

## Buyer Beware

*When it comes to home mortgages, knowledge is power*

If it sounds too good to be true, it probably is. How many times have we heard this adage? When it comes to major purchases, "Buyer beware" has never been so relevant as when applied to the biggest investment most of us make—our homes. When you consider the many options available for home loans, what you do not know *can* hurt you. Borrowing money to buy or refinance your home is one of the most important and complex financial decisions you will make. Being an informed consumer is critical in protecting yourself from fraudulent and predatory lending. It can also save you money and even create the dream of owning your own home.

## Predatory Lending

"Predatory lending the practice of convincing borrowers to agree to unfair and abusive loan terms," explained Mark Very, assistant vice president / mortgage loan officer with American Bank Center in Bismarck.

According to Housing and Urban Development (HUD), some examples of predatory lending practices include the following:

- Charging considerably higher rates to people who are perceived to be a higher risk, even though they are not.
- Charging fees for unnecessary or nonexistent products and services.
- Knowingly lending more money than a borrower can afford to repay.
- Pressuring borrowers to accept higher-risk loans such as balloon loans, interest-only payments or steep pre-payment penalties.

How can you prevent becoming a victim? "It is so important to have someone explain to you face to face exactly what is taking place because you are dealing with your greatest asset, your home," emphasized Nadine Schaff, American Bank Center assistant vice president / mortgage loan officer. "As an individual, it is the biggest investment we make. If you don't know what is happening or how you are going to acquire the investment, it should put up a red flag."

"After closing, borrowers may become aware of terms and conditions that were not fully explained during the processing of the loan," she explained. "These conditions could place the borrowers in a financial situation that they cannot afford." For instance, there may be adjustments on interest rates, or escrow accounts forcing them to refinance and pay closing costs again or sell their home.

If it is too good to be true, there is probably more to the story. Are there fees involved to get a teaser rate below the national average? How long will that teaser rate apply? When will the rate change and the payment shock hit you?

"Customers may be told this information, but all they are focusing on is, 'What's my payment?' " Mark said. Many area residents who bought or refinanced in 2003 with an adjustable rate mortgage (ARM) are now facing higher payments as the interest rates increase. "We are seeing them refinance because the payments are more than they are used to, and it could put them in a financial bind," he said.

"Everybody wants bragging rights of having the lowest rates, but they do not talk about what it actually costs to get that rate," Nadine said. "You can spend minimal money out of pocket nowadays and have a good interest rate."

### **Questions Every Borrower Needs to Ask**

The most important thing borrowers can do is educating themselves up front. Mark and Nadine offer the following questions you should ask a prospective lender:

- How much can I comfortably afford?
- Will my payment change?
- What are my costs? How much do I need from start to finish?
- If I have questions, who do I call?
- What other services do you provide, and how can I benefit?

"Don't look at a rate and walk out saying the rate is 5 ½ percent and not know the parameters involved," Mark said. "Ask for full disclosure of rates, terms, any adjustments and costs. You need to be an informed borrower."

Look at the bottom line, what the out-of-pocket expense is going to be, and compare rates from lender to lender. "People are not afraid of what the fees are going to be, they are only looking at the rate," said Nadine.

If borrowers are looking for a lower interest rate, discuss the long-term cost of getting the lower rate or what you may save by taking a higher interest rate and keeping your out-of-pocket expenses down.

Also look at the credibility of the lending institution. How long have they been in operation? Will they be in business tomorrow? Be aware those found on the Internet may not have the oversight of regulatory agencies.

What will happen to your loan after closing? Who takes care of it? What are the terms after the transaction is closed? Where do your payments go? "Our customers have the option of American Bank Center taking care of the loan, or having it sold to a different lender," Nadine said. "We retain the servicing on the bulk of what we do, which means we personally handle all transactions, and any questions that arise after closing."

"You need to shop around and research more than one lender," Mark said. "It takes time, but it's worth it in the long run."

**Advice from the Experts**

Interview lenders. Compare costs and services, apples to apples.

Ask what happens to your loan after it is closed.

Read everything carefully and ask questions.

Be aware if a deal to buy or refinance sounds too good to be true, it usually is!

Ask for references, whether for a lender or a Realtor, when buying or selling a home.