



5 Tips for Shopping for a Mortgage

1. Know what you can afford.

Review your monthly spending plan to estimate what you can afford to pay for a home, including the mortgage, property taxes, insurance, and monthly maintenance and utilities. A worksheet for developing your monthly spending plan can be found at www.federalreserve.gov/pubs/mortgage/MORBRO_2.HTM#Worksheet1. Make sure you save for emergencies. Plan ahead to be sure you will be able to afford your monthly payments for several years. Check your credit report to make sure that the information in it is accurate. A higher credit score may help you get a lower interest rate on your mortgage. Find information on getting a copy of your credit report at www.ftc.gov/bcp/edu/pubs/consumer/credit/cre34.shtm.

2. Shop around—compare loans from lenders and brokers.

Shopping takes time and energy, but not shopping around can cost you thousands of dollars. You can get a mortgage loan from mortgage lenders or mortgage brokers. Brokers arrange mortgage loans with a lender rather than lend money directly; in other words, brokers sell you a loan from a lender. Neither lenders nor brokers have to find the best loan for you—to find the best loan, *you* have to do the shopping. For more information on mortgage shopping, see Looking for the Best Mortgage—Shop, Compare, Negotiate at www.federalreserve.gov/pubs/mortgage/mortb_1.htm.

3. Understand loan prices and fees.

Many consumers accept the first loan offered and don't realize that they may be able to get a better loan. On any given day, lenders and brokers may offer different interest rates and fees to different consumers for the same loan, even when those consumers have the same loan qualifications. Keep in mind that lenders and brokers also consider the profit they receive if you agree to the terms of a loan with higher fees, higher points, or a higher interest rate. Shopping around is your best way to avoid more expensive loans.

4. Know the risks and benefits of loan options.

Mortgages have many features—some have fixed

interest rates and some have adjustable rates; some have payment adjustments; on some you pay only the interest on the loan for a while and then you pay down the principal (the loan amount); some charge you a penalty for paying the loan off early; and some have a large payment due at the end of the loan (a balloon payment). Consider all mortgage features, the APR (annual percentage rate), and the settlement costs. Ask your lender to calculate how much your monthly payments could be a year from now, and 5 or 10 years from now. A mortgage shopping worksheet can help you identify the features of different loans. A sample of a mortgage shopping worksheet can be found at www.federalreserve.gov/pubs/mortgage/worksheet.pdf. Mortgage calculators can help you compare payments and the equity you could build with different mortgage loans. See the Board's mortgage calculator at www.federalreserve.gov/apps/mortcalc/.

5. Get advice from trusted sources.

A mortgage loan is one of the most complex, most expensive financial commitments you will ever assume—it's okay to ask for help. Talk with a trusted housing counselor or a real estate attorney that *you* hire to review your documents before you sign them. You can find a list of counseling resources at NeighborWorks (www.Nw.org/network/home.asp) and on the U.S. Department of Housing and Urban Development's (HUD) website (www.hud.gov/offices/hsg/sfh/hcc/hccprof14.cfm) or by calling (800) 569-4287.

