

Purpose of This Book

Imagine a room that is completely dark. Then, imagine entering the room and lighting a small candle. What happens to the darkness? It disappears in the presence of any amount of light. Darkness has no power to overcome light because it is nothing in and of itself. Darkness is simply the absence of light. When any light at all enters the scene, darkness cannot exist.

When I began writing this book in 2007, the purpose was to shine the light on a dark industry. There were so many people of questionable character in the mortgage industry that I prepared myself for a huge backlash against the book, and me personally, from industry professionals.

Well, it takes a long time to write and publish a quality book. In the time it has taken me to complete the task, the mortgage business has undergone massive changes. New laws have been passed to help consumers. Even more importantly, it requires an incredible amount of work to get a loan for even the best-qualified borrowers. The level of skill needed to be a loan officer now is so high, that most with questionable character have left the industry. Those that remain will most likely be grateful that this book is out there because it supports honest lending, which is also their goal. There are many wonderful, supportive, honorable loan officers who are mistrusted simply because they are in an industry that was, at one time, swarming with dishonest ones. It is important to separate the wheat from the chaff. This book will help you do that.

I am glad that the government is passing legislation that makes it difficult to cheat people. However, Fannie Mae, Freddie Mac, and many private banks have made it so difficult to get a loan that many Americans who can afford a mortgage payment can't get a loan. The system, as it is now, won't allow them to get one. If getting a mortgage remains as difficult as it is today for very long, our entire economy will suffer. So the pendulum needs to swing back a little.

Unfortunately, when that happens, it may open the door for dishonest, unqualified people to return.

My hope is that all borrowers will be so wise after exposure to this book, that the con men won't come back to the mortgage industry, because it will be too hard for them to cheat people.

One of the reasons borrowers have been mistreated is that the mortgage process appears very complicated. The fees and terms of the various loan types can be dizzying. However, in reality, the mortgage industry could be likened to the Wizard in *The Wizard of Oz*. The Wizard seemed so huge and imposing to Dorothy and her friends. He ruled only because he deluded people into thinking he was greater than they are, and that he had powers they did not possess. Then Toto came along, pulled back the curtain, and exposed the simple truth. The Wizard was just a man behind a complicated-looking machine.

I want to be "Toto" for you. My goal is to pull back the curtain and show you the simple truth behind all of the complicated aspects of the mortgage industry; so that you will be better equipped to make wise, well-informed decisions about your home loan. So if you will, let's follow Toto behind the curtain and learn the truth about the mortgage industry.

Introduction

During the mortgage boom, pretty much anyone with a pulse could get a loan. The truth was that most buyers with good credit could qualify for a much larger mortgage than they could realistically afford. Many lenders at the time did not need income verification. The lenders based the qualification on other factors: credit, employment, assets, and equity (supposedly). They also assumed that real estate values would continue to increase indefinitely, in spite of the fact that we have a long history of cyclical real estate values.

To protect my clients from possible future default, I didn't qualify them purely by the lenders' standards, because those standards were too loose. Instead, I backed into the loan amount I offered them by asking them how much they were comfortable paying for housing, and then doing a careful analysis of their lifestyles. That practice has translated to a default rate for my clients of a fraction of 1%. It also translated into losing some clients and realtor referral sources. But I would rather lose them, up front, than give them a loan that will bury them in the future simply because they want it.

The purpose of *The Normal People's Guide to Home Financing* is to help you ensure you get a mortgage you can afford, now and in the future, and to protect you from unscrupulous mortgage lenders. Who qualifies as a "normal person" for the purposes of this book? Anyone who does not focus on mortgages as a full-time job is by my definition, "normal."

If you are like most people, you will only get a few mortgages during the course of your lifetime. It doesn't make sense for you to become an expert in mortgage loans. You should continue to focus on being an expert in your own field. However, it is very easy to be overcharged and mistreated when getting a home loan, even with all the new legislation. A certain amount of fundamental knowledge will help ensure that you are treated well by the lender of your choice. What you don't know *really* can hurt you. **A little knowledge can save you thousands of dollars in upfront fees and tens of thousands of dollars in interest over the life of**

your loan. It may also save you from foreclosure by helping you make sure you get the right loan for your situation; and that you know the risks you take on if you choose an adjustable rate mortgage.

The Normal People's Guide to Home Financing protects you two ways:

1. It clearly explains the "back room" side of the mortgage industry. I shine the light on the dark side of mortgage lending, including "junk fees," the truth about points, and bait-and-switch practices. My goal is to give you the knowledge necessary to negotiate a good loan, and to make sure that same loan shows up at closing.
2. It helps you be sure that you choose the right loan for your circumstances. The chapter titled "Truth or Consequences" helps you determine if your new mortgage payment will fit into your daily life, so that you can sleep at night knowing you can afford your home. If you choose an adjustable loan, this book prepares you for what may happen when the loan adjusts, and helps you choose the right adjustable loan for your lifestyle and future plans.

First, it would be wise for us to clarify a few basics that we all know, but often forget. They are clichés. But there is a reason these statements became clichés: they are often true.

- There is no such thing as a free lunch.
- If it sounds too good to be true, that's because it isn't true, especially in the mortgage business.

Bait-and-switch scams have been very common in the mortgage business. As Americans, we are used to shopping for the best deal when making a purchase, so we tend to think the same rules apply to getting a home loan. They often do not!

HUD enacted legislation effective January 1st 2010 that clarifies the Good Faith Estimate of Fees very well. It also clarifies many of the terms of the loan. This same legislation seeks to prevent "bait-and-switch" practices by ensuring that the broker cannot make a greater commission than he initially disclosed to you. This prevents many of the abuses of the past. Some of the changes may put "Mom and Pop" brokers out of business. I feel that the consumers' best interests are served by keeping the good brokers in business. The "Mom and Pop" brokers often provide excellent service. In my opinion, legislating them out of business will hurt consumers in the long run. Time will tell if they will survive the new regulations.

I want to protect as many people as I possibly can, and I am aware that the topic of mortgages isn't as exciting as a romance novel. So to accommodate that fact, I have done a couple of things that I hope will make this book fun and easy to read.

1. For those of you with very little time (or patience) to read a book about mortgages, I put a “Cliff’s Notes” version of the book up front. The first chapter is called “If you read only one chapter, read this one.” It gives you the most critical information, as well as a brief summary of each of the chapters, so that you can decide which chapters will serve you best.
2. I added stories wherever possible in an attempt to make the experience more enjoyable for you. A wise nanny once said, “A spoonful of sugar helps the medicine go down.”

Note: Because I expect that some readers may want to skip around and focus only on the chapters that interest them, this book was written with that in mind. Therefore, download instructions for the forms included in this book are repeated whenever referenced.

We will know that I have accomplished the goal of this book if I am able to help you:

- ✓ Choose an honest loan officer;
- ✓ Get a loan whose rate and fees are fair;
- ✓ Settle on the payment you can comfortably afford, and get the loan that accommodates your budget;
- ✓ Determine the loan type that best suits your lifestyle and plans for the future;
- ✓ Understand the characteristics and risks of the loan you choose (if you choose an adjustable rate mortgage), so that you are prepared for your possible future;
- ✓ Know how to find the critical aspects of your new home loan in the stack of loan documents you will be asked to sign, so that you can be confident you get the loan you were promised.

The mortgage industry is changing so rapidly that no book could keep up with all the changes. It would take a weekly magazine to keep up. So please check the “Updates” tab on our website for the latest changes to loan programs and other important information.