

SHOPPING AROUND? READ THIS FIRST

WHY ISN'T THE LOWEST RATE THE BEST DEAL?

Because it is never about the best rate. It is about the best MATH, and there is no other answer. First, lower rates come with more points and fees. Second, there is a break-even point to deal with when paying points and fees. Third, you need to figure out your tax deductions, your available cash, the interest you think you are saving, and the length of time you plan to keep the property. Remember, in the case of a purchase loan, points are tax deductible in the year that you pay them. In the case of a refinance, the points are usually only deductible over the full term of the loan. That could be 30 years, making the benefits to you and the break-even point years down the road. So why do so many lenders advertise really low rates with all of those points and fees? Because they know most consumers look at the rate, not the math. That advertising strategy works really well. How about the lowest APR? Generally, the more points and fees you pay, the lower the rate and APR. Call us, and our Loan Consultants will take apart each rate and fee option to find out what the best MATH is for you.

YOU GET WHAT YOU ARE PAYING FOR

If you are looking for the cheapest deal out there, understand that you are placing a hugely important process into the hands of the lowest bidder. The best case, expect very little advice, experience and personal service. The worst case, expect that you may not close at all. All too often, you don't know until it's too late that cheapest isn't BEST. But if you want the cheapest quote – head on out to the Internet, and we wish you good luck. Just remember that if you've heard any horror stories from family members, friends or coworkers about missed closing dates, or big surprise changes at the last minute on interest rate or costs...these are often due to working with discount or internet lenders who may have a serious lack of experience. Most importantly, remember that the cheapest rate on the wrong strategy can cost you thousands more in the long run. This is the largest financial transaction most people will make in their lifetime. That being said – we are not the cheapest. Of course our rates and costs are very competitive, but we have also invested in the systems and team we need to ensure the top quality experience that you deserve.

MAKE SURE YOU ARE WORKING WITH AN EXPERIENCED, PROFESSIONAL LOAN OFFICER.

The largest financial transaction of your life is far too important to place into the hands of someone who is not capable of advising you properly and troubleshooting the issues that may arise along the way. But how can you tell?

HERE ARE FIVE SIMPLE QUESTIONS YOUR LENDER/BROKER ABSOLUTELY MUST BE ABLE TO ANSWER CORRECTLY. IF THEY DO NOT KNOW THE ANSWERS, RUN. DON'T WALK. RUN. TO A LENDER THAT DOES!

What Are Mortgage Interest Rates Based On?

The only correct answer is Mortgage Backed Securities or Mortgage Bonds, NOT the 10-year Treasury Note. While the 10-year Treasury Note sometimes trends in the same direction as Mortgage Bonds, it is not unusual to see them move in completely opposite directions. DO NOT work with a lender who has their eyes on the wrong indicators. Bonds issued by Fannie Mae and Freddie Mac (MBS) and the trading performance of those bonds will determine the direction of mortgage rates. We know that inflation will always be a negative for any long-term bond because it eats away at the future returns. Since the bond will pay a set amount over a long period of time, that amount will be less valuable if inflation is high. Over the past several years, one catalyst that seems to be working in the opposite direction of MBS prices is the Nasdaq and broader stock market.

As bond prices rise, interest rates fall. As bond prices fall, interest rates rise. As the Nasdaq moves higher, bond prices move lower causing interest rates to rise. As the Nasdaq declines, mortgage bonds benefit, causing mortgage rates to fall. Additionally, and unlike common opinion, Fed rate cuts have had virtually no direct effect on mortgage rates. Moreover, it appears that since Fed rate cuts act to stimulate the Nasdaq, they have a negative effect on mortgage rates.

Why Fed's Rate Cuts Do Not Equal Lower Mortgage Rates?

The Fed can only control the Discount Rate and the Fed Funds Rate. This is very different from mortgage rates. A mortgage rate can be in effect for 30-years while a rate set by the Fed can change from one day to another. Now most uninformed people would naturally think because the Fed cut rates by so much during this time that mortgage rates would follow suit and trend lower as well. Not so. Mortgage rates actually moved higher during this time of significant rate cuts because inflation, the arch enemy of bonds, gradually rose. When the Fed makes a move, they can change a rate called the "Fed Funds Rate" or "Discount Rate". These are both very short- term rates that impact credit cards, Home Equity credit lines, auto loans and the like. On the day of the Fed move, Mortgage rates most often will actually move in the opposite direction as the Fed change. This is due to the dynamics within the financial markets in response to inflation. For more information and explanation, just give us a call.

What Causes Mortgage Rates To Change?

Did you know that one or more rate changes per day is normal? Most people do not know that. Rate quotes can easily change when you call back later that same day. In the lending business, a rate change can also include a change in the point cost for the same rate. In other words, a rate can be no points in the morning, then later that day cost _ point. That is a rate change to lenders. Did you also know that regular fixed mortgage rates are not directly affected by what the Fed Chairman Ben Bernanke does? Mortgage rates change primarily based on: **1)** the perception of inflation, **2)** times of uncertainty and **3)** the movement of money in and out of the stock market--that's it. When a piece of news shows weakness or uncertainty in the economy, that helps rates fall. The opposite is also true. A drop in the unemployment rate, a rise in durable goods orders, a rise in the consumer confidence index--rates go up. These influencing factors can present themselves all the time, many without warning, affecting mortgage rates instantly. There is no "delay". It doesn't take time to "filter down" like some people think. Reading the paper for quotes doesn't really work because the information is old by the time you read it. Radio, TV and billboards are not the answer because the details are always missing. They just want to get you on the phone. Competitive lenders can deliver nearly identical rates to each other. Most borrowers don't ask the right questions and focus only on the interest rate. A professional will always be competitive and deliver what is promised.

Do you have access to live, real time, mortgage bond quotes?

If a lender cannot explain how Mortgage Bonds and interest rates are moving in real time and warn you in advance of a costly intra-day price change, you are talking with someone who is still reading yesterday's newspaper, and probably not a professional with whom to entrust your home mortgage financing. Would you work with a stockbroker who is only able to grab yesterday's paper to tell you how a stock traded yesterday, but had no idea what the movement looks like at the present time and what market conditions could cause changes in the near future? No way!

What is the next Economic Report or event that could cause interest rate movement?

A professional lender/broker will have this at their fingertips.

Again, our advice to you is to be smart. Ask questions. Get answers. As you can imagine, we wouldn't be encouraging you to shop around if we weren't pretty confident that we feel that we can give you a great value and serve you the very best. Please call us with any further questions you may have at this time – we are ready to work for your best interest!

Remember, this is one of the largest and most important financial transactions you will ever make. You might do this only four or five times in your entire life. But we do this every single day. It's your home and your future. It's our profession and our passion. We're ready to work for your best interest.

March 7, 2008

By Igor Noble
Owner/President
Great Northern Mortgage Corp.