

Can I Rely on Price Quotes?



Q: When I called numerous lenders and mortgage brokers asking for rates and points, I received quotes that varied widely. My wife suspects some of these quotes are phony. What's the point of phony quotes, and how can they get away with it?

A: Your wife is right. The more attractive the quote, the more likely it is phony -- meaning that the lender or broker has no intention of honoring it.

What's the point? To rope you in.

If you are purchasing a house, the cost of terminating the process with one loan provider and starting again with another becomes increasingly high as you move toward your home closing date. As your bargaining power recedes with the passage of time, you become increasingly vulnerable to various tricks for increasing the price.

Loan providers who offer phony quotes figure once you are in the application process, they have a good chance of landing you as a borrower.

I know a mortgage broker who aims to make a 2.5 point markup on all loans (each point is 1% of the loan amount), but includes only a 0.5 point markup on prices he quotes over the telephone. For example, if this broker has a quote from a wholesale lender of 8.25% and 1 point, he quotes you 8.25% and 1.5 points -- a markup of only 0.5 points. If he lands you as a customer, he finds a way to recover the point (or more) before the loan terms are locked.

Brokers who practice this deceit are called "sunshine blowers" by those that don't.

How do they get away with it? Loan providers legally can't be held to a price quote. Since the market is volatile, yesterday's price may not apply today. All loan providers, including the sunshine blowers, warn borrowers that price quotes aren't firm until they are locked.

For example, suppose market interest rates rise after the initial quote, with the original wholesale quote of 8.25% and 1 point now 8.25% and 1.5 points. The broker tells you "Sorry, the market has gone against us, the loan you want is now at 8.25% and 3 points." The broker makes an extra point by pretending that the increase in market rates was larger than it was.

Conversely, if the wholesale quote falls to 8.25% and zero points, the broker can make his 1.5 point markup by providing you with the terms originally quoted. The broker merely ignores the decline in market rates.

You can attempt to forestall this trickery by monitoring changes in the market after you get a price quote, but probably you won't get far.

The broker will point out that your market information is general and does not accurately describe the specific segment of the market relevant to your loan. Only the broker has that information. You will probably lose this argument because you're fighting on the broker's turf, and you have a closing date on the near horizon.

It would be a different story if the broker agreed initially to share his market information with you.

If the broker in my example revealed the wholesale lenders' price quotes, you would know exactly how the market relevant to you had changed. But then the broker would not be able to modify his low-ball markup, which is why most brokers keep wholesale prices to themselves.

When you shop, unless you inform the loan provider otherwise, he generally assumes:

*The loan is below \$322,700 (the maximum for purchase by Federal secondary market agencies in 2003), and above some minimum-- usually around \$50,000.

*There will not be a second mortgage on the property when the deal closes.

*The property is single-family, detached and constructed on site.

*You and all co-borrowers intend to occupy the house as your permanent residence.

*Your credit rating and that of your co-borrowers is good.

*You have enough cash to pay the required down payment and settlement costs.

*Your income is high enough to meet maximum ratios of housing expense to income and total expense (including monthly payments on existing debt) to income required for the loan program you select.

*You can fully document your income and financial assets.

*You are a US citizen or a permanent resident alien.

If you don't meet all these specifications, you are subject to a price increase.

When you are shopping for a loan, it is always best to reveal how your case differs from these standards. In dealing with shoppers, loan providers will raise the rate by no more than necessary. If you don't reveal the information until it is too late to back out, and if you are unfortunate enough to have fallen into the hands of a rogue, you will pay dearly for your mistake.

An attractive alternative is to hire an honest expert to shop rates for you. That's what Upfront Mortgage Brokers do. Acting as your representative, they can shop the market a lot better than you can.