

# **How To Read And Evaluate Your GOOD FAITH ESTIMATE**

**Dear Prospective Customer,**

**Thank You** for considering **San Juan Mortgage** for your financing needs. The following Good Faith Estimate was prepared using the information that you provided through our website and incorporates interest rate market data from the date shown on the form. This letter will explain how to read and evaluate a Good Faith Estimate and compare quotes side-by-side. We encourage you to download the companion document “*Understanding Your Mortgage Disclosures*”. It provides a line-by-line explanation of your Good Faith Estimate and explains the Truth In Lending Disclosure, which you will receive after you have applied for your new loan.

There are many costs that will be listed on a Good Faith Estimate and because there are so many, they can be a source of confusion. To help simplify the information, you should understand that you don’t need to evaluate every cost listed in order to decide which lender is offering you the best deal. The only costs that you really need to analyze are those **LENDER COSTS** required by the lender or broker and how they relate to the interest rate quoted. These costs are listed below with their GFE line number:

801 Loan Origination	809 Tax Related Service	815 Yield-Spread-Premium
802 Loan Discount	810 Loan Processing	816 Flood Certification
803 Appraisal	811 Underwriting	817 Impound Waiver
804 Credit Report	812 Wire Transfer	818 Document Preparation
805 Lender’s Inspection	813 UPS / FedEx	819 Commitment Fee
808 Mortgage Broker Fee	814 Rate Lock	820 Other

The other costs imposed to facilitate the closing of your loan but not collected for the benefit of the lender are the **THIRD PARTY COSTS**. Since your lender doesn’t set or receive these costs, you don’t need to consider them as a critical variable in your evaluation. These costs may include fees for:

902 Mortgage Insurance	1106 Notary Public	1109 Escrow Courier
903 Property Insurance	1107 Attorney Fees	1201 Recording Fees
1105 Doc Preparation	1108 Title Insurance	1302 Pest Inspection

## APPLES-TO-APPLES LOAN QUOTE COMPARISON

By understanding which costs must be considered in evaluating one loan quote against another, your evaluation will be easier. The critical factors necessary for an apples-to-apples loan comparison are:

1. **Quote Date:** All quotes to be compared need to reflect the same date because interest rates and their corresponding prices fluctuate. An 8.00% loan with a 1.00% cost of Monday may cost 1.50% on Tuesday, thus increasing your cash requirements to close. Or, if an 8.00% loan has a (1.00%) rebate on Monday, the rebate might increase to (1.50%) on Tuesday, thus decreasing your cash requirements to close.

During times of high volatility in the capital markets, interest rates can change many times in one day. For that reason, if you are shopping for a loan during times of high volatility, ask them to specify the time of their quote on the Good Faith Estimate. To check the current interest rate volatility, click Market Update on our website Side Bar.

2. **Loan Program:** Each loan to be compared side-by-side must be exactly the same type. You should compare 30 year fixed rates with 30 year fixed rates. Start your comparison with the base loan details, such as the cost for a 30 year fixed rate at 8.00% for a full documentation, owner-occupied, single family detached residence on a 30 day interest rate lock. Keep it simple and basic in order to achieve the most accurate evaluation.
3. **Loan-To-Value:** Each loan to be compared must be the same loan-to-value in order to limit confusion. Because of pricing variations between lenders based on this factor, if you are applying for an 80% loan ( i.e., an \$80,000 loan for a \$100,000 purchase price ), compare only 80% loans.
4. **Loan Adjustments:** If you apply for a loan using special options such as stated income, no doc, escrow waiver, etc., you should still rely primarily on the base loan costs. You can, however, ask the lender to itemize any individual adjustments to the base price for these special options. Don't let them confuse the issue by lumping the adjustments into a total cost because it will create confusion in your evaluation.
5. **Rate Lock Period:** Make certain that all rate and point quotes reflect the exact same rate lock period. The shorter the period, the cheaper the price for a given rate. Any lender you obtain a quote from should confirm in writing how long the lock is good for.
6. **Monthly Payment:** Compare only the Principle and Interest portion of any quoted monthly payment. Lenders will estimate your property taxes and insurance differently thus creating confusion in your comparison.

The following is an example of a form that can be used to evaluate a lender's costs for a specified interest rate and the other critical factors listed above necessary for an accurate evaluation:

## LOAN COMPARISON DETAILS MUST BE IDENTICAL



It's **crucial** that all of the **Loan Details** for each quote compared above are **identical**. If, for example, you have two different monthly payments listed, you need to re-check the details. Any variation in the loan details section will skew the results of your evaluation and render the comparison useless.

Make sure that none of the costs are duplicated on your form. Finally, total the costs to determine which quote saves you the most money. Remember that the most important element in these loan quote evaluations is the **INTEREST RATE**. All costs are tied to a specific rate on a specific day and sometimes even to a specific time of day, depending on market volatility.

The **Section 800** lender costs "**Items Payable In Connection With Loan**" are the key charges that you need to compare between lenders. These are the loan charges that differentiate one lender from another and can reveal excessive charges for a given interest rate. Escrow charges, homeowner's insurance costs, mortgage insurance costs, flood insurance costs, and other "Third Party Charges" are not controlled by the lender and as such, don't necessarily need to be considered critical variables in your evaluation.

Real estate property tax reserves, interest reserves, homeowners insurance reserves, mortgage insurance reserves, and some others that may be included in your regular monthly payment do not represent a loan cost, per se. While most lenders' requirements for reserves are similar, you should examine those requirements listed on your Good Faith Estimate. If any seem out of line, you should question them.

After you total and compare the Section 800 lender charges, it should be clear which lender is offering the best deal on your loan. You will, of course, want to examine the "Total Estimated Settlement Charges", "Cash From Borrower", or "Total Estimated Funds Needed To Close" lines to cross-check your results. If the Section 800 costs indicate that one lender is offering you the best deal, but their Section 1300 charges are higher than the other lender, you need to find out why. We can help you in that regard...

**For more information and web links on Good Faith Estimates, open our *Closing Costs* page at [www.justhotrates.com](http://www.justhotrates.com) and click on any of our Settlement Costs links.**

Please let us know if we can help you further. If you need a little more information evaluating a loan quote, we'll be glad to help. If you'd like to consider a different loan program or interest rate, we can send you another Good Faith Estimate to evaluate. Just let us know...

Sincerely,

*Terry Donovan*