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Watch Out for Loans That Sound Too Good to be True

With the mortgage market shaken by rising foreclosures and a slumping housing sector, many homeowners are finding it hard to make their home loan payments and many prospective home buyers are finding it difficult to find affordable funding. Unfortunately, some sly and crafty mortgage lenders have begun advertising loans that carry “no points, no costs, and no fees” in order to lure in both eager buyers and desperate owners. This type of advertising is deceptive as it does not disclose that the fees and points are tacked onto the balance of the loan or added in to inflate the interest rate.

Such loans have been fooling enough people that one of the nation’s largest consumer advocacy organizations, America’s Watchdog, recently published a press release warning homeowners and buyers against getting pulled in by these tempting ads. “These slick TV or radio ads make it sound like there is such a thing as a free mortgage,” the company said in the release. “There is no such thing as a ‘no cost mortgage.’”

The company cited three risks of buying or refinancing with one of these “no cost” mortgages. First, “The consumer will in many cases not get the absolute best mortgage product that meets their needs.” This is because the loan described in the ad is simply a program designed to avoid most or all of the upfront fees. Consumers would not be apprised of various loan programs and options that might better suit their financial needs. They will simply buy into the advertised loan, one that could end up costing them a lot more money in the long run.

Second, “the consumer will get an interest rate that may be much higher than the best rates available (translation: the consumer gets a much higher monthly mortgage payment.)” So home buyers and owners may not have to pay thousands of dollars upfront to get a loan, but they will quickly pay that much to the lender in the form of a high monthly payment. America’s Watchdog estimates that these “no cost” loans can carry monthly payments that are \$250 to \$350 more than those of more traditional mortgages.

Lastly, “the mortgage transaction may be loaded with junk mortgage fees or a combination of junk mortgage fees, an interest rate that is too high or the wrong mortgage product.” Junk fees are simply extra fees, whether legitimate or not, that are tacked on by the lenders to a mortgage loan. You will find these with any mortgage loan you choose, but they can be especially high if you obtain a “no cost” home loan.

If you are looking for a new mortgage home loan, it can be tempting to turn to a lender who promises no fees and no points, but just remember – you can’t get something for nothing in this world. If the fees are subtracted from the front-end, they are most likely added back in at the end or in the interest rate. When it comes to home loans, if it sounds too good to be true, it is.