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Jumbo Broker Blasts Other Brokers

'Beyond the Rate' series warns of broker pitfalls

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By **COCO SALAZAR**

A California mortgage broker is warning prospective borrowers that other brokers will deceive them about no-cost loans, prepayment penalties and adjustable-rate mortgages with payment options.

The warnings, conveyed through an educational series entitled *Beyond the Rate*, were issued by Patrick Schwerdtfeger, who says he is a San Francisco Bay Area mortgage broker specializing in jumbo originations through "one of the largest brokerages in the country" -- Windsor Capital Mortgage Corp.

"There's a lot of hungry mortgage brokers out there and the marketing is aggressive and deceptive," according to the *Beyond the Rate* Web site. The series on "how the mortgage industry operates and how to navigate through all the confusing programs and deceptive marketing techniques being used by some of today's mortgage brokers," goes "behind the scenes of the mortgage business and tell[s] you exactly what's going on and how to avoid the pitfalls so many others fall into."

Ads in the past few years offering "zero point" loans that "most people jump at ... thinking they're saving money" are one example. While points can help borrowers save "a bunch of money" if they don't refinance every year or two, brokers do not inform prospects about them because they know points may make their quote appear less competitive or seem like they're ripping off people.

"The industry has gone beyond avoiding 'points,'" Schwerdtfeger said. "They're actually avoiding the origination as well.

"Nobody's doing loans for free out there and most banks have a minimum 1% origination," he added. "If you're not paying the 1% origination as a closing cost, rest assured, it's hidden in a higher interest rate."

The banker noted brokers go a step further when they market "no cost loans." Every loan has costs and fees, for things such as a credit report, appraisal and notary, that if not itemized in the closing costs are hidden in a higher interest rate. A loan can get marked up so high so as to result in 2 percent or even 3 percent rebate after the loan closes, "so don't get fooled ... it's just a marketing gimmick."

Schwerdtfeger also spotlighted what he says is a marketing label that helps brokers sell option-ARM loans, "Interest rates starting at just 1%!"

"We've all heard about these 1% mortgages," he says. "They're heavily marketed and most of the promotional material is highly deceptive. I personally believe that less than 10% of the people who get into these types of loans truly understand what they're getting into."

While option ARMs can provide value, they are "a bit scary" and the "least conservative" of loan programs because they have the potential to erode borrowers' equity and potential profit, as one of the options to pay a minimum payment based on an artificial starting interest rate of just 1% is not even enough to pay the interest only payment and makes the mortgage balance get higher each month, Schwerdtfeger said.

Another marketing technique is the suggestion that the option-ARM is a 30-year fixed, when in fact it is variable from the very first month.

"There's a big difference between a 30-yr 'amortized' and a 30-yr 'fixed' ... you'll see your 30-year amortized payment change every single month, probably higher," he said.

The originator also said that "a lot of people" don't realize they have prepayment penalties on their loan because "mortgage brokers ... avoid the topic as much as possible." In fact the cost of the penalty might outweigh the benefit of refinancing, though most brokers would never suggest the borrower wait to refinance until the penalty expires. "Most would only stress the risks of keeping the existing mortgage and push you to begin the refinance as soon as possible," he said.

In a chapter regarding credit scores, the California originator points out that the median score is about 722 which, from a credit perspective, means at least half the population should be in prime mortgage programs.

But many mortgage brokers "gently nudge their clients down the ladder of loan programs because it makes their lives easier," he said. "The guidelines are looser in Alt-A and Subprime programs so you don't have to get as much documentation and it's easier to get an approval."

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