Consumer Financial Protection Bureau

FACTSHEET: THE CONSUMER MORTGAGE SHOPPING PERSPECTIVE

The Consumer Financial Protection Bureau (CFPB) aims to help consumers become better and more informed shoppers. Part of this effort includes developing a greater understanding of how consumers shop for mortgages and the effect of that shopping, such as the interest rates paid and the ability of borrowers to successfully repay the mortgage.

Today the CFPB is releasing a report based on a preliminary analysis from the National Survey of Mortgage Borrowers, a new survey jointly conducted by the CFPB and the Federal Housing Finance Agency (FHFA). The two federal agencies are working together to improve the safety and transparency of the lending process for all consumers.

Today's report found that almost half of consumers do not shop around for a mortgage when purchasing a home. The report also found that informed consumers are more likely to shop, especially if they are familiar with available mortgage rates. As part of the CFPB's Know Before You Owe mortgage initiative, it is releasing "Owning a Home," an interactive, online toolkit designed to help consumers shop for a mortgage and get the best deal.

A Safer Mortgage Market

The Bureau introduced new rules in January 2014 to make the mortgage market safer for consumers. The Ability-to-Repay rule protects consumers by helping ensure that lenders offer mortgages that consumers can actually afford to pay back and by prohibiting certain dangerous lending practices. The Bureau's new mortgage servicing rules help to ensure no surprises and no runarounds when consumers try to pay their mortgages. The rules put in place important guardrails so that consumers have greater confidence that they are not being set up to fail. With such confidence, they can choose the product they believe is best for them and the lender that is offering the terms best suited to their budget.

This August, the Bureau's new Know Before You Owe mortgage disclosure forms will take effect. The Loan Estimate replaces the Truth in Lending statement and the Good Faith Estimate. It provides a summary of the key loan terms and estimated loan and closing costs and allows consumers to compare the costs and features of different loans. The new Closing Disclosure replaces the final Truth in Lending statement and the HUD-1 settlement statement. It provides a detailed accounting of the transaction and must be given to the consumer at least three days before the closing. By requiring this form earlier, consumers can review their final loan terms and costs in an unpressured environment rather than at the closing table. This allows them to confirm whether they are getting what they expected. It also gives them time to ask questions and negotiate over changes that have occurred.

Consumer Mortgage Shopping

Today's CFPB report draws on the results from about ten of the 100 questions asked in the National Survey of Mortgage Borrowers. It looks at the approximately 2,000 consumers who got a mortgage to purchase a home in 2013, not those refinancing mortgages. Specifically, it sheds light on the types of borrowers who shop and the factors that influence their shopping. Among the key findings:

- **Almost half of consumers fail to shop around before applying:** Almost half of consumers who take out a mortgage fail to shop prior to filling out an application for a mortgage. This means these consumers are seriously considering only a single lender or mortgage broker before choosing where to apply.

- **The tendency to shop is higher among first-time homebuyers:** First-time homebuyers are slightly more likely to shop for a mortgage despite their relative inexperience. First-time homebuyers are also more likely to rely on personal acquaintances and slightly more likely to rely on websites that have mortgage information.

- **Three out of four consumers only apply with one lender or broker:** While half of consumers shop around to see who advertises lower rates, fewer than one out of four borrowers actually end up submitting a loan application to more than one lender or broker. These consumers are not filling out applications with multiple lenders to see which can offer them the best deal.

- **35 percent of borrowers who applied with multiple lenders reported doing so because of rejection concerns**: Of the consumers who apply to more than one lender or broker, 35 percent said one of the reasons is because they are concerned about qualifying for a loan. This is different from the 21 percent of borrowers who applied to multiple lenders because they had been turned down on an earlier application.

- **80 percent of borrowers who applied with multiple lenders do so searching for better loan terms:** While few consumers apply to more than one lender or broker, 80 percent of these consumers said one of the reasons is they are primarily motivated by a desire to get better loan terms such as lower interest rates and fewer points and fees.

- **Most consumers get their information from lenders or brokers, who have a stake in the outcome:** The survey asked recent mortgage borrowers whether they used different information sources. Respondents were asked to report whether they used each source a lot, a little, or not at all. Consumers could pick multiple categories. Among the findings:
    - 70 percent report relying on their lender or mortgage broker "a lot" to get information about mortgages. While lenders and brokers can be valuable resources, they have a stake in the selling of the mortgage, so what is best for the lender or broker is not always best for the consumer.
    - 33 percent report relying on real estate agents "a lot."
    - 20 percent report relying on websites that provide information about getting a mortgage "a lot."
    - Only 2 percent report relying on housing counselors "a lot."

- **Borrowers who prioritize the terms of the loan over the characteristics of the lender are more likely to shop:** The survey asked borrowers whether characteristics of lenders or mortgage brokers were "very," "somewhat," or "not at all" important in their selection. The survey found those who listed lender characteristics as important, instead of the loan terms, are less likely to shop.

Specifically, the survey found that among all borrowers – those who shopped and those who did not:

- 42 percent said having an established banking relationship with the lender is "very important." Since most borrowers likely only have a few banking relationships, this likely inhibits shopping.
- 40 percent said having a local office or branch nearby is "very important."
- 17 percent said it was "very important" that the lender or broker operates online.

In contrast, consumers who did not have a strong attachment to any of the characteristics were 40 percent more likely to shop than those who did; and 70 percent of borrowers who said none of the lender's characteristics were "very important" shopped.

- **Informed consumers are twice as likely to shop:** Consumers who are confident in their knowledge about the mortgage process are more likely to shop around. For instance, consumers who are confident about their knowledge of available interest rates are almost twice as likely to shop as consumers who are unfamiliar with available interest rates. The survey found that 55 percent of shoppers said they were very familiar with mortgage rates, while 30 percent of shoppers said they were not at all familiar.

About the National Survey of Mortgage Borrowers

The National Survey of Mortgage Borrowers is jointly developed and funded by the CFPB and the FHFA to help understand how mortgage markets are functioning for American consumers. The initiative helps regulators better identify emerging mortgage and housing market trends.

The survey is sent each quarter to a nationally representative sample of consumers who have recently taken out new mortgages. The survey is voluntary and consumers' identities are never disclosed. The first wave of surveys was sent to about 15,000 consumers who had taken out new mortgages during 2013 and over 5,000 people answered. The responses will be used as a baseline for comparison with surveys sent in later quarters, thus allowing policymakers to better track market developments.

The survey covers the entire mortgage process from when the consumer first started shopping for a mortgage through closing. It also asks about consumers' knowledge of the mortgage process, their expectations for the future, recent life events, and demographic characteristics. It covers a wide range of mortgage loans, from first-time home purchases to re-financings.

The report can be found at: http://files.consumerfinance.gov/f/201501_cfpb_consumers-mortgage-shopping-experience.pdf

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The Consumer Financial Protection Bureau is a 21st century agency that helps consumer finance markets work by making rules more effective, by consistently and fairly enforcing those rules, and by empowering consumers to take more control over their economic lives. For more information, visit consumerfinance.gov.