

Real Estate

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Mortgage Miseducation

Many borrowers, plain and simple, don't understand how mortgages work. here's what they should know before they go shop for a loan

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You wouldn't buy a new car without knowing how to drive it first, but would you borrow money to buy a house without understanding how a mortgage loan works? Many people do, say the experts.

According to the results of a recent Zillow Mortgage Marketplace survey, 44 percent of prospective homebuyer respondents admitted they are not confident in their knowledge of mortgages or the mortgage process, overall. The 1,005 adult surveyed incorrectly answered basic questions about mortgage information nearly half of the time. The poll also revealed that 37 percent of respondents believe pre-qualifying for a loan means they have secured financing, and 57 percent don't know how adjustable rate mortgages work.

Why are borrowers so ill-prepared to enter into the mortgage process, and who is to blame? A number of factors have contributed to the problem in recent years, including new, more complex lending laws that have increased the paperwork involved; laziness on the part of an uneducated consumer; and unethical lenders who have put profit ahead of the responsibility to properly edify customers.

"One of the most common mistakes made is calling a bank and saying, 'This is my first home, and I don't know much about mortgages,'" says Carolyn Warren, author of "Mortgage Rip-Offs and Money Savers" (Wiley, 2007). "It's as if they're holding a sign on their foreheads that says, 'Please charge me more - I won't know the difference.'"

Tighter restrictions on lending haven't made things any easier. Recent changes to the Real Estate Settlement Procedures Act require that loan originators provide borrowers with a standardized Good Faith Estimate in an effort to improve disclosure of terms settlement costs and interest rate related terms. However, loan officers cannot give the GFE upfront without first reviewing the borrower's income, assets and credit. Hence, once a borrower has submitted all the necessary financials and had a credit report pulled, they often feel obligated to go with that lender.

Consequently, Warren believes there is actually less loan shopping going on now than before the new RESPA law was passed, which she says implicates politicians as major culprits in today's mortgage miseducation problem.

In analyzing the Zillow survey data she and her team gathered, Erin Lantz, director of Zillow Mortgage Marketplace in Seattle, says it's apparent that the collective real estate industry has a lot of work to do.

"Our industry is not known for transparency. We're making great strides to improve, but ultimately it is the consumer's responsibility to get themselves better informed," Lantz says. "Borrowers need to take the time to do research, prepare early in the game, and think more broadly in the context of getting ready to purchase a home."

Steven T. Alexander, president of Private Mortgage Services with Private Bank of Buckhead in Atlanta, says it's vital to do your homework before you jump into the market. Seek the help of a seasoned mortgage loan officer who can help properly structure your transaction to reach your ultimate objectives, read informative books and articles and talk to others who have recently completed the process.

"It is up to the borrower to do their due diligence so they can obtain fair and decent financing," says Warren. "Recently, a buyer asked me to look at the GFE provided by his builder's preferred lender. This lender was charging a \$9,558 origination fee for a 30-year fixed rate on a loan of \$268,000, while other lenders are charging less than \$1,500 for the same rate. Even now, in a post-subprime world, there are gross over-charges going on."