

March 27, 2007

What should your mortgage lender tell you about your loan?

Bankrate.com has a new survey out that found that 34% of homeowners [didn't know what kind of mortgage they had](#). That's a disaster, folks.

Better disclosure would help. Your average credit card application is easier to decode than many mortgage documents. Alex J. Pollock of the [American Enterprise Institute](#), in testimony to the House subcommittee on financial institutions today, [says](#) that banks should give all borrowers a *one page* document with the following information.

- Amount of loan
- LTV [loan-to-value] ratio
- Final maturity
- Prepayment fee, if any
- Balloon payment, if any
- Points and closing costs
- Initial rate on loan in % and monthly payment in dollars
- How long this rate is good for=when higher rate starts
- Fully indexed rate on loan in % and monthly payment in dollars
- Your household income on which this loan is based
- Initial monthly payment as % of income, and payment plus taxes and insurance as % income
- Fully indexed monthly payment as % income, and payment plus taxes and insurance as % income
- A name, number and e-mail for you to contact with any questions
- An authorized signature of the loan originator
- The signature of the borrower.

What's amazing is that all this isn't standard practice already.

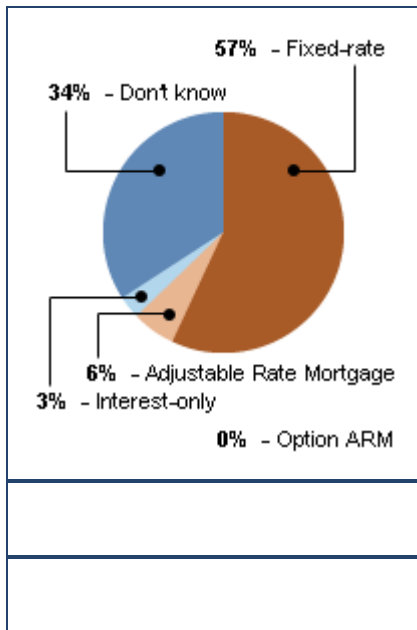
Read "Mortgage ignorance rampant" below

Mortgage ignorance rampant

By Elizabeth Razzi * Bankrate.Com

As concerns about subprime mortgages plague the nation's leaders and lenders, America's homeowners are confused and worried about their own mortgages, according to a poll commissioned by Bankrate.com.

What type of mortgage do you currently have?



Source: Bankrate.com 2007

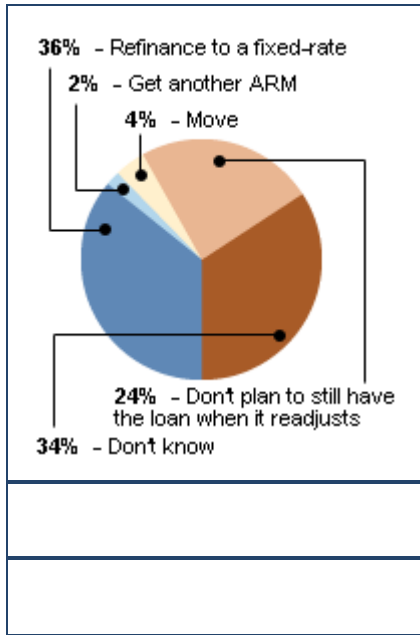
In the survey of 1,004 adults conducted by Gfk Roper, homeowners with mortgages were asked what type of mortgage they had. A stunning 34 percent of the homeowners had no idea. "That's a symptom of the complexity of the mortgage market today," says Ken Wade, chief executive officer of NeighborWorks America, a nonprofit organization that provides financing and training to neighborhood-based housing organizations.

A generation ago, mortgages were made primarily through banks. Today there are many more types of organizations making mortgage loans, some of which are less regulated than banks. Adding to the confusion is the variety of loans now available to borrowers. "There is a proliferation of new products that come on line just about every week, and I think it creates confusion among consumers," says Wade.

Younger borrowers, and those with less experience as investors, can find the array of loan choices particularly confusing. Anthony LaGiglia, managing director of J.J. Burns & Co., a financial advisory firm in Melville, N.Y., says such borrowers have fewer benchmarks against which they can judge loan products. "They don't know what the market can be paying them in interest, and they don't know how much they should be paying on loans, either. That's a situation ripe for abuse by unscrupulous mortgage people."

What will you do with your ARM?

What do you plan to do when your ARM loan readjusts?



Source: Bankrate.com 2007

How often do you worry about whether or not you'll be able to afford your home payments next year?

What will you do with your ARM? A total of 57 percent of homeowners with mortgages said they have fixed-rate mortgages, 9 percent have some variety of an adjustable-rate mortgage. Homeowners in the poll who knew they had an adjustable-rate mortgage (ARM) were asked what they planned to do when the interest rate adjusts, 34 percent said they didn't know what they'd do.

"I wish I could say that surprises me," says Kim McGrigg, a spokeswoman for Money Management International, a nonprofit national group that counsels consumers about homeownership and credit. "But, unfortunately, with the increase in demand for counseling that we've seen, that fact doesn't surprise me as much as it would have just a few years ago."

Taxes and insurance push up payments A significant number of homeowners are worried about how they're going to afford their mortgage, property taxes and homeowners insurance next year. Nationally, 28 percent said they worry either regularly or sometimes about how they will afford their payments. Nearly 70 percent said they rarely or never have such worries.

Worry is directly tied to low earnings, according to the poll results. More than 40 percent of those earning less than \$20,000 per year said they worry regularly about making payments, and nearly 26 percent of those earning between \$20,000 and \$29,900 per year said they worry sometimes.

Interest rates aren't the only source of that worry, says LaGiglia. Rising property taxes and homeowners insurance rates, especially in coastal

areas, add to the monthly-payment burden.

"I can't tell you how many clients I have in Florida whose homeowners insurance costs have doubled or tripled. It's not just their interest payment," he says. On Long Island, N.Y., where LaGiglia lives, insurance costs have gone up and property taxes have soared, thanks to rising home values.

Who worries least about making their housing payments? It's not necessarily the richest households. The most sanguine were those earning between \$40,000 and \$49,900 per year. Nearly 70 percent say they never worry about payments, a rate even higher than the top earners. Just under 60 percent of those earning more than \$75,000 per year say they are free from worry about making housing payments.

"The more risky types of loans that have become popular in recent years made it easy for people to buy houses, but difficult to keep them," says McGrigg.

There's no question that consumers need more education about mortgages, says Wade. More homeowners should take advantage of home-buyer counseling or, at a minimum, by doing their own significant research on the Internet. "They should do this before they even talk to a Realtor," says Wade. "Once they're in the process, there are a lot of pressures on them to hurry up and get the deal done."

You can get a referral to a local counseling organization through the [U.S. Department of Housing and Urban Development](#).

Which of these loans is better?

The poll, conducted mid-March, surveyed renters and homeowners and found that adjustable-rate mortgages have a poor reputation among homeowners who have them, and renters who might one day use them.

Nationwide, 36 percent of homeowners who now have an ARM said they planned to refinance to a fixed-rate loan when their ARM changes. Only 2 percent planned to refinance into another ARM.

They were sour on different varieties of ARMs, as well. Nationally, 29 percent of renters said they would avoid interest-only mortgages, and that figure shot up to nearly 40 percent among those living in the Northeast.

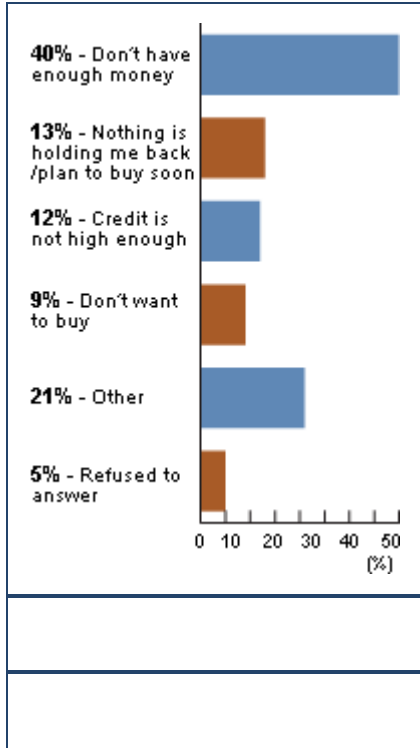
Nationally, 20 percent of renters said they would specifically avoid "option ARMs," which allow a homeowner the option of sending in a minimum payment that is not high enough to cover the full amount owed that month.

Though a majority (57 percent) of homeowners who have a mortgage say theirs is a fixed-rate loan, nearly a quarter (24 percent) of renters said they would avoid taking out a fixed-rate loan. The share of renters shunning fixed-rates was highest among those earning more than \$75,000 per year, at 42 percent.

What's holding buyers back?

Most renters are not staying out of the housing market for fear that prices will go down; instead 40 percent said the main obstacle holding them back from a purchase was that they didn't have enough money to afford a home, according to our poll. The share of renters citing that they didn't have enough money was even higher among renters living in the Northeast and West, where prices are highest. Nearly half of those in the Northeast and West (49 percent and 48 percent, respectively) cited lack of funds as the top obstacle.

What, if anything, is holding you back from buying a home today?



Source: Bankrate.com 2007

Credit concerns were the second most-frequently cited obstacle keeping renters from a home purchase. Nationwide, just under 12 percent said their credit standing was not yet high enough to buy a home, but that share reached nearly 21 percent among renters living in the South.

Nationwide, less than 2 percent of renters surveyed said fear of falling prices was causing them to hold back. And that share was still under 3 percent in the high-priced Northeast and West. Another 9 percent of respondents said they simply don't want to buy a home. Nationwide, nearly 13 percent reported that they intend to buy a home soon.

This national random-digit-dialed phone study of 1,004 adults 18 or older was conducted for Bankrate by GfK Roper Public Affairs & Media. The surveys were conducted from March 17 through March 18, 2007. The sample was weighted by demographic factors including age, gender, race, education and census region to ensure reliable and accurate representation of adults in U.S. households. Results based on the entire sample of 1,004 adults are projectable to the entire adult population in the United States, with a sampling error of plus or minus 3 percentage points.

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--- Posted March 26th 2007