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How to Save Thousands of Dollars on Your Home Mortgage.

This book is carried by major bookstores such as Barnes & Noble, Borders, and B. Dalton. It is also available at online bookstores such as Amazon.com.

You can order the book online at <http://www.loan-wolf.com>, where you will also find other information about loans and lenders.

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Mortgage myths

Most people's belief structures about mortgages are based either on truisms that may have been true for your parents 20 or 30 years ago or are the result of ideas that have become accepted as truth due to mortgage industry marketing propaganda.

Let me give you some simple examples of popular folklore:

- **The best loan is the most popular one, a 30-year fixed rate mortgage.**
- **When refinancing, the objective is to lower your payment.**
- **If you can find a lender offering a no-point or no-cost loan, it's a good deal.**
- **To determine the best deal, evaluate each lender's APR.**
- **When shopping for a loan, it's important to check a number of lenders to get the lowest cost.**

My guess is that almost everyone believes these myths. Sadly, they are all WRONG -- meaning if you follow them, you will end up paying more than other people who make different choices. You will pay more over the years and you will be in debt to the industry for a longer period of time. This is exactly what the industry wants and what you do not want.

One reason you hear so little about these myths is that each one of these, when consumers make decisions based upon them, increase the lending industry's profits. More to the point, they all INCREASE YOUR COSTS, exactly the opposite of what you want. You want to DECREASE YOUR COSTS.

I know you are skeptical, so let's examine these in more detail.

**Almost Everything you Know About
the Mortgage Industry is Wrong**

The ever-popular 30-year fixed rate loan

The 30-year, fully amortized loan was “invented” by the government in the 1930’s as a way of promoting home ownership. It has worked very well in that home ownership across our nation has expanded from less than 33% back then to over 66% today.

The most attractive feature of the 30-year loan is that the payment is so low. It’s practically an interest-only loan during the first years, so it’s easier to qualify for than loans with higher payments. Another good feature for borrowers is that it provides long-term rate protection, 30 years’ worth.

When you say the word “*mortgage*,” many people think “*30yearfixedratemortgage*” as if it were all one word. In fact, the mortgage industry today offers hundreds of different types of loans. Because borrowers’ needs vary so much, there are now many choices. Borrowers can choose a loan that fits their needs rather than just settling for the “one size fits all” 30-year fixed rate mortgage, **the most expensive loan our industry offers.**

This is most relevant because these days most people are in their homes for only 8 or 10 years. When you choose a 30- year mortgage, you have to pay about 0.5% more every year for that long term rate protection. If you move after 10 years, you paid 0.5% extra - \$1,000 every year on a \$200,000 loan – for 20 years of rate protection that you didn’t use. \$1,000 every year for 10 years is \$10,000 **wasted** money!

When you do your planning, be realistic about how long you are going to be in your home and choose a loan that provides rate protection for that period.

For people who need longer term protection, particularly those with large loans, consider a 10/1 ARM. For many people, buying risk protection 10 years at a time is suitable and much cheaper than getting a 30-year loan.

So how do I get the best loan?

When you get a loan, you are not really buying a product. You are getting a financial service, like setting up an investment portfolio, or getting your taxes done. It is no different in the mortgage business. There is real value in finding the most competent person to help you because you have a lot of decisions to make yourself – what kind of loan to get, how many points to pay, how to overcome some problem, like a mistaken derogatory account on your credit report. You are going to make a number of decisions. Are you going to make good decisions or bad ones? Left to their own devices, most people make poor decisions. This brochure aims to change that trend!

Let’s be honest about competence in the mortgage business. Half of the loan representatives out there are worse than average and the other half are better than average. You want to end up with one of the winners because if you do, the entire loan process will be much easier.

Here’s the best way to find a top service provider in any business.

ASK TEN FRIENDS

What you want is a referral from someone who has gone through the process recently. Five of your friends will tell you, “You don’t want the idiot I dealt with!” Several others will be lukewarm about their loan rep. With luck, two of them will say, “You have to meet Joe or Charlene.” That’s the kind of referral that you are looking for.

Call that loan rep and make an appointment. Chances are good that you will be just as happy as your friends and you will want to refer that person to your own friends.

Now, isn’t that a lot better than making those phone calls to lenders you don’t know anything about?

Shopping for a loan

Here's another myth. Most people think that shopping for a loan means picking up the phone and calling a half dozen lenders and asking: "What are your rates and what are your costs?" This is a poor strategy for the following reasons:

Some lenders, perhaps as many as half of the lenders out there, routinely lie to customers about rates. Call enough lenders and you're sure to find one of them. Of course, he'll quote the best rates. But he's dishonest and he will try to bleed every customer he finds. You want to avoid such lenders, so don't open yourself up to them by phoning.

Larger, reputable, ethical lenders publish a rate sheet every day, and they are very competitive with the other big lenders. The biggest lenders are Norwest, Countrywide, Chase, GMAC. In California, you can add Bank of America, Washington Mutual, and a few others. Collectively, these lenders handle about 50% of the market. What this means is that 50% of borrowers think that their rates are just fine. Every time I do a rate survey, there is almost no appreciable difference in rates between these large lenders.

What about all those other costs, what we in the industry refer to as "garbage fees?" –Again, among the overwhelming majority of lenders there is almost no difference in costs. One lender may vary \$100 or so plus or minus from the average. If one has lower costs, his points are typically a smidgen higher to make up for it.

Getting you to compare up-front costs is one of the lenders' shell games. They only amount to 1% of the total amount you will pay over the time you own your home anyway, so what's the big deal? What you want to be concerned about is the other 99%: the interest rate! If you accept that **all loans cost about the same**, you can concentrate on what's important, **what loan program you buy for that cost**.

Debt management and the amortization curve

The other bad part about 30-year loans relates to the nature of the *amortization curve*, which describes how a loan is paid off over its lifetime. I like to say that there are three parts to this curve – the stupid part, the OK part, and the good part. I can show how that works by describing how much is paid off.

Period		Percentage of Principal Paid
The first 10 years	The stupid part	15%
The next 20 years	The OK part	30%
The last 10 years	The good part	55%

Why is this important? Consider this – the worst credit card management strategy in the world is to pay the minimum amount due every month. It's like the debt never goes away. The lender loves it, of course, because they get paid interest on the balance, which never drops much. It maximizes their profit. It also maximizes your cost! By the same token, when borrowers make the obligatory minimum low payment on a 30-year amortized loan, they are falling in that same trap: maximizing the lender's income, and maximizing their own cost! You don't want to do that.

When most people refinance, they get it **wrong!** They focus on "lowering their payment" by getting a new 30-year loan. What they do is go back to the stupid part of the amortization curve again. If you are more than 5 years into your current loan, even if you lower your interest rate 1%, if you select another 30-year loan you actually may owe MORE TOTAL INTEREST than you owed on the old loan with only 25 years left.

A better strategy when you refinance is to keep making the same payment as you are making now. At the lower interest rate, you'll get into the better part of the amortization curve and knock years off the life of your loan.

APR – Government mandated baloney

I'm sure you know that lenders are required to calculate the Annual Percentage Rate (APR) when they quote loan rates. It is supposed to be a way for shoppers to compare one loan with another. It's another example of government stupidity, and it has virtually no value whatsoever to consumers.

The APR is supposed to be a way of turning the up-front costs of various loans into an addition to the note rate so consumers can compare the offerings of various lenders. In fact, APR is of value when comparing short term loans, like car loans, where you are likely to pay off the loan. With mortgages, however, almost no one actually has his loan for 30 years, so looking at costs which are amortized over 30 years will cause you to make mistakes.

What you want to know is the costs if they were amortized over the period of time **you** are going to own your home. Assume you choose a 10% loan with exactly 1% in prepaid finance charges. Here are the calculated effective interest rates, amortizing the costs over the time you have the loan.

Period of ownership	Effective interest rate
1 year	11%
2 years	10.5%
3 years	10.33%
4 years	10.25%
5 years	10.2%
30 years	10.123% (= APR)

How valuable is it to know that the APR is 10.123%? Not at all.

You also have heard that when one lender offers a loan at 8% and 1 point and another lenders offers 7.875% and 1.5 points, APR is a way of calculating the difference. Not so. All lenders offer as many as a dozen rate-versus-fee alternatives, and APR is not the way to figure out the best one.

Dumb loans: “No point” and “no cost” loans

No point and *no cost* loans are very popular today. Some lenders tell me that 80% of borrowers who are refinancing are choosing this alternative. I'm sure that most borrowers say to themselves, “It's free. How can I lose?” Let's take a closer look into these loans, because these borrowers are **wrong!**

No point and *no cost* loans are insanely profitable to lenders. Is that what you want? Not at all. You want a loan where the lender barely makes any money at all. So why would the lender be willing to do something for FREE? Well, you probably heard that they raise the interest rate slightly when offering zero point loans. What most people don't know is that it's really a case of “**pay me a little now or pay me a lot later.**”

Let's compare two transactions, one with one point at 6.625% and the other without points at the “slightly higher” rate of 7% and calculate the difference over eight years.

Up front fees	Interest paid	Principal balance at end
Zero	106,721	178,983
2,000	99,173	171,434
(2,000)	7,548	7,549

You can see from this that by talking you into a zero point loan, they gave up \$2,000 the first year. They got from you \$7,548 more in interest and you still owe them \$7,549 more, a total benefit to them of \$15,097, all for \$2,000. If you pay the \$2,000, YOU get to keep the \$15,097. Which would you do?

Finally, there are a few people for whom a zero point loan does makes sense, usually those who will only be in a property for less than three years. As a general rule, most people, can go ahead and pay points if they will recoup their costs in less than four years.