

Avoiding Mortgage Pitfalls

An editorial on the current mortgage crisis by IBA Chairman Dave Kuhl appeared in the November 10, 2007, issue of the Chicago Tribune. Here is the full version of that editorial. (The final printed piece was shortened to follow length restrictions.)

With the recent spike in mortgage foreclosures, people are asking questions: Why is this happening? Where do we turn for home financing? How do we avoid these pitfalls? Your local bank has the answers. By working with your bank, you can find the loan that's right for you.

In the last decade, consumers have had much more access to credit than ever before. More credit has been available for traditional borrowers, and more credit has been available for "subprime" borrowers who have blemished credit histories and often cannot qualify for traditional home loans.

Such credit availability has led to record home ownership, particularly for lower-income households. Nonetheless, climbing interest rates combined with "non-traditional" mortgage products like "teaser" adjustable interest rates and interest-only loans, falling home prices and over-extended borrowers all have contributed to the problems facing too many homeowners today. Not surprisingly, subprime borrowers represent a significant number of those facing problems.

Help is on the way. Many elected officials, local governments and community organizations, along with federally-insured financial institutions and their regulators, are working hard to address these problems. Bona fide debt counseling programs are expanding. Public and private sectors are creating funds to assist affordable refinancings. Financial institutions of all sizes are working with borrowers in their communities to help avoid foreclosures. And the State of Illinois has been a national leader in passing laws to protect consumers from predatory lending and mortgage fraud.

Unfortunately, laws are not enough to stop the bad actors. However, there are effective steps that we all can take to protect ourselves. They are:

- Start your search for a mortgage loan at a local bank or branch of one of your federally insured financial institutions. They are subject to strict government oversight and want to develop a long-term relationship with you.
- Be careful about dealing with a mortgage broker or mortgage banking company that just appears at your doorstep, e-mails you, or advertises heavily on billboards, television commercials or the internet.
- Beware of false promises. Predatory lenders often verbally promise you one set of terms, and then increase the fees in the closing documents.

- Know the difference between the “annual percentage rate” (APR) and “finance charges” for your loan. The APR only refers to the cost of the principal amount you are borrowing. Finance charges include other “points and fees” that are added to the interest rate, and this is the number that will affect your pocketbook each month! Predatory lenders only want you to think about the APR, not finance charges!
- Never sign paperwork that contains blanks. If you are unsure about anything in the contract, talk to a credit counselor, or ask a loan officer at your local bank, even if you are not borrowing from that bank.
- Demand a copy of your loan documentation several days before your closing. Review it to see whether the terms are different from what you actually understood them to be.
- Know that you have the right to change your mind and back out of the loan within three business days after your closing.

No law or regulation can replace informed decisions. The more educated we are as consumers, the better we will weather this economic downturn and avoid future crisis.

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