

## SEVEN INSIDER SECRETS LENDERS DON'T WANT YOU TO KNOW

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First, let me tell you, I am not a mortgage lender. I manage one of our state's largest Buyer's Real Estate companies and as such, I have watched and been involved in hundreds of transactions FROM THE BUYER'S SIDE.

That makes a big difference.

I wasn't always knowledgeable about lenders. When I bought my first home as a kid right out of college, (engineering school) the lender tried to take advantage of me. When I tried to refinance that home a few years later that lender did the same thing. What could I do? I was just one person and the lender had the money.

After those transactions were completed I swore I would never use those lenders again. But, how could I have avoided the problem in the first place?

**SECRET #1. NEVER, NEVER** use a lender if you don't know someone who has used them successfully before. (Either a real estate professional or a personal friend.)

It is even best to talk to that person and try to get the same loan officer. No matter how you do it, it should keep you from making the same mistakes I did on my first house.

**SECRET #2. Have some leverage.**

Now after being involved in hundreds of transactions from the buyer's side I have come to this conclusion: The only way to guarantee good service is to be in a situation where if the lender goofs up, they get hurt. Let me say that again:

Be in a situation where if the lender goofs up, they get hurt.

In other words if you can hold a club over someone's head they will be more interested in processing the documents in a timely manner. This is the biggest problem with lenders in other areas and internet lenders. You can't very well go into a lender's office and scream at them if they are half way across the country!

One of the best ways to have leverage is to work with a real estate brokerage who has a lot of pull at a company. This kind of goes along with SECRET #1.

Another way is to deal with a lender where you know someone in a management position.

A third way is to let the lender know that as part of the mortgage process you are writing an article for publication. (This works a whole lot better if you are a writer or in the publishing business.)

A fourth way is to work with a local lender who has an office in a public place, like in the lobby of a bank where it would be embarrassing to them if you raised your voice because you not being served competently. (In one of my early loans where the lender was not timely in delivering a document, my wife went to the lender's office and waited in the lobby with our baby who was teething. She told the receptionist that she and the screaming baby would wait there until the document was complete. The lender got it done right away and my wife got done in 10 minutes what we had been waiting for them to do for about four days.)

I am sure there are other ways to gain leverage over a lender. The best is still probably working with a real estate brokerage which the lender is dependent on for future business.

SECRET #3. Local lenders are not always on your side.

Even with the discussions of leverage, there are some other points you need to be aware of with local lenders:

First, if the lender does a lot of business with real estate companies you may have trouble with the lender putting the real estate company's needs above your own. Let me give you an example:

A buyer was buying a house and the appraisal came in at less than the purchase contract price. The first thing the lender did was call the seller's real estate agent and tell them about the appraisal. It took about two weeks before the buyer found out they were buying an overpriced property because the lender and the seller's realtor were working behind the buyer's back to try and "fix" the appraisal that the buyer paid for and that should have been confidential between the buyer and the lender.

Here is a more common example:

A buyer was buying a new home from a builder. The buyer goes to the local bank where the builder happens to bank. There is a problem with the home that the buyer should be told about. Does the lender say anything? In this case they didn't because they do a lot of business with the builder and didn't want to hurt that relationship. We ended up finding out about the issues at the inspection so the buyer made out alright, but it could have turned into a real problem.

One final example, a buyer had negotiated a great deal on a home (with the guidance of a buyer's brokerage). The appraiser saw this and mentioned to the listing agent that the home seemed to be worth a lot more than the purchase price. The appraiser had no business telling the listing agent that and we made the lender understand that we were very upset. Well, in this case the lender ended up "eating" the appraisal because we made them. But, that "slip of the tongue" could have cost the buyers some serious money.

All three of these stories show the same point. You still need to be careful with local lenders and you need to have an experienced buyer's agent representing you.

**SECRET #4** Lenders like to quote with "points". The truth is most buyers probably shouldn't pay points.

It is really a math equation. Points do lower your monthly payment. But how long does it take for that lower payment to compensate for the cost of the points? Or, to put it another way, when do you break even on your investment? Usually it takes about 5 years.

But, it is not quite that simple. There are a few other variables to look at:

What else could you be doing with the money? For example paying off a high interest rate credit card usually makes much more sense than paying points.

How long are you actually going to have that loan? Most first time home buyers either refinance or sell before they actually see any benefit from the points paid on a loan.

Also, all investments should be compared not just on the return, but their liquidity. "Investing" in paying points is not liquid at all.

Finally, when do you get the most benefit from the tax deduction? Lender's point out the big deduction the year you pay the points. This is true, however, if you don't pay points, the slightly higher interest payments during the loan also provide additional tax deduction.

If you actually do the analysis, as I have many, many times, you will see that rarely are points truly a good investment.

But, lenders love them because they usually make more profit on loans with points.

SECRET #5 All Pre-approvals are not the same.

There is no exact definition for pre-approval. You should know that some lenders give pre-approvals without even checking a buyer's credit. I ran into one lender who gave a buyer a "pre-approval" but still had to "approve" 21 different documents from the buyer at closing. This made the buyer incredibly nervous and caused the loan to close more than a month late.

What you as a buyer really want is a written loan approval for a specific loan amount or specific monthly payment, that is contingent only on 3 things:

1. A property appraisal.

3: No substantial change in the buyer's income, credit, and debt.  
2: Proper title work on the property.

SECRET #6 Loan rates and fees are not set in stone.

A lender may bring in as little as a thousand dollars to as much as several thousand dollars on each loan. If there is a mortgage broker and an investor, those fees are usually split. What that means is that a lender isn't going to give you a 1% lower rate because you just ask for it, but there is some significant profit in the average loan and if you seem like a reasonable buyer, they will often waive fees to be competitive.

Of course, the best way to negotiate with a lender is from a position of knowledge and rarely does a home buyer have much mortgage market knowledge. Real estate agents generally don't know much about mortgage rates and fees unless they work for a full service buyer's brokerage. For example, the buyers agents in our office usually do mortgage negotiation on a weekly basis so they can be quite helpful.

One other thing, on a home purchase, it is easily worth a couple hundred dollars to work with a lender where you have leverage. If you really want to try using a lender either in a far away place or an internet lender, it is best to do that only on refinances where timing problems and lost documents won't drive you crazy.

SECRET #7 Many internet Lenders are selling the confidential information home buyers like you are giving them.

This is a little scary. But you should know that some internet lenders are taking the information that buyers supply on the online application forms and then selling it on the open market. Just this week I got an offer from "The Electronic List Company" to buy copies of filled out loan applications for \$30.00 a piece.

If you have applied for a loan over the internet this could be your application!

I also found out last week that this is a major profit source for one of the larger internet mortgage software companies. Before you apply for a loan over the net get a commitment from the lender that they will not sell your information!

One other thing:

No one lender always has the best deal for every type of loan.

It would be nice if one lender had the best rates and fees all the time for all mortgage types. But it will never happen. As I mentioned in Secret #6 our office is constantly watching and negotiating rates with lenders and it is true that some lenders are usually better than others but when all is said and done, we still end up using about 15 different lenders for every 100 homes we purchase.

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