

Book Review

Mortgages 101

Barbara O'Neill

Author: **David Reed**

Publisher: American Management Association

ISBN 978-0-8144-0166-8

Mortgages 101: Quick Answers to Over 250 Critical Questions About Your Home Loan is a must read for any financial counselor or educator, especially those who have not personally experienced the U.S. housing market (read: bought a house, refinanced, and/or applied for a mortgage) within the last five years. This 294-page book is written by David Reed, a Texas mortgage banker, who has closed more than 2,000 loans in a career that has spanned over two decades. Reed is a columnist for *Realty Times* and is the author of three previous books on real estate topics. The author's extensive professional experience as a senior loan officer is quite evident throughout the book as he interweaves his lending experiences and industry anecdotes with factual data about mortgages. This approach greatly enhances both the readability and real world usefulness of the book.

Mortgages 101 can certainly be read cover to cover. It can also be used as a desk reference for questions that arise about mortgage lending or to find detailed information on specific topics such as VA and FHA loans, construction loans, and closing costs. I have personally referred to it several times to answer online eXtension "Ask the Expert" questions from consumers. The book is organized into three sections: Section 1: "Mortgage Fundamentals" (chapters 1-6), Section II: "The Right Mortgage" (Chapters 7-11), and Section III: "The Right Lender and Rate" (Chapters 12-16). Within each chapter, the content is organized around a series of relatively brief questions and answers. For those questions that require a longer response, the author inserts a "Tell Me More" section that provides additional detail.

This second edition of *Mortgages 101*, which is an updated version of a previous 2004 publication, addresses current issues in mortgage lending. Reed clearly explains topics (e.g., option ARMs) that have frequently been in the news during the past few years and have been associated with the so-called U.S. "mortgage mess." He also describes how technological advances have changed facets of the mortgage lending process and provides a detailed treatment of credit topics related to mortgages. The book succeeds admirably in reaching its goal of guiding readers through the "mortgage maze," the term that Reed uses to describe the complex process of applying for and receiving a home loan.

Each chapter begins with a short introductory paragraph, followed by a series of questions and answers. Chapter 1, "Introduction to Mortgages," covers the basics, including buying versus renting, mortgage preapproval, automated underwriting systems (AUS technology), key players in the loan approval process, and a detailed description of sections of the 1003 loan application form.

Chapter 2, "How to Know How Much Home to Buy," focuses on the economics of mortgages, specifically, how much money prospective home buyers can afford to borrow. Topics covered in this chapter include: common lender guidelines, debt-to-income ratios and how they are calculated and interpreted, the role of AUS technology in the mortgage underwriting process, and the use of escrow accounts for homeowner's insurance and property taxes.

Barbara O'Neill, Ph.D., CFP[®], Professor II and Extension Specialist in Financial Resource Management, Rutgers Cooperative Extension, School of Environmental and Biological Sciences, Rutgers University, Cook Office Building, 55 Dudley Rd., New Brunswick, NJ 08901, oneill@aesop.rutgers.edu, (732)932-9155, Ext. 250

“Getting Your Finances Together” is the title of Chapter 3, which describes how a potential borrower’s finances will be evaluated by lenders. Topics covered include procedures used to document income and the value of assets, documenting income paid in cash, reporting overtime pay, bonuses, and commissions, dividend and interest income, and self-employment income.

A key home-buying concern, the down payment on a home, is covered in Chapter 4, “Down Payments and How They Impact Your Mortgage.” The chapter includes information on the following topics: mortgage down payments and how they are calculated, risk elements for mortgage lenders, sources of money that can be used to fund a down payment, down payment assistance programs or DPAPs, private mortgage insurance (PMI) and the calculation of PMI premiums, piggyback (e.g., 80-10-10) loans as an alternative to mortgage insurance, “zero-money-down” loans, and bridge loans for homebuyers who need to sell their current home before they can buy a new one.

“Getting Your Credit Together,” Chapter 5, provides an excellent overview of the importance of a good credit history when applying for a mortgage (or any other loan) and what lenders look for in a loan application. The chapter begins with a basic definition of credit and then provides details about the following topics: credit bureaus, the content of credit reports, the impact of having bankruptcy listed in a credit report, “good” and “bad” credit, cosigning a loan, ways to improve a credit report, fixing credit report mistakes, alternate or nonstandard credit (e.g., utility bills), and having spouses and ex-spouses with a poor credit history.

Chapter 6, “Credit Scores: What They Are, How They Work, and How to Improve Them,” further expounds on the importance of having a good personal credit history. The chapter begins with a description of credit scores and the range of possible scores (300 to 850), how they affect mortgage rates (“people with higher credit scores get better rates than those with low credit scores”), and how FICO credit scores were originally developed by the Fair Isaac Corporation. I chuckled when I saw the following quote: “Personally, I’ve never seen a score higher than 810 and if there is someone out there with an 840, I’d like to meet them.” My husband and I recently refinanced our home equity loan and had scores of 814 and 832, respectively, almost high enough to warrant personal contact with the author. Credit scores of 720+ are generally considered “excellent credit” according to Reed. Good credit and average credit scores are 680 and 660, respectively.

It should be noted, however, that since the credit crunch of 2008-2009, credit score breakpoints for loan rates have increasingly been revised upward with “excellent credit” now pegged at 760 to 780 and above.

In Section II, beginning with Chapter 7, “Finding Your Home Loan,” the focus shifts from a borrower’s personal finances to the mortgage loan market. Topics covered in Chapter 7 include: the types of available mortgages (40 different types are listed), fixed versus adjustable rate loans, hybrid loans, balloon mortgages, mortgage buy-downs, jumbo mortgages, prepayment penalties, VA and FHA loans, first-time home buyer loans, loans for second homes and rental properties, interest-only loans, negative amortization mortgages, payment option ARMs, seller financing, lease-purchase agreements, wraparound mortgages, and biweekly loans. This chapter also explores the role of Fannie Mae (Federal National Mortgage Association) and Freddie Mac (Federal Home Loan Mortgage Corporation) in mortgage lending, although the discussion seemed inordinately positive given the September 2008 federal government takeover of both quasi-governmental agencies. Of course, the author, as well as government regulators, could not possibly have anticipated the magnitude of the U.S. housing crisis a year earlier when the book was written.

Chapter 8, “Loans for Good to Great Credit,” describes specific loan features that borrowers should pay attention to. Among the topics that are discussed are types of mortgages (“Get a fixed if you’re in it for the long term or are risk-averse. Get an ARM if you see this purchase as being short term, say three to five years.”), choosing a loan term, the impact of the length of a mortgage on interest rates, types of mortgages according to required loan application documentation, NINA (no job, no income, no assets) loans, and “problem” properties (time-shares, condotels, and mobile homes).

Not everyone has a good credit history and a high credit score and Reed devotes an entire chapter to their concerns. Topics that are discussed in Chapter 9, “Loans for People with Impaired or Damaged Credit,” include: sources of loans for people with damaged credit, subprime loans, hybrid loans, rebuilding a credit history, and predatory loans. Throughout the book, Reed describes his experiences and states his personal opinions about various mortgage-related topics. Two examples of his writing follow on the subject of predatory loans: “I’ve never seen a mortgage that starts out costing 5 points. Most loans that are on the market of-

fer a 'no point' option and let you pay discount points to get a lower rate;" and "people with damaged credit have had it rough enough without being taken advantage of yet again."

Chapter 10, "Refinancing and Home Equity Loans," addresses other aspects of mortgage lending. Topics covered in this chapter include: reasons for refinancing a mortgage, when to refinance, the rescission period rule for refinanced primary residences, refinancing fees and points, cash-out refinancing, home equity line of credit (HELOC) loans, allowable changes to original mortgage terms (note modifications, loan recasts, and modifiable mortgages), and reverse mortgages and reverse mortgage loan terms.

"Construction Loans and Home Improvement Loans," Chapter 11, will be of particular interest to readers who are seeking a loan to build or remodel their home. Reed provides questions and answers about the advantages of building a home, how construction loans work, how lenders appraise a house that has yet to be built, and one-time close and two-time close loan options ("A one-time close means you obtain construction financing and a permanent mortgage at the same time. A two-time close loan means you first get a construction loan and then get another mortgage at the end of construction.").

In Section III, the focus of *Mortgages 101* shifts again from the mortgage loan market to mortgage lenders, interest rates, and fees. The process of selecting a mortgage lender is the topic of Chapter 12, "Finding the Best Lender." This chapter covers a number of topics ranging from locating lenders that offer a certain type of mortgage (e.g., FHA), finding information about available lenders, getting referrals from a real estate agent, types of mortgage lenders, a description of mortgage brokers and how they get paid, choosing between a mortgage banker and a mortgage broker, and the challenges of changing lenders during the loan application process.

Chapter 13, "Finding the Best Loan Officer," discusses just that. Reed again draws upon his long career as a mortgage banker and provides detailed descriptions of the process of making referrals to loan officers by real estate agents, questions to ask a potential loan officer, insights into how loan officers get trained and their compensation structure, and instructions on how to change or make complaints against poor loan officers.

In Chapter 14, "Finding the Best Interest Rate," readers learn about the process of establishing mortgage interest rates, including who sets mortgage rates and the types of economic reports to pay attention to. Other topics discussed in this chapter include: the best time of day to get a rate quote (in the morning after governmental reports on the economy are released), the process of locking in mortgage rate quotes, and what happens if a rate lock expires or interest rates go down after an interest rate is locked in.

"Closing Costs and How to Save on Them" is the topic of Chapter 15, which describes the types of closing costs that borrowers can expect. In addition, the chapter discusses why lenders charge various fees, ways to save on appraisal fees, credit reports, and title insurance, and the information that is included in a good faith estimate.

The final chapter, "The Internet and Mortgages (Chapter 16), was particularly interesting to me as I had not realized the amount of mortgage paperwork processing that can now be done online. In this chapter, Reed outlines how the Internet has changed mortgage lending, how to use the Internet to find attractive loan rates, online mortgage lenders, and helpful Web sites for home buyers and mortgage applicants.

Mortgages 101: Quick Answers to Over 250 Critical Questions About Your Home Loan is a valuable reference with insights that only an industry insider can provide. Home buyers at a "teachable moment" as they enter the mortgage maze will probably want to read most chapters question by question to find the information that they need. Those without an immediate need to apply the information personally will probably elect to use the book as a reference tool to assist others or for background information for an article or learning lesson. Either way, the book is a recommended read and well worth purchasing for personal and/or professional use.