

Before You Choose a Mortgage Lender, Read These Tips



Someone out there wants to help save you time, stress, and money. Here's how you find them.

Everyone in the market for a house has different wants — prewar charm, a lush backyard, a welcoming front door in Pantone Ultra Violet. But at the end of the day, they all share a common need: money. Lots of it.

The right lender can save you time, anxiety, and loads of cash. And the right loan officer — the professional who represents the lender — can be a powerful ally when you close on a mortgage. As with any potentially life-altering partnership, it's important to choose wisely.

Only You Know Which Lender Is Your Type

You can choose from three types of mortgage lenders — retail banks, credit unions, and mortgage banks — as well as mortgage brokers, who compare loan products via a coterie of potential lenders to help you, the client, find the right one. Before you start narrowing down the candidates, know what you're looking for and where to find it. Let's talk about your options.

Retail Banks

What they are: These are your Chases and Banks of America, plus your local banks. They do their own [underwriting](#) (in a nutshell, investigating your finances). So, retail banks, especially the smaller ones, can sometimes offer lower fees and less-stringent credit requirements. If you like to have your accounts all in one place, you may want to use your own bank or credit union.

Who you'll work with: You'll be assigned a loan officer, who will receive a commission or bonus for writing your loan.

Credit Unions

What they are: They're not-for-profit and customer-owned, so they're not beholden to shareholders, like banks are. Because of that and their not-for-profit tax status, they typically offer more personal service and lower fees. The flip side is they're less convenient: They have fewer branches and ATMs.

To apply for a loan, you must be a member of the credit union's community, which could be faith-, employment-, interest-, or union-based. That said, borrowers can typically become a member easily. The National Credit Union Administration's [Credit Union Locator](#) is a tool to find credit unions near you.

Who you'll work with: As with a bank, you'll be assigned a loan officer, who will receive a commission or bonus for writing your loan.

Mortgage Banks

What they are: These banks, such as AimLoan and PennyMac, offer only home loans. Many online

lenders, like Rocket Mortgage, operate as mortgage banks.

Who you'll work with: A mortgage bank will assign you a loan officer, who will receive a commission or bonus from the lender's gross fees for writing your loan. An online lender will offer less hand-holding.

Mortgage Brokers

What they are: Mortgage brokers are essentially personal home loan shoppers. They act as liaisons between home buyers and mortgage lenders to help people find the lowest rates and the best mortgage terms. They can get home buyers the best mortgage rates because they leverage their existing relationships with lenders — something individual home buyers can't do. The idea is that by doing the heavy lifting for the borrower, they make loan shopping more convenient — and perhaps a bit faster.

Who you'll work with: A mortgage broker can be an individual agent or a group of agents who act as independent contractors. In exchange for their services, mortgage brokers typically charge a 0.50% to 2.75% fee of the loan principal, which is paid by either the borrower or the lender at closing. The charge can vary greatly.

Now that you're armed with the basics, you'll want to give yourself time to weigh the options about which lender, exactly, to work with.

It Pays to Shop Around Before You Commit

Over the life of the loan, seemingly [subtle differences could add up](#) to tens of thousands of dollars. That money belongs to future you and all your dream vacations, renovations, and remodeling #goals.

So before you choose your specific lender, do these things:

- **Thoroughly research any retail bank, credit union, mortgage bank, mortgage broker, or online option you're considering.** Make sure you're clear on what they can offer you. If you're doing your homework, you're less likely to be dissatisfied with the results.
- **Interview lenders.** You're aiming for a shortlist of three. (You'll see why it's three in a minute.) If you're thinking about selecting an online lender, [make sure you take into account this guidance](#).
- **Don't be shy about seeking advice.** Survey your family, friends, and coworkers

- especially the ones who are nerdy about money.
- **Ask your real estate agent for a second opinion.** They have experience with reputable lenders, particularly in your city or town.

Now, let's say you've narrowed your list of potential lenders to at least three candidates. The next step? Find out whether they will give you a loan.

Find at Least 3 Lenders to Pre-Approve You

A Loan Estimate spells out a future loan's terms, including:

- The interest rate
- The length of the loan
- Estimated costs of taxes and insurance
- How interest rates and payments might change over time
- Other important financials

By comparing loan estimates, you can effectively size up your loan options and decide which lender is best for you — and your future. (If you need help navigating the details, the Consumer Financial Protection Bureau offers a [sample Loan Estimate](#) with helpful tips and definitions.)