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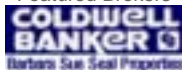
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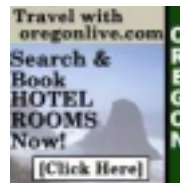
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## Ask the Expert: Ethics in lending

03/24/02

### STEVE EMORY FIRST PACIFIC MORTGAGE

Q: I'm going to be shopping for a mortgage loan soon. What should I know about ethics in lending?

A: Most people start the mortgage process by calling around and asking for the "lowest" or "best" rate from everyone they call. Unfortunately, the quotes you get are only as good as the integrity of the person you're talking to, even if they put it in writing on a Good Faith Estimate (GFE).

You should find a loan officer you can trust to deliver your mortgage loan at closing (sometimes 30 to 60 days from the day you start), at what they promised you at the beginning. You need to trust that not just the rate -- but also the terms of the loan and how much money you will be getting or paying at closing -- will match what you were told when you applied. This involves getting the best service, experience, integrity and yes, good rates and fees. Picking your loan officer is every bit as important -- if not more important than -- choosing a rate.

Q: What should I look for in a mortgage lender?

A: Get a recommendation from a friend for a loan officer or company they have had a good experience with. Ask about the loan officer's experience and integrity (and ask the loan officers themselves). Don't just shop for the cheapest interest rate or fees. Beware of mailings and telephone solicitations, especially from companies you've never heard of. Do they have an office you can go into and see them, or do they work out of their car, out of state or over the Internet only? Ask yourself, "Do you trust them with your home?" because that's exactly what you're doing.

Q: Whom can I call to get information about the business practices and legitimacy of a particular mortgage lender?

A: Ask if the mortgage lender belongs to the Oregon Association of Mortgage Brokers (OAMB) or other professional mortgage associations. OAMB members adhere to the association's Code of Ethics.

Make sure the loan company is licensed with the Division of Finance and Corporate Securities to do mortgage loans by calling the state at 503-378-4140. At the same time, you can check on how many consumer complaints they have received.

Q: What "red flags" should I look for in loan documents?

A: Never agree to a loan or sign an application without knowing and understanding all terms of the loan you're being offered. You should have a Good Faith Estimate and Federal Truth-In-Lending Disclosure Statement presented to you when you apply, and it should be explained to you by your loan officer. Get copies of everything you sign at application and at any other point in the process.

Never sign a blank form. Keep everything together in a file. Make sure that you can afford the proposed monthly payments and future

payments if an Adjustable Rate Mortgage (ARM). Do not agree to payments that you cannot comfortably make. Make sure you understand how to lock in your loan rate and that it's long enough to close the loan, allowing for reasonable delays.

Q: What are some loan scams I should be aware of?

A: A loan scam would be any loan you take without fully understanding the loan terms. Have the loan officer explain the loan to you in detail, especially ARMs (adjustable rate mortgages). If they can't explain it so you understand, they probably don't know what they are doing either, so watch out.

Be very careful if a lender offers something that sounds too good to be true; it probably is. Be wary of bait-and-switch tactics. For example, most everyone is at about a certain rate but one lender promises 0.5 percent less than everyone else and will even put it in writing. This loan will never close at what you were promised.

A common mistake is in thinking all ARMs work the same way. Some ARMs with extremely low initial rates adjust monthly and have caps near 20 percent. These are used for "lines of credit" by most lenders in the area. Some ARMs adjust only once a year, are capped at 2 percent a year and have lifetime caps of about 11 to 12 percent. These are commonly used for large first mortgages. Think what may happen if you took a line of credit-type ARM at an extremely low rate for a large first mortgage because you did not understand ARMs -- and the rate doubles or more over the next 12 months.

Q: What recourse do I have if, after signing, I have concerns about the loan?

A: You should contact your lender immediately and have the lender or manager address the concerns to your satisfaction. On refinance transactions, you have three business days after signing to review your loan on your personal residence and cancel it. Take advantage of those three days to review everything with someone you trust and make an informed decision.

If you still cannot resolve the issues, you can file a complaint with OAMB Ethics Committee at 800-650-9076 and/or the Oregon Division of Finance and Corporate Securities at 503-378-4140. Complaints need to be in writing with a narrative and timeline and have as much documentation provided as possible.

Q: What resources can you suggest for more information?

A: The Web has numerous up-to-date sites:

Oregon Association of Mortgage Brokers: [www.oamb.com](http://www.oamb.com) (see "Seven Consumer Tips" for ethics advice)

Oregon Division of Finance and Securities: [www.oregondfcs.org](http://www.oregondfcs.org)

Federal Housing & Urban Development (HUD): [www.hud.gov](http://www.hud.gov)

FreddieMac: [www.freddiemac.com](http://www.freddiemac.com)

FannieMae: [www.fanniemae.com](http://www.fanniemae.com)

FTC on credit: [www.ftc.gov/os/statutes/fcra.htm](http://www.ftc.gov/os/statutes/fcra.htm)

Veteran's loans: [homeloans.va.gov/lgyinfo.htm](http://homeloans.va.gov/lgyinfo.htm)

All these sites are loaded with information for first-time buyers, as well as anyone else. Many have books you can order or download, too.

Steve Emory is a senior loan officer with First Pacific Mortgage and is chair of the ethics committee for the Oregon Association of Mortgage Brokers. He can be reached at 503-645-5400. His Web site is [www.seloan.com](http://www.seloan.com).

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