



# UNDERSTANDING MORTGAGE INTEREST RATES AND LOAN ESTIMATES

This presentation provides an overview of the key factors that influence mortgage interest rates and how to tell if a loan estimates is accurate.

# WHAT ARE INTEREST RATES?



## Definition

Interest rates are the cost of borrowing money, expressed as a percentage of the loan amount.



## Mortgage Impact

Interest rates are a key factor in determining the overall cost of a mortgage, affecting monthly payments and the total expense over the life of the loan.



## Risk Factors

Lenders assess various risk factors, such as credit score, LTV ratio, DTI ratio, income, job history, and employment type, to determine the appropriate interest rate for a borrower.



## Loan Level Pricing Adjustments (LLPAs)

LLPAs are risk-based pricing modifications applied by lenders to account for additional risk factors not fully captured by standard metrics, directly affecting the final cost of the mortgage.

Understanding the key factors that influence interest rates is crucial for borrowers to make informed decisions and secure the most favorable mortgage terms.

# FACTORS AFFECTING INTEREST RATES

- **Credit Score**

Credit score is a primary indicator of creditworthiness, with higher scores generally qualifying for lower interest rates due to lower default risk.

- **Loan-to-Value (LTV) Ratio**

Lower LTV ratios, indicating more equity in the property, reduce the lender's risk and can lead to better interest rates.

- **Debt-to-Income (DTI) Ratio**

Lenders prefer borrowers with lower DTI ratios, as it suggests better financial health and a lower risk profile, which can result in more favorable interest rates.

- **Income Level**

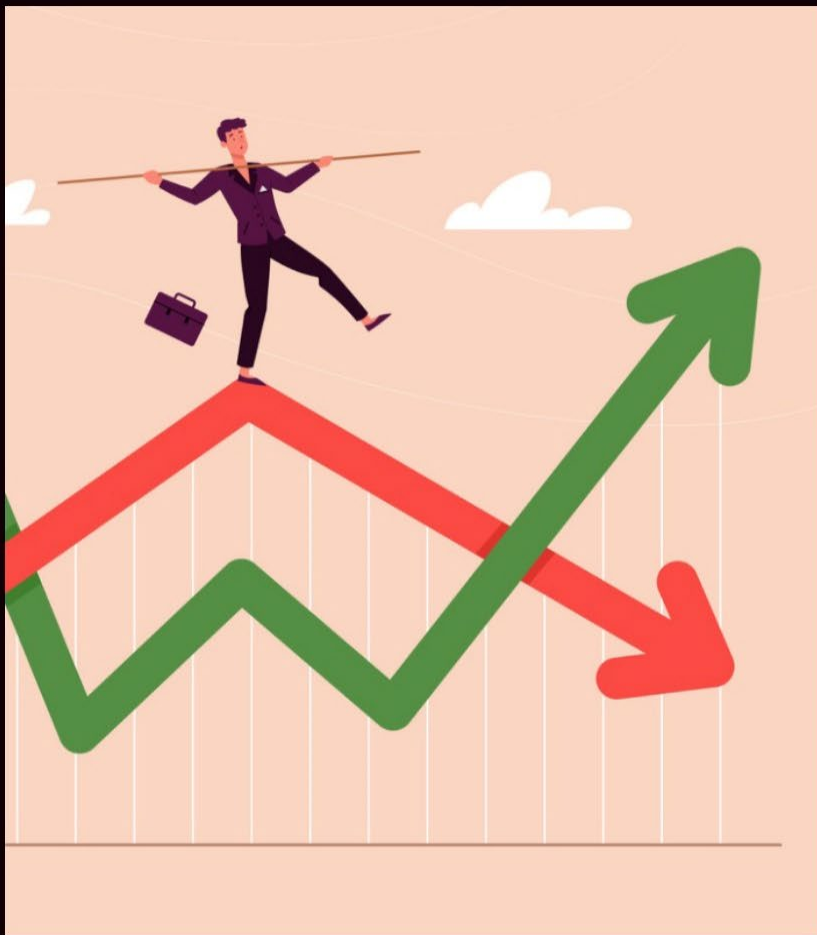
Consistent and sufficient income demonstrates the borrower's ability to meet monthly mortgage obligations, leading to better interest rates.

- **Job History**

A stable employment history reassures lenders, potentially resulting in more favorable interest rates compared to frequent job changes or gaps in employment.

- **Employment Type: Self-Employed vs. W-2 Employee**

Lenders may offer better interest rates to W-2 employees due to the more predictable nature of their income, while self-employed borrowers may face higher rates or additional requirements.



## **LOAN LEVEL PRICING ADJUSTMENTS (LLPAS)**

Loan Level Pricing Adjustments (LLPAs) are risk-based pricing modifications that lenders apply to account for additional risk factors. These adjustments can directly affect the final cost of the mortgage, with riskier borrower profiles leading to higher adjustments and higher interest rates.

# READING A LOAN ESTIMATE

- **Interest Rate**

The annual percentage rate (APR) that will be charged on the mortgage loan.

- **Monthly Payment**

The amount required to be paid each month, including principal, interest, taxes, insurance, and any other applicable fees.

- **Loan Amount**

The total dollar amount of the mortgage loan that the borrower will receive.

- **Loan Term**

The length of time the borrower has to repay the mortgage loan, typically in years.

- **Closing Costs**

The various fees and expenses the borrower will need to pay at the time of closing the mortgage loan.

- **Loan Type**

The type of mortgage loan, such as a fixed-rate, adjustable-rate, or FHA/VA loan.

- **Prepayment Penalty**

Any fees that may be charged if the borrower pays off the mortgage loan early.

- **Escrow/Impound Payments**

The estimated monthly payments that will be made into an escrow account to cover property taxes, homeowner's insurance, and other applicable fees.



# COMPARING A LOAN ESTIMATE AND A FEES WORKSHEET

## Loan Estimate is a Standardized Document

The Loan Estimate is a mandated federal document that follows a standardized format, ensuring consistency across lenders.

## Loan Estimate is a Comprehensive Information

The Loan Estimate provides a complete summary of the key loan terms, costs, and fees, including the interest rate, payment schedule, and overall loan structure.

## Fees Work Sheet Is a Focused Breakdown

A Fees Worksheet is an internal or supplementary document that itemizes individual fees in greater detail, allowing for a deeper understanding of the cost components.

## Fees Work Sheet Is a Comparison Tool

The Fees Worksheet can be used by loan officers or brokers to help you cross-check and understand where every dollar is going in the closing costs shown on the Loan Estimate.

## Fees Work Sheet Is a Non-Standardized Format

Unlike the Loan Estimate, the format and level of detail in a Fees Worksheet can vary between lenders, providing a more customized breakdown of the fees.

# KEY FACTORS IN COMPARING LOAN ESTIMATES

## Interest Rate vs. Annual Percentage Rate (APR)

Interest Rate: The basic cost of borrowing money. APR: Reflects the interest rate plus additional fees and costs; it provides a more comprehensive picture of the total cost of the loan over its lifetime.

## Loan Term

Compare the duration (e.g., 15-year vs. 30-year) as this affects both the monthly payment and the total interest paid over the life of the loan.

## Monthly Payment

Look at the total payment amount, including principal, interest, taxes, and insurance. Consider how adjustable elements (if any) may change these payments over time.

## Closing Costs and Fees

Origination Charges: How much the lender charges to process your loan. Other Costs: Fees for services such as appraisals, credit reports, title insurance, and escrow fees.

## Prepaid Items & Escrow

Items like property taxes, homeowner's insurance, and mortgage insurance that might need to be paid upfront or set aside in an escrow account.

## Rate Lock Information

Understand if the interest rate is locked in, for how long, and what the implications are if the lock expires.

# IDENTIFYING DISCREPANCIES IN LOAN ESTIMATES

What we are seeing in today's market place!

- **Inconsistencies in Fee Amounts**

Scrutinize fees like processing, underwriting, or document preparation to ensure they are not unusually high compared to industry standards or your initial quotes. At the same time make sure they are not abnormally low as if you don't see and UW, or Processing fee you question that.

- **Discrepancies Between Loan Estimate and Fees Worksheet**

Compare the detailed fees breakdown on the worksheet to the summarized Loan Estimate to identify any inconsistencies that could indicate hidden or manipulated charges.

- **Interest Rate vs. APR Differences**

Investigate a significant gap between the quoted interest rate and the APR, as this could signify the inclusion of additional fees or risk-based adjustments that have not been fully disclosed.

- **Unexpected Points or Loan Level Pricing Adjustments (LLPAs)**

Ensure any discount points or LLPAs align with your credit profile and loan risk, and ask for clear explanations of how these adjustments were calculated.

- **Prepaid Items and Escrow Estimates**

Compare the estimated amounts for property taxes, homeowner's insurance, and other prepaid items to local market data to ensure they are accurate and on the loan estimate. Prepaid interest is a big one that people put as a 1 day charge to make their fees look better.

- **Rate Lock Details and Expiration Dates**

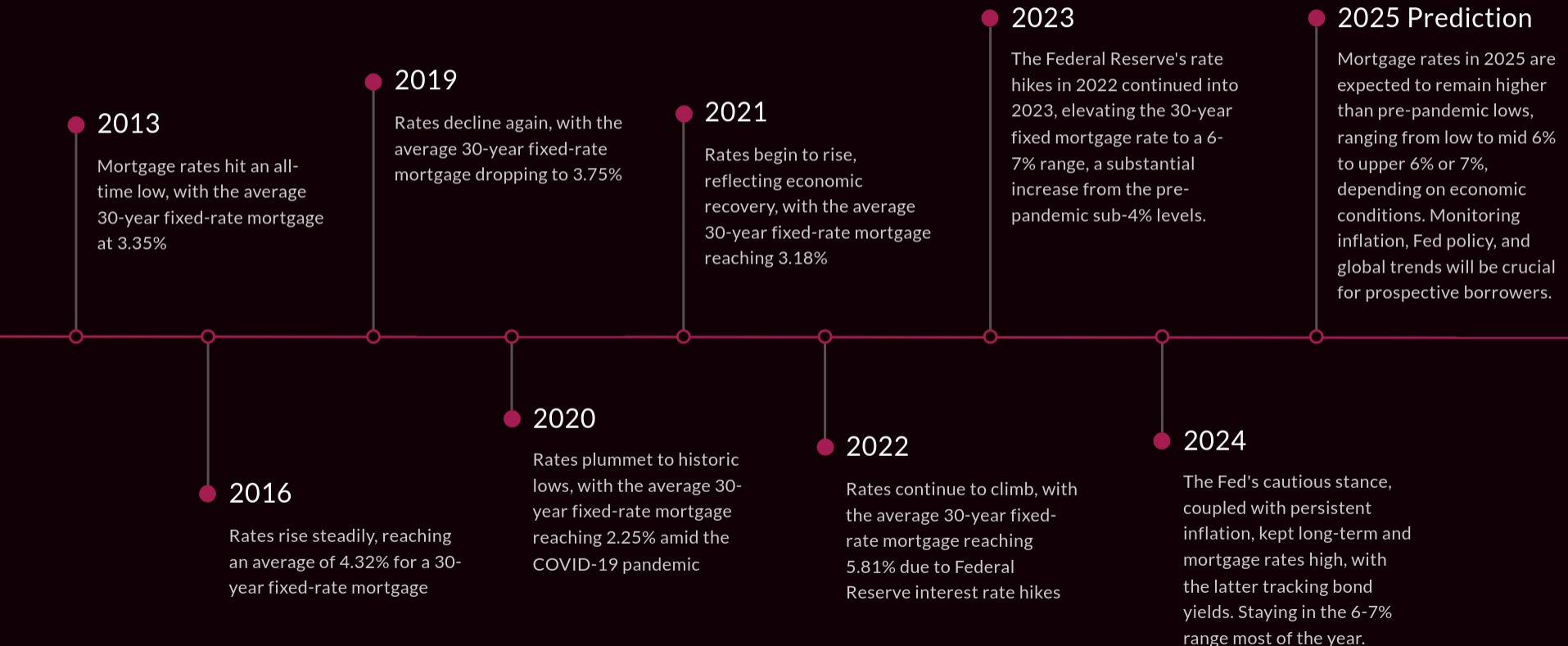
Carefully review the rate lock conditions, including the duration to ensure they are clear and favorable. One way to make a rate lock better is locking for a shorter period of time like 8 or 15 days. If you don't close this loan in that time frame your client will get hit with rate extension fees.

- **Comparing Across Multiple Loan Estimates**

When reviewing multiple Loan Estimates, look for any outlier fees or terms that are significantly different from the rest, as this could indicate a lender is being less transparent. Things to look for, escrow/impound being significantly less, prepaid interest not showing up, no UW fee or processing fee, making HOI look extremely less for better monthly payment. On investment properties checking for pre payment penalties as the longer they are the better the rate. If one seems too good to be true compared to the others then the chances are it is.



# MORTGAGE INTEREST RATE TRENDS



# CONCLUSION



## Understand Interest Rate Factors

Recognize the key factors that influence mortgage interest rates, such as credit score, loan-to-value ratio, and debt-to-income ratio, to make informed borrowing decisions.



## Read Loan Estimates Carefully

Thoroughly review loan estimates to verify the accuracy of the information provided, ensuring you understand the true cost of the mortgage and any associated fees or adjustments.



## Secure the Best Possible Deal

By being vigilant about the factors that impact interest rates and verifying the truthfulness of loan information, borrowers can negotiate better terms and secure the most favorable mortgage deal.

Understanding how interest rates work and how to read a loan estimate are crucial for making informed decisions when securing a mortgage. By recognizing the factors that influence rates and being vigilant about verifying the truthfulness of the information provided, borrowers can ensure they are getting the best possible deal.