FTC Consumer Alert

Federal Trade Commission ■ Bureau of Consumer Protection ■ Division of Consumer & Business Education

Deceptive Mortgage Ads: What They Say; What They Leave Out

If you're looking for a mortgage to buy a home or refinance an existing loan, you may see or hear ads with offers of low rates or payments. Whether you see them on the Internet, on television or in the paper, or whether they come by fax or mail, some of these ads look like they're from your mortgage company or a government agency. Regardless of where you see the ads, remember that while the offers are tempting, some are terribly flawed: they don't disclose the true terms of the deal as the law requires.

The Federal Trade Commission, the nation's consumer protection agency, says that when you're shopping for a home loan, it's important to understand all the terms and conditions of a proposed loan. Start with what is in the ad itself. Read what's between the lines as well as what's in front of your eyes.

What The Ads Say

To help you recognize an offer that may be less than complete, the FTC wants you to know the buzz words that should trigger follow-up questions, as well as information to insist on after you've read an ad.

A Low "Fixed" Rate: Ads that tout a "fixed" rate may not tell you how long it will be "fixed." The rate may be fixed for an introductory period only, and that can be as short as 30 days. When you shop for a mortgage, you need to know when and how your rate, and payments, can change.

Very Low Rates: Are the ads talking about a "payment" rate or the interest rate? This important detail may be buried in the fine print, if it's there at all. The *interest rate* is the rate used to calculate the *amount of interest* you will owe the lender each month. The *payment rate* is the rate used to calculate the *amount of the payment* you are obligated to make each month. Some offers advertise a low payment rate without telling you that it applies only during an introductory period. What's more, if the payment rate is less than the interest rate, you won't be covering the interest due. This is called "negative amortization." It means that your loan balance is actually increasing because you're not paying all the interest that comes due, and the lender is adding the unpaid interest to the balance you owe.

Very Low Payment Amounts: Ads quoting a very low payment amount probably aren't telling the whole story. For example, the offer might be for an Interest Only (I/O) loan, where you pay only the amount of interest accrued each month. While the low payment amount may be tempting, eventually, you will have to pay off the principal. Your payment may go up after an introductory period, so that you would be paying down some of the principal – or you may end up owing a "balloon" payment, a lump sum usually due at the end of a loan. You must come up with the money when a balloon payment is due. If you can't, you may need another loan, which, in turn, means new closing costs, and potentially points and fees. And if housing prices are falling, you might not be able to refinance to lower your payments.

Mortgage rates near 30-year lows! Rates as low as 1%! You are paying too much! Who doesn't want to reduce their mortgage payments? Loan amount $300,000 - pay only $900 per month!: Ads with "teaser" short term rates or payments like these don't often disclose that a rate or payment is for a very short introductory period. If you don't nail down the details in advance about your rates and payments for every month of the life of your loan, expect payment shock when the rate and payment increase dramatically.

Important Notice From Your Mortgage Company. Open Immediately - Important Financial Information Enclosed. Please do not discard - account information enclosed: Appearances can be deceiving. Mailers that have information about your mortgage and your lender may not be from your lender at all, but rather from another company that wants your business. Companies can legally get your information from public records. Before you respond to any offer, review it carefully to make sure you know who you're dealing with.

You are eligible to take part in an exclusive interest rate reduction program. This financial institution has been licensed to negotiate your existing adjustable mortgage to a new fixed rate mortgage. You must contact us immediately regarding this notice. Some businesses use official-looking stamps, envelopes, forms, and references to make you think their offer is from a government agency or program. If you're concerned about a mailing you've received, contact the government agency mentioned in the letter. If it's a legitimate agency – and not one that just sounds like a government agency – you'll find the phone number in the Blue Pages of your telephone directory.

What the Ads Don't Say

The APR: The Annual Percentage Rate is a critical factor in comparing mortgage offers from different lenders. It is the total cost of the credit expressed as a yearly interest rate. This rate is different than the simple interest rate on your loan note, because the APR includes all costs of the credit such as points and processing fees. Knowing the APR makes it easier to compare "apples to apples" when considering mortgage offers. Look for the APR for your loan. The amount may not be in the ad at all; it may be hidden in the fine print, or it may be available deep within a website after multiple clicks.

Important Payment Information: It's hard to know what you don't know, and often, some of the most important information you need isn't in the ad, is hidden in the fine print, or is available only at a website after many clicks. To make an informed judgment about any mortgage offer, you need to know – or ask:

- What will the monthly payment be for every month of the loan, and could it increase? When could it increase? What would your new payment be? Could your monthly payment increase more than once?
- Does the monthly payment include an escrow amount to pay for your property taxes and homeowners insurance? Or must you pay these costs on your own? If you have to pay on your own, ask your lender for an estimate so you can budget accordingly.
- What is the term of the loan (for example, 15 years? 30 years?)? How many payments will you have to make? Would the loan be paid off at the end or would you still owe a "balloon" payment?
- Will you have to pay prepayment penalties to refinance and pay off the loan early? If so, how much, and when would they apply? If the loan has an introductory or teaser rate, can you refinance, without penalties, before the rate resets and your payment increases?

For More Information

To learn more about shopping for mortgages, visit **www.ftc.gov/credit** and click on Mortgages & Real Estate.

The Federal Reserve Board also has several helpful publications and a mortgage comparison calculator at **www.federalreserve.gov/consumers.htm**

The FTC works for the consumer to prevent fraudulent, deceptive, and unfair business practices in the marketplace and to provide information to help consumers spot, stop, and avoid them. To file a complaint or to get free information on consumer issues, visit **ftc.gov** or call toll-free, 1-877-FTC-HELP (1-877-382-4357); TTY: 1-866-653-4261. The FTC enters Internet, telemarketing, identity theft, and other fraud-related complaints into Consumer Sentinel, a secure, online database available to hundreds of civil and criminal law enforcement agencies in the U.S. and abroad.

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