

RTC Mortgage Corporation



Richard T. Cirelli
President
RTC MORTGAGE CORPORATION
Phone: (949) 494-4701
Fax: (949) 494-6703
rick@RTCMortgage.com



NMLS: 288267

DRE: 01117142

Shopping for the Best Mortgage Rates

With all the changes since the mortgage crisis began about three years ago, how does a homebuyer or homeowner shop for the best interest rates in today's new world?

My answer is that it's nearly impossible for anyone to shop accurately. Let me explain.

Where Does Mortgage Money Come From?

First of all, let's understand where the money comes from. Fannie Mae and Freddie Mac, the two-Government-owned agencies are responsible for most of the underwriting guidelines and are the basis for how rates are determined. These agencies account for about two-thirds of the mortgages originated in the U.S with the Federal Housing Administration (FHA) accounting for most of the rest. Their loan programs are offered through hundreds of Banks and Non-Bank Lenders throughout the U.S. In simple terms, loans are made by various lenders and immediately sold to these agencies that bundle them with other loans and re-sell them in the form of a Mortgage-Backed Security (MBS). The MBS's are then bought and sold by institutional and governmental investors throughout the world. These MBS's trade in the global financial markets just like stocks and bonds. And, their "price" can be just as volatile as those of stocks and bonds, changing each day and throughout the day.

So the first challenge in shopping for a loan has to do with timing. With the price of a loan changing all the time, you would almost have to get your information from every lender simultaneously – an impossible task.

How Do Lenders and Their Rates Differ?

In addition to the *timing* of when lenders set their rates, there are other factors that can influence your rate. There are various factors that also affect a Borrower's rate. Near the time that the Government was forced to take over Fannie Mae and Freddie Mac, they introduced various *risk factors* that apply to most loans. These factors are known as Loan Level Price Adjustments. Lenders must add these price adjustments according to factors that are standard among all lenders. The most common factors FICO Score and Equity or Down Payment. Other adjustments may apply for such things as intended Occupancy use of the property, Loan Amount, Type of Property (condo vs. detached), number of units (1-unit vs. 2-4 units, and others).

And, while lenders are all given the same basic guidelines to follow, they can impose their own guidelines and pricing adjustments that are stricter than those of Fannie Mae and Freddie Mac. In the industry, these lender-imposed adjustments are called *overlays*.

So, the second challenge in shopping for a loan is that the loan officer must have enough knowledge of all the factors that apply to your particular situation. And, it would take a nearly complete loan application plus a credit report to have that information.

Other Factors that Affect Rates:

Experience: There is no substitute for experience. A loan officer must have experience to know how the markets adjust to the daily economic changes that affect MBS pricing and must also know the various pricing adjustments and overlays. The experience level of the loan processors, underwriters, and closers are just as critical. And, along with experience should come honesty and integrity.

Service: Service levels vary greatly among lenders. For example, the big banks and internet lenders tend to centralize their processing functions in distant locations. And offer no interest rate advantage. Local mortgage brokers and lenders are in your marketplace, understand the local market and are more apt to provide a more personal level of service.

Rate Locks: Once a rate is locked in by your lender, it is considered a two-way commitment. The lender commits to that rate in the event that rates rise after locking and the borrower also commits to that rate in the event that rates decline. A rate lock is always for a finite period of time - typically 15, 30, 45 or 60 days. The longer the lock period the higher the cost. It should be the lenders obligation to complete the process during that rate lock period and the it's also the borrower's obligation to provide the requested documents in time to enable the lender to complete their process.

Not knowing the experience level of the loan officer and their staff or the service levels that they offer can also contribute to the impossible task of shopping accurately.

Best Advice:

My best advice is to shop not for rate but to shop for the best local mortgage broker or lender. A personal referral from a friend, relative co-worker, or neighbor is much safer than just trusting your local bank or an unknown internet lender. Trust the rate-shopping to a local mortgage lender that understands and follows the financial markets, has access to multiple sources to navigate through the maze of lenders and overlays, and one that provides personal service by looking out for your best interests. It has become much too complicated for a typical borrower to accurately shop on their own.

Rick Cirelli is a 35-year veteran of the mortgage industry. He is the owner of RTC Mortgage Corporation, and is Laguna Beach's only Certified Mortgage Planning Specialist.

Throughout his career Rick has held executive positions with some of the country's largest and most respected mortgage banking companies. As a Regional and National Sales Manager he has trained and educated thousands of loan officers and mortgage brokers.

Since founding his own company, Rick has built a strong reputation as a highly professional and knowledgeable mortgage broker committed to the highest principles and outstanding customer service. RTC Mortgage concentrates on serving the needs of real estate professionals, homebuilders, individual homebuyers and owners in Orange County, and throughout California.

Your Trusted Mortgage Advisor with 35 Years of Experience