5 homebuying tips from real estate lending pro Jim McDiarmid

If you're serious about homebuying, you're likely gathering input from homeowning friends, comparing local for-sale listings, and running numbers through financial calculators. But you'll get the most valuable advice by talking with real estate experts.

Stanford Federal Credit Union's VP of Residential Operations Jim McDiarmid has worked in the real estate business for over 25 years. Jim has helped thousands of happy people buy homes. At Stanford FCU, we're on a mission to improve the financial lives of our members, so we're sharing Jim's tips for home buyers. Don't go house hunting without them.

1. Get a letter stating you're pre-approved for a home loan first

"Don't waste time going to open houses without a pre-approval letter in place," Jim advises. "Agents won't take you seriously without it, and if you do find your dream home, in the time it takes for you to pull everything together and get verified, that house could be gone."

Getting pre-qualified and pre-approved aren't the same thing. Pre-qualification uses self-reported financials and gives you a rough idea of how much house you can afford. Pre-approval means your lender has verified your financials, your credit history and credit score. Although you're not guaranteed a loan yet, getting a pre-approval letter outlines how much a lender is likely to let you borrow. This shows the seller and seller's agent you're truly ready to buy.

2. Ask your lender for a real estate agent referral

Choosing a real estate agent matters. Your new neighbors may refer you to their realtor, but an expert agent knows much more than your neighborhood boundaries. Jim puts it plainly, “Sure, you could use someone off a billboard or your friend’s agent, but a recommendation from your lender means they’ve worked with this person before. They trust this agent is thorough and works hard for buyers. As a lender, I want the process to go smoothly for me and you, so I like to work with agents who have that proven track record.” When vetting agents, Jim recommends asking:

- Is this their full-time job or a side hustle? You want someone who can dedicate the time needed to find you the best home.

- How many homes did they sell last year? If it’s in the single digits, they probably don’t know the market as well as you would like.

- Do they work with buyers or sellers? Most realtors specialize in one or the other, and of course you’ll want one specializing in buyers.

- Are they focused on high-end homes or first-time buyers, and which one are you? Your buying objectives should match their market expertise.

3. Ask your agent to contribute to closing costs—those final fees needed to complete your purchase

When it comes to lowering your cost of buying a home, most people think about asking for price reductions from the seller's side of the table. Jim points out the buyer's agent can—and should—help reduce your costs too, "If you're buying a million-dollar house, your agent's 3% profit is $30,000. You should absolutely ask them to contribute $2,000 toward your closing costs. Are they going to risk losing $28,000 to another agent? Probably not. Again, your lender knows which agents are willing to work for you. It's worth asking for those referrals." Closing costs include necessary fees and services like appraisals, inspections, title insurance and property taxes. You can estimate closing costs between 2%-5% of your loan amount.

4. Buying mortgage points may be a waste of money

Mortgage points, also known as discount points, are fees that buyers pay lenders upfront to reduce a loan's interest rate. One point equals 1% of your loan amount. Each point you buy will reduce your mortgage interest rate by .125%-.25%. For example:

A $500,000 30-year fixed loan at 6% interest means you'll pay $79,192.69 in interest over the life of the loan. Let's say you buy one point for $5,000 (1% of $500,000), reducing your interest rate to 5.75%. Applying that .25% rate reduction, your interest payment drops to $50,433.57. That's a savings of $28,759.12 over 30 years.

People didn’t hear much about points when interest rates were at their recent 30-year low. Now that rates have climbed a bit, points may sound like a great way to reduce your interest payment. But Jim warns points could wind up being a waste of money. “Interest rates are higher now so points sound good, but it’s expected that interest rates will drop again. And when they do, you’ll refinance your loan. If you paid points to reduce your interest and you refinance anyway, you’ve lost that money.” For points to pay off you need to consider how long you’ll own the house. If you’re in it for the long haul, it may make sense, but if you might sell within six or seven years, run the numbers to see if the interest

5. Ask your lender to remove your Private Mortgage Insurance (PMI) early

If your down payment is less than 20%, most lenders require you to pay Private Mortgage Insurance (PMI) as part of the loan terms, usually between .5%-2% of the loan. This is protection for the lender in case you fail to pay back your loan. In most cases, lenders are also required to remove PMI when the amount you owe is 78% of the home’s value—known as your Loan-to-Value ratio, or LTV. However, you can request that your lender remove PMI a little bit sooner, when your LTV is 80%. It may not sound like much of a difference, but consider this example:

You have a $500,000 loan with PMI at 1.25%. At 80% LTV your monthly PMI cost is over $415. Waiting for automatic removal at 78% means you’ll spend hundreds of dollars extra, unnecessarily. (And PMI can be avoided if you have a 20% down payment!)

“Buying a house takes careful consideration and collaboration with your lender and your agent,” Jim says. “It’s important to have a team you can trust, people who will answer all your questions and do what’s best for **you**. At Stanford FCU, we work for our member/owners. You are our #1 priority.”

Thinking about buying? Click below to learn more about home buying.

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