Why You Should Get A Mortgage Through A Credit Union Or Local Bank

By Kevin Mercadante

There are many benefits to getting your mortgage at the same place where you bank. Here's why you should get a mortgage through a credit union or local bank.
It often seems as if you can get a mortgage just about anywhere. There are mortgage banks, mortgage brokers, and online mortgage sources. Even many insurance companies and investment brokers offer mortgages, either to their clients or to the general public. But is there any advantage to get a mortgage through a credit union or local bank? There are actually a few:

Access to other financial services

In today's largely atomized world, it often seems as if we're dealing with dozens of different vendors for every individual need we have. Sometimes that works. But when it comes to financial services, it's often a major advantage to have several services from a single provider. A credit union or local bank can do that, certainly in a way that a mortgage banker, broker or online mortgage source can't. For example, you can maintain your checking and savings accounts with the same credit union or bank that holds your mortgage. You can also invest longer-term money in certificates of deposit or IRAs. And if you need a credit card or a car loan—and sooner or later everyone does—you can get those there as well. What's more, it's generally much easier to get any of those services through an institution you already have a relationship with. For example, if you decide you want a credit card, a credit union or bank already has much of your financial information on record. They may even have standing pre-approvals awaiting your acceptance. This is much quicker and less complicated than going to a third-party and starting from scratch, as would be the case with an online credit card application with a bank you've never dealt with.

Access to a home equity loan or home equity line of credit (HELOC)

The need for this type of loan could happen at any point in the home ownership process. For example, if you're buying a home, you may decide you want a home equity loan or HELOC as part of the down payment. This is a common strategy for buyers who are looking to avoid private mortgage insurance, which is very expensive. Banks and credit unions are natural sources of home equity loans and HELOC's. If you already have a relationship with one, it'll be easier to get either type of loan. Many banks and credit unions also routinely provide home equity loans and HELOC's along with new first mortgages. But even after you've been in your home a while, you may still decide you need secondary financing. It could be to renovate or expand the home, or even to borrow money for other purposes, like debt consolidation or investment. Whatever the reason, it will be much easier to get secondary financing if you already have a well-established relationship with the institution. You may even find that your bank or credit union regularly offer you opportunities for home equity loans and HELOC's. And once again, since they already have much of your financial information—including your first mortgage—the application process will be both quicker and less complicated.

Credit unions are less likely to sell your loan

If you already have a mortgage, you're probably well aware that lenders routinely sell the loans to different lenders or servicers. In fact, this can happen several times over the course of a 30-year mortgage. For you as a homeowner, it's not a particularly threatening situation. But it can be more than a bit inconvenient. Each time your mortgage is sold, you have to begin making payments to a new company and location. Though this usually comes off without a hitch, it sometimes leads to late posting of a payment, or some kind of issue with the escrow account. Credit unions are less likely to sell your mortgage. That's because credit unions loan "in-house" to generate ongoing interest income, rather than selling the loan for a one-time fee. This means you can potentially be dealing with the same servicer for the life of the loan.

Face-to-face contact if there are any problems

One of the advantages in getting a mortgage from a credit union or bank is that you can usually go to the branch if there are any problems during the application process. Few in the industry want to admit to this—but I know it to be true as a former mortgage underwriter and originator—but the mortgage process is incredibly complex. There are numerous opportunities for something to go wrong along the way. Though lenders often try to fix these problems by phone, email or costly overnight mail, the best solution is often face-to-face contact. You can do that with a credit union or bank because they have local branches. Online mortgage lenders in particular are 100 percent web based. There's no physical location to go to. If things get really messy—and they can—a face-to-face meeting is often the best way to fix it.

A relationship with a bank or credit union may influence your mortgage rate

As a customer of a credit union or bank, there's a good chance you'll see a reduction in closing costs and fees with the origination of your mortgage. What's less certain is how much influence the relationship will have on your mortgage rate. Like mortgage bankers, brokers and online mortgage lenders, banks typically sell mortgages to Fannie Mae and Freddie Mac. That means the bank has no control over loan rates. Those rates are determined by pricing established by the two national mortgage agencies. Credit unions may have a slight advantage here, but only slight. They may hold your loan "in house", giving you a slightly lower rate than what's offered by the mortgage agencies. Credit unions typically offer lower rates on all loan types to their members. That's because the members of a credit union are also the owners. Credit unions operate as nonprofit institutions, which is why their rates are lower. It's a small advantage, but one that shouldn't be overlooked. That's especially true with a 30-year mortgage, where a rate of 1/8 lower can add up to thousands of dollars over the term of the loan.

Summary

If you’re looking for a mortgage, don’t be overly impressed by some of the very attractive rates you see from third-party sources. Check with your credit union or bank, and see how their rates stack up. Also consider the many benefits of getting your mortgage at the same place where you bank. They may be worth more than a slightly lower interest rate.