Excerpted from Chapter Two of "Mortganomics"

The Retail Mortgage Market

https://www.fanniemae.com/singlefamily/loan-limits

Before you start shopping for a home loan, you should get some recommendations for lenders that will do a good job for you and treat you fairly. It will be extremely helpful for you to understand the structure of the mortgage market as well as how lenders differ. The elements of home mortgage lending, while diverse, contain strong regulatory and standardized procedures in order to create the market synergies that translate into cost efficiencies for consumers.

The mortgage marketplace has undergone dramatic transformations in the last decade. We have seen how a traditional mortgage market offering simple fixed rate loans now drowns in a flood of exotic and complex mix of loan products. Consumers cannot make an informed selection of the best mortgage to fit their needs if their loan officer cannot even explain the details of the loan to them.

In addition to the traditional 15, 20, 30 and 40-year fixed rate mortgages that most loan officers will try to sell you because of their limited mortgage education and product knowledge, consumers can now choose from an array of adjustable rate and hybrid mortgage loans, including:

- 3-Month ARM
- 6-Month ARM
- One-Year ARM
- 2/28 ARM
- Pay Option ARM
- Convertible ARM
- 2-1 Buydown Mortgage
- Bimonthly Payment Loan
- Reducing Interest Loan
- Roll-Over Mortgage
- Agency Loan
- Negative Amortizing Loan
- Deferred Payment Mortgage
- Subprime Loans
- 3/1 ARM
- 5/1 ARM
- 7/1 ARM
- 3/27 ARM
- Hybrid Option ARM
- Balloon Mortgage
- 3-2-1 Buydown
- Reduction Option Loan
- 80/20 Mortgage
- 75/15/10 Mortgage
- Non-Agency Loan
- B, C, and D Loans
- Hard Money Loans
- FHA and VA Loans

Add to this already head-spinning assortment of incomprehensible loans, a collection of index variables that can give any unsuspecting borrower a serious case of payment-shock, and you have planted the seeds for a mortgage meltdown. Those variables, which are seldom discussed by a loan officer let alone explained adequately in simple terms, include ARM indexes such as:

- Constant Maturity Treasury Index (CMT)
- Treasury Bill (T-Bill)
- 12-Month Treasury Average (MTA or MAT)
- Prime Rate
- London Inter Bank Offering Rate (LIBOR)
- 11th District Cost of Funds Index (COFI)
- Certificate of Deposit Index (CDI)
- Cost of Savings Index (COSI)

Then, add a wide variety of Margins from 2.25% for conforming products, to 6.00% or even "no-ceiling" margins in the subprime market, to the above loans and enjoy watching the big lenders try to convince America that the millions of people who lost their homes to foreclosure knew exactly what they were getting into. How stupid do they think we are?

For some of their affordable housing programs, Fannie Mae requires borrowers to be educated in concepts such as house payments, taxes, electric bills, and how to make a budget (duh). But when it comes to the issues that can destroy a borrower's financial health, like a subprime loan, they all seem to go deaf and dumb.

For a detailed examination of the variables that can affect your loan choice, see Chapter Eight in my pdf book "Mortganomics: A Critical Examination of Mortgage Lending Practices, Pricing, and Predatory Abuses." Displayed on the opening web page, the pdf is the complete version of the book.

The character in the cartoon at the top of page one is the infamous Countrywide Financial CEO Angelo Mozilo. In this photo Angelo is seen presenting me with my Certificate of Graduation from The School of Mortgage Banking in 1992 at Northwestern University.

https://www.youtube.com/watch?v=rmNmJ9b3M_M