activity.

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