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Mortgage money is no simple matter

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Life in America used to be simpler, because the basic systems and services that we used back then were simpler.

Today, every Joe Schmo like me has to protect himself from his fellow Americans by becoming learned about our country's health-insurance plans, home-insurance plans, credit cards, auto buying, house buying, mortgage debt, consumer goods, medical issues, macro-economic drivers of the economy, derivatives of derivatives, global warming/cooling/staying the same, the IRS code and layer after layer of complexity in our laws, regulations and how we do business that few of us fully understand them.

I am, therefore, a sucker for books written by any insider who shows me how an opaque system actually works, how the unlearned are routinely shorn of both their money and faith and, finally, how ol' Joe might not level the playing field but at least understand how it's tipped against him.

Several real-estate writers have deconstructed the mortgage and refinancing processes from a consumer's perspective. Robert Irwin's, Tips & Traps When Mortgage Hunting (McGraw-Hill, 1992) and Julie Garton-Good's, All About Mortgages: Insider Tips to Finance or Refinance Your Home, 2nd ed. (Dearborn, 1999) are two that I have on my shelf. I've now added Carolyn Warren's, Homebuyers Beware: Who's Ripping You Off Now?—What You Must Know About The New Rules of Mortgage and Credit (FT Press, 2010; ‼ HYPERLINK "http://www.mortgagehelper.com/" ¶ www.mortgagehelper.com⊥ and ‼ HYPERLINK "http://www.askcarolynwarren.com/" ¶ www.AskCarolynWarren.com⊥) as a current and useful addition. I have also followed Jack Guttentag for many years, at ‼ HYPERLINK "http://www.mtgprofessor.com/" ¶ www.mtgprofessor.com⊥ .

Warren takes the position that the mortgage finance business is staffed with both decent individuals as well as others who routinely take advantage of their customers and add profit to their work through concealment and lies. She cites numerous personal anecdotes to support her opinions. She wants borrowers to learn how to tell the difference and flow toward the decent folks.

For 12 years, Warren worked in mortgage lending, both the retail and wholesale sides. She worked for Full Spectrum Lending/Countrywide Home Loans, Ameriquest, Green Tree Financial/Conseco and First Franklin. She now works as a broker/banker, writes and operates two websites.

Borrowers need to understand that they are shopping among lenders who usually want to make as much money on the loan as they can without driving the customer to the next lender. Borrowers want the cheapest loan with the best terms; lenders want to give loans that work for them.

Each lender has a minimum amount of yield that it requires on each loan. The yield is determined by each lender's particular combination of offered interest rate, terms, fees, points and charges. It’s difficult for a borrower to get four apples on the comparison table at one time, though comparing total loan costs is one approach to making a decision rather than just looking at interest rates.

Mortgage brokers are often able to offer the best deals to the extent that they are networked in to a number of wholesale, competing lenders. But a borrower may find a broker motivated to get the borrower into the best deal for the broker that the borrower will accept.

Credit unions are non-profits that work for their members. Warren says that she could, as a motivated broker, beat credit unions 99 percent of the time. Credit unions should be absolutely transparent and forthright with borrowers. Banks and mortgage brokers are only as good as their corporate cultures and individual loan officers; they may or may not be transparent and forthright.

She urges borrowers not to shop for rates among lenders as their first step into the soup. She suggests, instead, to shop for a loan officer by asking candidates for a Good Faith Estimate (GFE) after giving each your price range, amount you can put down and your credit score. You will get a written document that shows how each lender structures the costs to the borrower within an approximation of the interest rate you will get. The borrower should then choose a loan officer (and institution), she writes.

I agree that shopping for the lowest rate among lenders as the first-cut selection criterion is a waste of time, because rates change within each day and some lenders will quote low rates that they won’t deliver.

I’ve had reasonable loan-shopping success with a little different approach. I put together a “most-likely” set of lenders—credit union, two brokers and a bank or two. I prepare a package of material with all of the documents they need to get a complete picture of my finances and who I am. A borrower needs to do this sooner or later, so why not sooner? Among other items, I include my two most recent 1040s, net worth document, recent statements from banks, credit cards, brokerages, current W2s, credit score and so on. I write a detailed letter spelling out what I want to buy, what type of loan I want, projected cash flow and explanations of anything that is hard to document, quirky or adverse. I try to give each lender all the information they need to make a loan decision without asking them to commit to a loan just then.

On a refinancing, I give an estimated FMV value of the property along with information on current loans, less-than-obvious assets and liabilities in the property and explanation of why I’m refinancing, possible cash flow from the property, plans, expectations and so forth. I do not include a current appraisal, because my chosen lender will require that I pay for one done for his institution. No need to pay twice. I also try to refresh my recollection of the vocabulary, concepts, tax considerations and tricks in the process, all of which I tend to forget as soon as possible.

I ask in return a GFE from each prospect. That gives me paper to compare and books like Warren’s to ferret out the total cost to me of each GFE. I, too, look for reasonable chemistry in a loan officer. A personal connection always makes the process easier.

Warren’s book helps a borrower understand this cloudy process. At issue in this tug-of-war between lender and borrower is money out of the latter’s pocket, upfront and over time. The simple rule in this complex world is: The more you know, the better deal you’ll get.

Know about a par rate? A Yield Spread Premium? The new GFE form?

Read Warren's book. You will save its $19.99 cost many times over if you apply its information to your own circumstances.