5 Rampant Mortgage Myths You'll Hear These Days—Completely Debunked

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These days, things are changing so fast, it’s tough to keep up. That’s especially true in the mortgage industry, where interest rates and the overall home loan landscape are shifting with such head-spinning speed, it's easy for outdated information to circulate, leading home buyers and homeowners astray.

You may have heard, for instance, that everyone can score a record-low interest rate, or that refinancing is a no-brainer, or that mortgage forbearance means you don't have to pay back your loan, ever. Sorry, but none of these rumors is true—and falling for them could cost you dearly.

To help home buyers and homeowners separate fact from fiction, we asked experts to highlight some rampant mortgage mistruths out there today. Whether you're looking to buy or refinance, these are some reality checks you'll be glad to know.

Myth No. 1: Everyone qualifies for low interest rates

There’s a lot of buzz about record-low mortgage interest rates lately. Most recently, a 30-year fixed-rate mortgage dropped to 2.88% for the week of Aug. 6, according to Freddie Mac.

This is great news for borrowers, but here's the rub: "Not everyone will qualify for the lowest rates," explains **Danielle Hale**, chief economist at realtor.com®.

So who stands to get the best rates? Namely, borrowers with a good credit score, Hale says. Most lenders require a minimum credit score of about 620. Some lenders might require an even higher threshold (more on that later).

Your credit score isn't the only factor affecting what interest rate you get. It also depends on the size of your down payment, type of home, type of loan, and much more. So, keep your expectations in check, and make sure to shop around to increase the odds you'll get a good rate.

Myth No. 2: Getting a mortgage today is easy

Many assume today's low interest rates mean that getting a mortgage will be a breeze. On the contrary, these low rates mean just about *everyone* is trying to get a mortgage, or refinance the one they have. This glut of applicants, combined with the uncertain economy, means some lenders may actually tighten loan requirements.

In fact, a realtor.com analysis found that 5% to 20% of potential borrowers may struggle to get a mortgage because of these stricter standards. And getting a mortgage could become even tougher if the recession gets worse.

For example, some lenders may also require higher minimum credit scores and larger down payments. In April, JPMorgan Chase began requiring a 700 minimum credit score and 20% down payment.

Jason Lee, executive vice president and director of capital markets at Flagstar Bank, says some lenders aren’t offering the loans that are considered riskier—such as jumbo loans, which exceed the conforming loan limit (for 2020, that max is $510,400).

"There aren’t as many loan products available," Lee says.

And even if you do manage to get a loan, it may take longer than you'd typically expect.

“Based on low rates and a high volume of refinances, loans are taking longer to complete from application to closing,” says **Staci Titsworth**, a regional mortgage manager for PNC Bank.

As such, borrowers should ask their lender how long the process will take to close, and make sure they're aware of the expiration date on the interest rate they've locked in—since with rates this low, they could go up.

"Most lenders are locking in the customer's interest rate so it's protected from market fluctuations," Titsworth adds.

Myth No. 3: Everyone should refinance their mortgage

"With mortgage rates hovering near record lows, a refinance can make sense and can help free up monthly cash flow," Hale says.

Still, not *everyone* should refinance. Homeowners should make sure to take a good hard look at their situation to see whether it makes sense for them.

For one, it will depend on your current interest rate. If it's low already, it may not be worth the trouble—particularly since refinancing comes with fees amounting to around 2% to 6% of your loan amount.

Given these upfront costs, refinancing often makes sense only if you plan to remain in your house for a while.

In general, "refinancing is a good idea for homeowners who plan to live in the same home for several years, because they will reap the monthly savings over a longer time period," Hale explains.

Myth No. 4: You can apply for a mortgage after you've found a home

Many people assume that you can find your dream home first, *then* apply for the mortgage. But that's backward—now more than ever. Today, your *first* stop when shopping for a house should be a mortgage lender or broker, who can get you pre-approved for a home loan.

For "a buyer in a competitive market, it's typically essential to have pre-approval done in order to submit an offer, so getting it done before you even look at homes is a smart move that will enable a buyer to move fast to put an offer in on the right home," Hale says.

Mortgage pre-approval is all the more essential in the era of the coronavirus pandemic. Why? Because many home sellers, leery of letting just anyone tour their home, want to know a buyer is serious—and has the cash and financing to make a firm offer. As such, some real estate agents and sellers require a pre-approval letter before a potential buyer can view a home in person.

Nonetheless, according to a realtor.com survey conducted in June of over 2,000 active home shoppers who plan to purchase a home in the next 12 months, only 52% obtained a pre-approval letter before beginning their home search, which means nearly half of home buyers are missing this crucial piece of paperwork.

Aside from getting their foot in the door of homes they want to see, home buyers benefit from pre-approval in other ways. Since pre-approval lets you know exactly how much money a lender will loan you, it also helps you target the right homes within your budget.

After all, as Lee points out, “You don’t want to get your heart set on a home only to find out you can’t afford it.”

Myth No. 5: Mortgage forbearance means you don't have to pay back your loan

The record unemployment caused by the COVID-19 pandemic means millions of Americans have struggled to pay their mortgages. To get some relief, many have been granted mortgage forbearance.

Nearly 8% of mortgages, or 3.8 million homeowners, were in forbearance as of July 26, according to the Mortgage Bankers Association.

The problem? Many mistakenly assume that mortgage forbearance means you won't have to pay your loan, period. But forbearance means different things for different homeowners, depending on the terms of the mortgage and what type of arrangement was worked out with the lender.

“Forbearance is not forgiveness,” Lee says. “Rather, it’s a timeout from having to make a mortgage payment where your servicer—the company you send your mortgage payments to—will ensure that negative impacts to your credit report and late fees will not occur. However, because forbearance is not forgiveness, you will need to reach some sort of resolution with your loan servicer about the missed payments.”

The paused payments may be added to the back end of the loan or repaid over time.

“It does not forgive the payments, meaning the borrower still owes the money,” Hale says. “The specifics of when payments need to be made up will vary from borrower to borrower.”