

6. Agreeing to a pre-payment penalty

A pre-payment penalty is a fee charged for paying off a mortgage early. Penalty terms vary, but are typically three and five years and decrease with each year. For example, a three year pre-payment penalty might specify that, should the loan be paid off within one year of the closing date, the borrower will be charged a fee of 5% of the payoff amount. If paid off within two years the fee may go down to 3%, etc. If you agree



to these fees without understanding them, you could be in for a shock when you sell. Before signing, make sure your loan does *not* have a pre-payment penalty.

7. Prolonged Processing

Clarify up front how long processing your loan will take. Every lending institution has different turn-around times. Make sure you have all requested documentation turned in to the processor as quickly as possible. Be flexible. If she asks for more documentation, give it to her and don't make her wait. She wouldn't ask if she didn't think it was necessary. Remember that the originator and processor are on your side and want this loan to close just as much as you do. Be accommodating and avoid last minute, rushed closings at the end of the month as this is the busiest time for processors and closing agents.

Sasha Miletic, Broker

REMAX Preferred Realty Ltd., Brokerage
Independently Owned and Operated

6505 Tecumseh Road East
Windsor, Ontario N8T 1E7
519.962.9150 (direct)
519.944.5955 (office)
519.790.0110 (fax)
info@SashaMiletic.com

For a *FREE* list of Bank Foreclosures, visit:
www.SashaMiletic.com

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CHOOSING A LENDER



7 Mistakes Even Savvy Borrowers Make

Choosing a Lender: 7 Mistakes Even Savvy Borrowers Make

Many people feel out their depth during the mortgage process and as a result make critical errors that cost them money. There are many factors to keep in mind when searching out a good lender. By asking the right questions during the interview process, you can save your money and your sanity.

1. Not researching a lender's reputation.

Before speaking with a lender, ask your REALTOR® about their reputation. Agents work with a lot of lenders, and tend to remember the disasters as well as the stars. Never work with a disreputable lender, no matter what terms he promises you.

2. Taking the lowest interest rate.

The lowest interest rate is not always your best option if it's variable. A variable rate is one that can change after a set period of time. Because it follows a market indicator, there is no telling what the rate will be once it adjusts. Your monthly payment will adjust



with the interest rate, and you could be left with a higher payment than you can afford.

3. Unknowingly paying for a lower rate.

Every lender offers the option to buy down an interest rate with fees called "points." One point equals 1% of your loan amount. Some lenders quote low rates that include these buy-down points. Ask if your rate carries any points. Buying down an interest rate sometimes makes sense, but a trustworthy lender will discuss it with you before quoting the lower rate.

4. Paying too many fees

Every lender has a different fee structure, and names for certain fees vary by institution. Ask your originator to explain every fee associated with the loan. Origination fees, underwriting fees, and processing fees are the most common places you'll see excess charges. Compare quotes from competing lenders to make sure you are receiving a fair deal. Make sure that each lender's quote is for the same loan product and amount so that it is an accurate comparison.

5. Not locking in your rate.

An interest rate cannot be locked in until a purchase contract has been signed and a closing date set. Once this happens, contact your lender immediately to lock in your low rate. This will protect you from rate hikes should the market change. When your lender locks your rate, you will be required to sign a form verifying the rate and the time you have to close before the rate expires. Most lenders are unwilling to guarantee a rate for longer than 30 days.

