

Shopping Guide: Mortgages

Ask these basic questions when you shop for a mortgage. These questions are only a start and should not be considered legal advice. It is best to seek the assistance of experts such as from a housing counseling agency which specializes in home buying and lending, or from a lawyer. It is always advisable to shop around.

1. What is the total amount of the loan?

Are there caps on how high or how low the interest rate can be adjusted?
2. If you are getting two loans, how much is each loan for and what is the total amount you are borrowing?

If the interest rate was adjusted based on today's index rate, what would your monthly payments be?
3. What is your monthly payment?
4. Does your monthly payment include an escrow payment for taxes and insurance or will you pay these separately?
5. Is the interest rate fixed or variable (also known as an "adjustable rate mortgage")?

If the interest rate is fixed, what is the rate?

If the interest rate is variable/adjustable, what are the terms?

How many months/years is the initial rate good for?

When can the interest rate be adjusted?

What index is the interest rate tied to?

How many points will the interest rate be adjusted to over the index rate?

How often can the interest rate be adjusted?
6. Is the loan an interest only loan, meaning the monthly payments will only go towards paying interest and not towards paying the principal balance on the loan?
7. Is there "balloon payment," meaning at the end of the loan term, is there a large lump sum that you will be required to pay or finance?
8. How much are you paying out of the loan proceeds in fees such as loan origination, discount, underwriting fees to the lender and mortgage broker fees?
9. Is there a yield spread premium, a commission sometimes based on your interest rate, paid by the lender directly to the mortgage broker?
10. How much interest will you pay over the life of the loan?
11. Is there a prepayment penalty if you refinance the loan within a certain time period of getting the loan? If so, how much and when is it triggered?

12. Does your contract require mandatory arbitration rather than being able to go to court if there is a dispute?

Refinancing Shopping Guide

In addition to asking the questions above, ask the following when refinancing a home loan.

Refinancing involves great potential for hidden costs, fees, security interests and other unfair loan terms. Whenever possible, ask a qualified professional to review the refinancing paperwork before you sign.

1. Is the new interest rate lower or higher than the current interest rate on your mortgage?

2. How much money are you getting out of the refinance in cash and in the payment on your mortgage and other bills?

3. If the loan is consolidating debt, or paying off unsecured debt such as credit cards bills or medical debt, do you want to use the equity in your home to pay these bills or is it a requirement of the lender?

4. Ask yourself: Am I refinancing just because of pressure from debt collectors? There may be other options than using the hard-earned equity in your home.