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CONSUMER FINANCIAL PROTECTION BUREAU REPORT FINDS NEARLY HALF OF BORROWERS DO NOT SHOP FOR A MORTGAGE

CFPB Releases "Owning a Home" Toolkit to Help Consumers Shopping for a Mortgage

WASHINGTON, D.C. — Today the Consumer Financial Protection Bureau (CFPB) released a report finding that almost half of consumers do not shop around for a mortgage when purchasing a home. The report also found that informed consumers are more likely to shop, especially if they are familiar with available mortgage rates. As part of its Know Before You Owe mortgage initiative, the CFPB is releasing “Owning a Home,” an interactive, online toolkit designed to help consumers as they shop for a mortgage. The suite of tools gives consumers the information and confidence they need to get the best deal.

“Our study found that many consumers are not shopping for a mortgage. Consumers put great thought into the choice of a home, but the mortgage process continues to be intimidating,” said CFPB Director Richard Cordray. “The Know Before You Owe Owning a Home toolkit makes it easy to see how shopping for a mortgage can translate into big dollars saved in the long run. We want to enable consumers to be more savvy shoppers.”

The report can be found at: http://files.consumerfinance.gov/f/201501_cfpb_consumers-mortgage-shopping-experience.pdf

While many risky features of mortgages are now restricted or unavailable in the marketplace since the financial crisis, mortgages still have different terms and features. Key components include the loan term, loan type, and interest rate. Loan terms typically vary between 15 and 30 years. Loan types include Federal Housing Administration (FHA), Veterans Affairs (VA), and conventional loans. Interest rates can be fixed or adjustable, and the rates vary across lenders, even for the same consumer and for loans with otherwise identical product features. Consumers can shop for a mortgage by researching and inquiring with multiple lenders, applying for mortgages with multiple lenders, or applying for different kinds of loans.

Today’s report is based on results from new data in the National Survey of Mortgage Borrowers, a voluntary survey jointly conducted by the CFPB and the Federal Housing Finance Agency. The Bureau analyzed responses from consumers who took out a mortgage to buy a home in 2013. Among the key findings:

- **Almost half of consumers fail to shop around before applying:** Almost half of consumers who take out a mortgage fail to shop prior to filling out an application for a mortgage. This means these consumers are seriously considering only a single lender or mortgage broker before choosing where to apply.

- **Three out of four consumers only apply with one lender or broker:** While half of consumers shop around to see who advertises lower rates, fewer than one out of four borrowers actually end up submitting a loan application to more than one lender or broker. These consumers are not filling out applications with multiple lenders to see which one can offer them the best deal.

- **Most consumers get their information from lenders or brokers, who have a stake in the outcome:** The survey asked recent mortgage borrowers whether they used different information sources. Respondents were asked to report whether they used each source a lot, a little, or not at all. Consumers could pick multiple categories. Among the findings: 70 percent of consumers report relying on their lender or mortgage broker a lot to get information about mortgages. While lenders and brokers can be valuable resources, they have a stake in the selling of the mortgage, so what is best for the lender or broker is not always best for the consumer.

- **Borrowers who prioritize the terms of the loan over the characteristics of the lender are more likely to shop:** The survey asked borrowers whether characteristics of lenders or mortgage brokers were “very,” “somewhat,” or “not at all” important in their selection. The survey found those who listed lender characteristics as important, instead of the loan terms, are less likely to shop. Specifically, the survey found that among all borrowers – those who shopped and those who did not – 42 percent said having an established banking relationship with the lender is “very important.” Since most borrowers likely only have a few banking relationships, this likely inhibits shopping.

- **Informed consumers are twice as likely to shop:** Consumers who are confident in their knowledge about the mortgage process are more likely to shop around. For instance, consumers who are confident about their knowledge of available interest rates are almost twice as likely to shop as consumers who are unfamiliar with available interest rates. The survey found that 55 percent of shoppers said they were very familiar with mortgage rates, while 30 percent of shoppers said they were not at all familiar.

Failing to shop means money lost for consumers. Consumers who consider the product offerings of multiple lenders or brokers may save substantial sums. For example, interest rates can span more than half a percent for a conventional mortgage for borrowers with a good credit rating and a 20 percent down payment. For a borrower taking out a 30-year fixed-rate loan for $200,000, getting an interest rate of 4 percent instead of 4.5 percent translates into almost $60 saved per month. Over the first five years, the borrower would save about $3,500 in mortgage payments. In addition, the lower interest rate means that the borrower would pay off an additional $1,400 in principal in the first five years, building greater equity.

A factsheet about the consumer mortgage shopping perspective can be found at:
http://files.consumerfinance.gov/f/201501_cfpb_factsheet-the-consumer-mortgage-shopping-perspective.pdf

Owning A Home Toolkit
As part of the CFPB’s Know Before You Owe initiative, the Bureau is releasing Owning a Home, a suite of tools to inform and empower consumers shopping for a mortgage. It takes the consumer from the very start of the home-buying process, with a guide to loan options, terminology, and costs, through to the closing table with a closing checklist.

One key feature of Owning a Home is the Rate Checker tool. In its beta release, this tool helps consumers understand what interest rates may be available to them by using the same underwriting variables that lenders use on their internal rate sheets. These are the documents lenders use to calculate what interest rate is available for a particular combination of loan type, property value, loan amount, and credit score. The data behind the Rate Checker is updated daily and includes information from large banks, regional banks, and credit unions and covers about 80 percent of the mortgage market.

The Rate Checker can provide borrowers looking to buy a single-family home with:

- **Interest rates tailored to consumers:** Consumers can plug in their credit score, their location, and information about the loan they are seeking to see the rates that lenders are offering. This is different than other websites that usually quote rates using averages for borrowers with great credit and a large down payment. The tool also shows, in a simple graph, how many lenders are offering each rate, so consumers can understand how likely they are to get that rate, given their situation.

- **Clearer understanding of how much money is saved with lower rates:** It can be hard to understand how a difference in interest rate percentage translates into actual dollars that have to be paid for the cost of the loan. The CFPB tool makes it easy to compare different interest rates and how much they will cost over the life of the loan. For a borrower taking out a 30-year fixed-rate loan for $350,000, getting an interest rate of 3.75 percent instead of 4.25 percent translates into approximately $100 savings per month. Over the first five years, the borrower would save more than $6,000 in mortgage payments. In addition, the lower interest rate means that the borrower would pay off an additional $2,500 in principal in the first five years, even while making lower payments.

- **The effects of different down payments and credit scores:** The tool lets consumers try out different scenarios and see their impact on the cost of the mortgage. For example, consumers can see what would happen if they qualified for a lower interest rate by improving their credit score or saving for a bigger down payment.

- **Information on how to get a better interest rate:** The tool provides steps consumers can take to work toward a better interest rate. This includes advice in the short term when consumers are looking to buy soon, and over the long term, if consumers have more time to work on improving their credit profile. While many mortgage tools exist online, the CFPB tool is unbiased. Consumers can use it as much as they like and trust they are getting impartial information.

Knowing the rates lenders are offering to consumers in a similar situation – buying a home of equal value, in a comparable area, with the same credit score – enables a consumer to enter conversations with multiple lenders armed with greater information and prepared with better questions. Owning a Home also demystifies mortgage jargon, so consumers can have conversations with lenders more confidently.

The new Rate Checker tool can be found at http://www.consumerfinance.gov/owning-a-home/check-rates

The Owning a Home toolkit can be found at: www.consumerfinance.gov/owning-a-home

The Bureau introduced new mortgage origination and servicing rules in January 2014 to make the market safer for consumers. The Ability-to-Repay rule helps ensure that lenders offer mortgages that consumers can actually afford to pay back; this includes prohibiting certain dangerous lending practices that were common before the 2008 financial crisis. The Bureau's mortgage servicing rules establish new, strong protections for struggling homeowners, including those facing foreclosure, and ensure no surprises and no runarounds when consumers try to pay their mortgages. And starting in August 2015, homebuyers will receive the Bureau's new Know Before You Owe mortgage disclosure forms, which replace the existing federal disclosures and help consumers understand their options, choose the deal that’s best for them, and avoid costly surprises at the closing table.

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