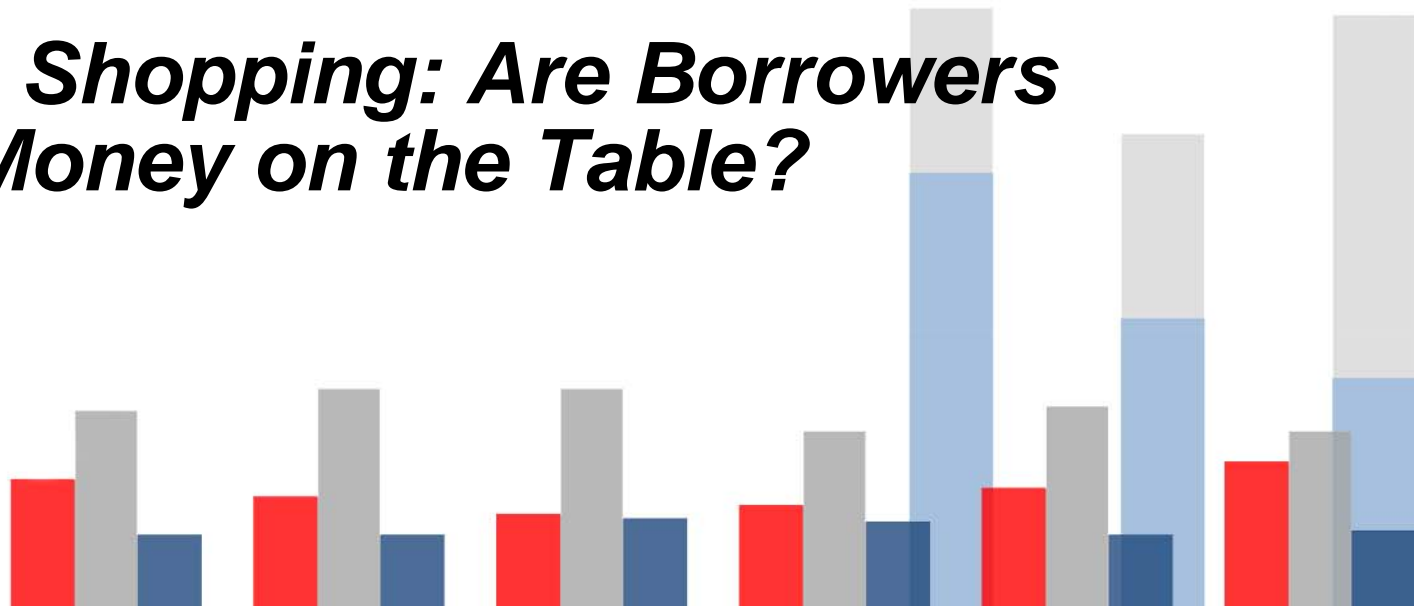# *Fannie Mae National Housing Survey*

Mortgage Shopping: Are Borrowers Leaving Money on the Table?

National Housing Survey

Background

▪The Fannie Mae National Housing Survey is a monthly attitudinal survey that polls the adult general population of the United States to assess their attitudes toward owning and renting a home, home purchase and rental prices, homeownership distress, household finances, and overall confidence in the economy.

▪Each respondent is asked more than 100 questions, making the Fannie Mae National Housing Survey the most detailed attitudinal survey of its kind. The survey is conducted on a monthly basis to track attitudinal shifts that occur among homeowners and renters in the United States.

Survey Methodology

▪Each month, beginning in June 2010, approximately 1,000 live (not automated) telephone interviews with Americans age 18 and older are conducted by Penn Schoen Berland (PSB), in coordination with Fannie Mae. The margin of error for the total monthly sample is ±3.1 percent at the 95 percent confidence level and larger for sub-groups. Data collection occurs over the course of the first three weeks of each month.

Monthly Reports, Topic Analysis Reports, and Academic Research Briefs

▪Monthly Reports provide a timely view of trends in consumers' attitudes using eleven key indicators.
http://www.fanniemae.com/portal/research-and-analysis/housing-monthly.html

▪Topic Analysis Reports provide deeper insights into one or more issue based on a compilation of three monthly samples. The three monthly studies that make up any given report are identical in wording and placement of questions. http://www.fanniemae.com/portal/research-and-analysis/housing-quarterly.html

▪Academic Research Briefs are occasional and rigorous reports, conducted internally or by external partners such as academics, exploring attitudes and behaviors on key issues.

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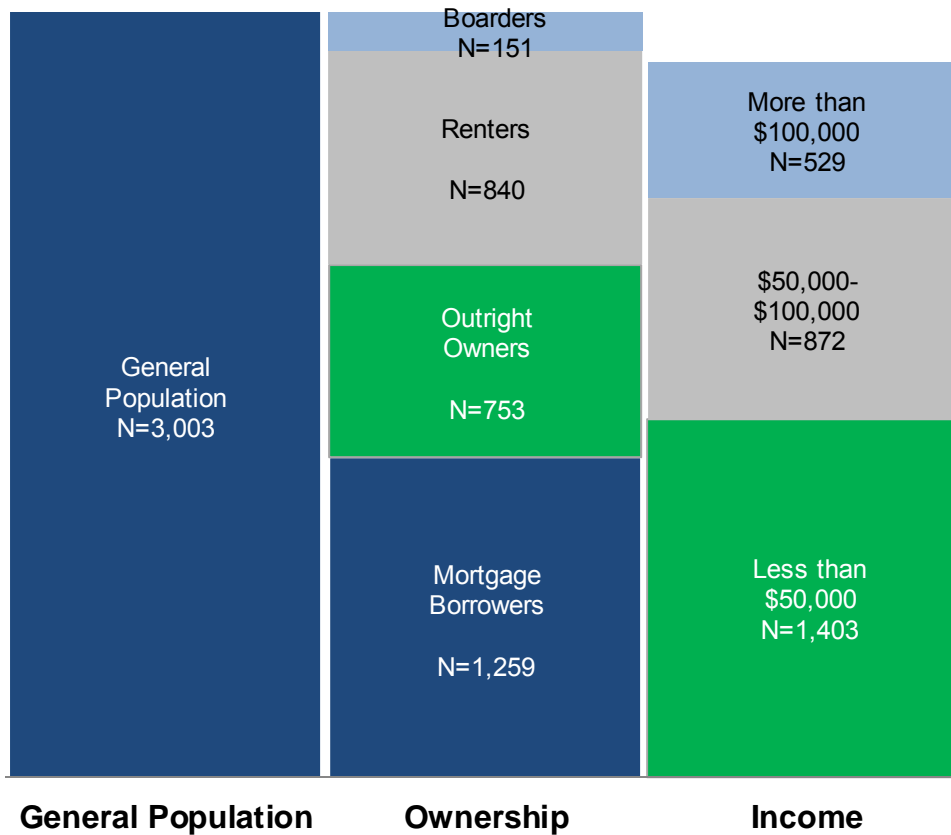
Sample Descriptions

Q2 2012 Subgroup Definitions

- **Income Levels (self-reported):**

  – Lower income: Less than $50,000 in annual total family income
  – Middle income: Between $50,000 and $100,000 in annual total family income
  – Higher income: Greater than $100,000 in annual total family income

- **Homeownership status (self-reported):**

  – Outright owner: Own their primary residence outright with no mortgage obligation
  – Mortgage borrower: Own their primary residence and have at least one mortgage on it
  – Renter: Rent their primary residence
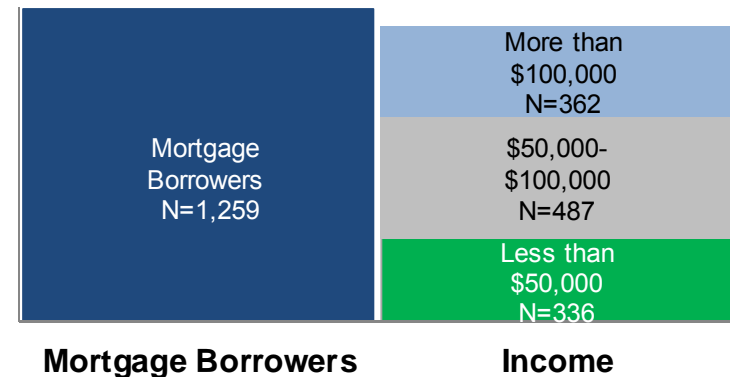 – Boarder: Do not own or pay rent on their primary residence

Q2 2012 Research Methodology

- From April 4, 2012 to June 21, 2012[1], Penn Schoen Berland conducted 3,003 telephone interviews among the following audiences (additional details can be found in the appendix):

General Population Sample

- General Population N=3,003
- Boarders N=151
- Renters N=840
- Outright Owners N=753
- Mortgage Borrowers N=1,259
- More than $100,000 N=529
- $50,000-$100,000 N=872
- Less than $50,000 N=1,403

General Population | Ownership | Income

Mortgage Borrower Sample

- Mortgage Borrowers N=1,259
- More than $100,000 N=362
- $50,000-$100,000 N=487
- Less than $50,000 N=336

Mortgage Borrowers | Income

1 Note that on each question, respondents had the option to answer "don't know" (volunteered), which is why in some cases the total % may not equal 100.

General population interviews were conducted by dialing both landline (75%) and cell-phone only households (25%) to ensure proper representation of cell-phone only households.

The data presented in this study has been weighted to make it reflective of the U.S. Census demographic statistics in terms of gender, age, ethnicity, income, education, housing situation, and urbanicity.

Executive Summary

Research Background and Key Findings

- **Academic research suggests that less intensive mortgage shopping and confusion over mortgage terms costs borrowers. The impact particularly affects those of lower income. Analysis of National Housing Survey data further examines these mortgage shopping differences.**

- **National Housing Survey results show that lower income mortgage borrowers are less likely than higher income mortgage borrowers to obtain multiple offers, to emphasize offer competitiveness when choosing a lender, and to shop online.**

	More common among lower income respondents	More common among higher income respondents
Mortgage quotes obtained	Only one	More than one
Lender selection	Mortgage brokers, real estate agents have a major influence	Offer competitiveness has a major influence
Housing budget calculation	Completed in head or on paper	Completed using a program or tool
Use of online search and mobile devices	Lower usage	Higher usage

- **Higher income consumers are more likely to say that they paid what they expected at their mortgage closing, while respondents of all incomes display a lack of understanding of Adjustable-Rate Mortgages (ARMs)**

  – By more than 10 percentage points, higher income consumers are more likely to say that they paid what they expected at their mortgage closing

  – When asked to determine a maximum ARM payment change, 41% of all respondents and 37% of mortgage borrowers were not able to offer a guess

  – Respondents' estimates of the maximum percentage by which the monthly ARM payment can increase over the life of the loan averaged about 10%, well below our calculation of over 50%

Lower income is defined as less than $50,000 in annual income. Higher income is defined as greater than $100,000 in annual income.

Research Background

Research suggests that borrowers who conduct a more extensive mortgage search and have a better understanding of mortgage terms save a significant amount of money

- Research done for the Department of Housing and Urban Development suggests that borrowers who obtain multiple mortgage broker quotes can save $1,000 or more in closing costs.[1]

- Borrowers with a better understanding of loan terms may take out lower-cost mortgages.[2]

- Additional research finds that borrowers who shop from fewer mortgage brokers pay higher fees.[3]

- The Federal Reserve advises mortgage borrowers to shop around for the best deal, noting that shopping, comparing, and negotiating may save borrowers thousands of dollars.[4]

1 Source: Woodward, Susan E. and Robert E. Hall, "Diagnosing Consumer Confusion and Sub-Optimal Shopping Effort: Theory and Mortgage-Market Evidence," The American Economic Review, Forthcoming Dec. 2012. http://www.stanford.edu/~rehall/DiagnosingConsumerConfusionJune2012

2 Source: Woodward, Susan E., "A Study of Closing Costs for FHA Mortgages," Prepared for the US Department of Housing and Urban Development, May 2008. http://www.huduser.org/Publications/pdf/FHA_closing_cost.pdf

3 Source: Berndt, Antje, Burton Hollifield and Patrik Sandas, "What Broker Charges Reveal About Mortgage Credit Risk," American Finance Association 2011 Denver Meetings Paper, June 2012. http://www.bc.edu/content/dam/files/schools/csom_sites/finance/Hollifield-042012.pdf

4 Source: The Federal Reserve Board, "Looking for the Best Mortgage," http://www.federalreserve.gov/pubs/mortgage/mortb_1.htm

However, research also suggests that many borrowers, particularly those falling in lower income brackets, do not fully understand their mortgages and can end up paying higher costs as a result

- Research done by Federal Trade Commission economists finds that the majority of mortgage borrowers are confused about key elements of their loan terms and costs. Some of these borrowers spent considerable time comparison shopping. Others relied on their loan officer or mortgage broker to explain the loan terms, or on the lender's reputation or recommendation of a friend or relative, rather than their own evaluation of loan terms.[1]

- An assessment of borrowers' understanding of their mortgage finds that lower-income households are less knowledgeable about their mortgage terms than higher income households.[2]

- Borrowers who take out more costly subprime mortgages have been found to be disproportionately lower income, even when controlling for risk characteristics such as FICO score.[3]

1 Source: Lacko, James and Janis Pappalardo, "Improving Consumer Mortgage Disclosures: An Empirical Assessment of Current and Prototype Mortgage Disclosure Forms," Federal Trade Commission Bureau of Economics Staff Report, June 2007. http://www.ftc.gov/be/workshops/mortgage/articles/lackopappalardo2007.pdf

2 Source: Bucks, Brian and Karen Pence, "Do borrowers know their mortgage terms?" Journal of Urban Economics, 64(2), 2008. http://www8.gsb.columbia.edu/sites/realestate/themes/realestate/css/files/fulltext.pdf

3 Source: Lax, Howard, Michael Manti, Paul Raca and Peter Zorn, "Subprime Lending: An Investigation of Economic Efficiency," Housing Policy Debate, Vol. 15, No. 3, 2004. http://content.knowledgeplex.org/kp2/img/cache/kp/58731.pdf

National Housing Survey data also reveal challenges with mortgage shopping and understanding across all consumers, as well as notable differences in shopping behaviors across income levels

- Survey analysis shows an opportunity for improved mortgage understanding and shopping practices across all consumers, with substantial differences across income levels.
  - Thirty-eight percent of respondents obtained only one offer when shopping for their current mortgage. First-time homebuyers are as likely to shop around as the general population, but lower income mortgage borrowers were less likely to shop around, with 43% obtaining only one quote.
  - Of homeowners who calculated how much to spend on their home themselves, 58% did not report taking advantage of any sort of calculator or tool to assist them. This figure jumps up to 72% for lower income owners and drops to 46% for Generation X (aged 35-44).
  - When asked to determine a maximum ARM payment change, most respondents who offered a guess were well below our calculation of more than 50%[1]. Those of lower income and those who are not mortgage borrowers were, on average, slightly closer to our calculation but still well out of range.

- To guide the findings in this report, we conducted statistical testing on the difference between populations in key demographic categories, including age, education, income, race, and whether the respondent was a first-time homebuyer. The differences observed in shopping behavior by income are more frequently statistically significant than the differences observed within the other demographic categories. All differences between populations discussed in this deck are statistically significant at the 95% confidence level.[1]

- To further explore the mortgage shopping and understanding issues identified in previous academic research and in the National Housing Survey data, our analysis examines variation in mortgage shopping approaches and mortgage understanding across income levels.

1 We estimated two possible ARM payment increases to compare to what respondents projected. These calculations can be found in the Appendix.
2 This means that there is only a 5% possibility that the difference is observed by chance.

Key Findings

Lower income mortgage borrowers are less likely than higher income mortgage borrowers to obtain multiple offers, to emphasize offer competitiveness when choosing a lender, and to shop online

	More common among lower income respondents	More common among higher income respondents
Emphasis on competitive pricing		●
Offer competitiveness would influence lender choice		●
Obtained multiple mortgage quotes		●
Emphasis on referrals and face-to-face contact	●	
Mortgage brokers, real estate agents would influence lender choice	●	
Obtained quotes in person	●	
Use of technology		●
Obtained quotes by phone or online search		●
Comfortable using mobile devices to research homes for sale, lenders, rates		●
Calculated how much to spend using a program or tool		●

Lower income respondents are less likely than higher income respondents to obtain offers from more than one financial institution

- 64% of higher income respondents obtained quotes from more than one financial institution compared to only 54% of lower income respondents

IF MORTGAGE BORROWER: When shopping for your current mortgage, did you obtain offers from more than one financial institution?

■ **Less than $50,000**   ■ **$50,000-$100,000**   ■ **More than $100,000**

Yes, more than one
- 54%
- 58%
- 64%

No, only one
- 43%
- 40%
- 33%

Lower income is defined as less than $50,000 in annual income. Higher income is defined as greater than $100,000 in annual income.

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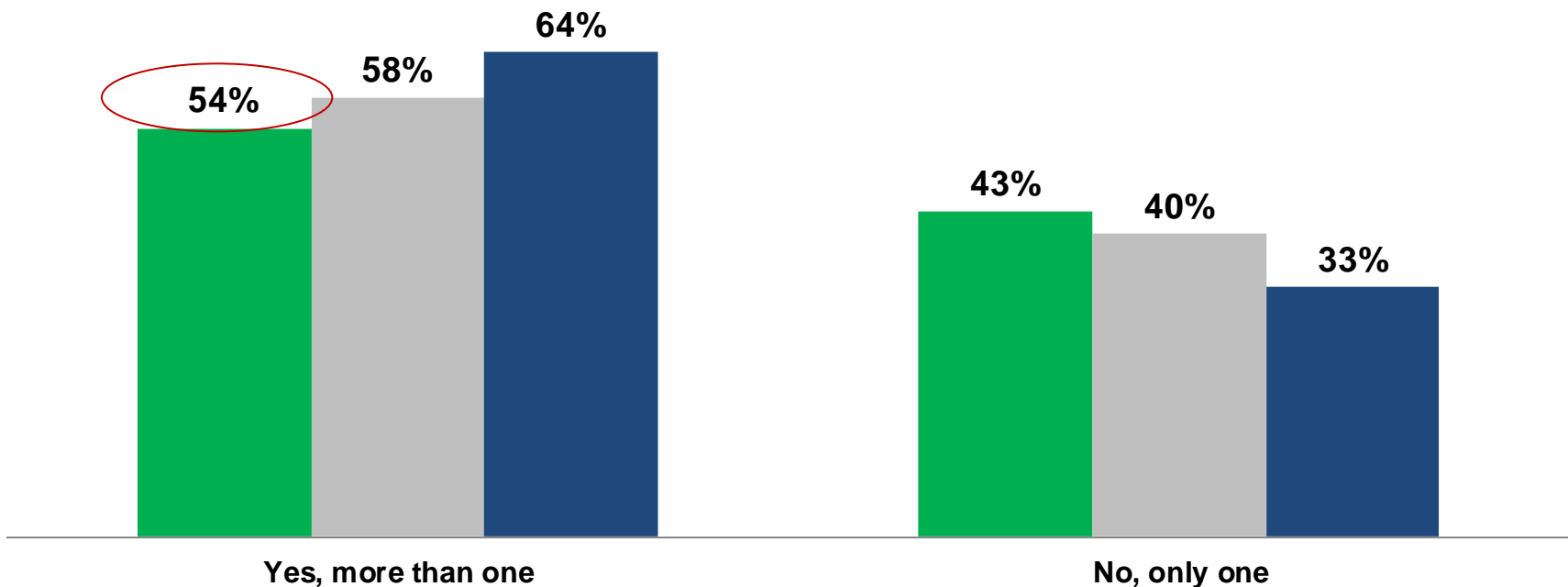
Mortgage brokers and real estate agents are more likely to influence lower income respondents in their choice of lender

- More than 3 out of 4 higher income respondents said that competitive offers would have a major influence on their choice of lender – more than 20 percentage points higher than lower income respondents

- Reputation is important to all income groups – more than 2 out of 3 said it would be a major factor in lender choice

- Lower income borrowers who already have a mortgage place less emphasis on referrals from friends and family – only 33% said it would influence their choice versus 40% for all lower income respondents

What influence would this factor have on your choice of lender?
Showing % <u>Major Influence, General Population</u>

	Less than $50,000	$50,000-$100,000	More than $100,000
Reputation of the lending institution	69	72	69
Having an existing relationship with that financial institution for checking, savings, or brokerage	58	59	50
Competitiveness of the offers or quotes you received	54	66	76
Having a mortgage relationship with the lending institution	53	55	50
Doing research online	44	41	44
Friends', family's, or co-workers' referrals	40	34	30
A mortgage broker's recommendation	30	20	17
Getting a real estate agent referral	29	20	14
Lender advertising	14	6	4

Lower income is defined as less than $50,000 in annual income. Higher income is defined as greater than $100,000 in annual income.

Higher income respondents are more likely than lower income respondents to say that they used the phone and online search to obtain mortgage offers

- Half of lower income respondents obtained mortgage quotes in person

IF MORTGAGE BORROWER: How did you obtain your mortgage quote(s)?
Multiple Responses Permitted

■ **Less than $50,000**   ■ **$50,000-$100,000**   ■ **More than $100,000**

Category	Less than $50,000	$50,000-$100,000	More than $100,000
Individual bank websites (without communication with a company representative)	13%	19%	19%
Third party mortgage offer comparison websites	11%	15%	17%
Representatives from the lending institutions in person	50%	50%	38%
Representatives from the lending institutions on the phone	35%	38%	44%
Independent broker or financial advisor	29%	25%	26%
Other	9%	9%	7%

Lower income is defined as less than $50,000 in annual income. Higher income is defined as greater than $100,000 in annual income.

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Lower income respondents are less likely than higher income respondents to use a program or tool to calculate how much to spend on their home

- Higher income respondents are more likely than lower income respondents to calculate the amount themselves using any method

IF OWNER OR MORTGAGE BORROWER: How did you decide how much to spend on your home?
Multiple Responses Permitted

	Less than $50,000	$50,000-$100,000	More than $100,000
You calculated it yourself	67	75	78
Your mortgage lender advised you what you could afford	32	41	39
You took advice from friends, family, or co-workers	32	33	27
Your real estate agent helped you decide	23	24	20
You talked to a financial advisor	22	20	21
You talked to a mortgage counselor	20	18	19
Other	5	3	4

IF YOU CALCULATED IT YOURSELF: How did you make the calculation?

	Less than $50,000	$50,000-$100,000	More than $100,000
In your head or on paper	72	55	45
Using a spreadsheet program or basic calculator	15	25	28
Using an online tool or application	5	14	20
Other	6	4	4

Lower income is defined as less than $50,000 in annual income. Higher income is defined as greater than $100,000 in annual income.

Higher income respondents are more comfortable using mobile devices to research homes for sale, lenders, and rates

- However, across income groups, consumers are less comfortable obtaining mortgage quotes or the mortgage itself using mobile devices

Which of the following home purchase and financing activities do you feel comfortable completing on a smartphone, tablet, or other mobile device?
*Showing % <u>General Population, Multiple Responses Permitted</u>*

	Less than $50,000	**$50,000-$100,000**	**More than $100,000**
Researching homes available for sale	56	67	74
Researching mortgage lenders	52	60	68
Comparing mortgage interest rates	50	62	68
Obtaining mortgage offers or quotes	37	40	49
Obtaining a mortgage	19	15	23
None of the above	29	22	18

Lower income is defined as less than $50,000 in annual income. Higher income is defined as greater than $100,000 in annual income.

Higher income consumers are more likely to say that they paid what they expected at their mortgage closing, while respondents of all incomes display a lack of understanding of Adjustable-Rate Mortgages (ARMs)

- By more than 10 percentage points, higher income consumers are more likely to say that they paid what they expected at their mortgage closing

- When asked to determine a maximum ARM payment change, 41% of all respondents and 37% of mortgage borrowers were not able to offer a guess

- Even among those with a mortgage, respondents' estimates of the maximum percentage by which the monthly ARM payment can increase over the life of the loan averaged about 10%, well out of the range of our calculation of over 50%

By more than 10 percentage points, higher income consumers are more likely to say that they paid what they expected at their mortgage closing

IF MORTGAGE BORROWER: Was the amount you had to pay at closing higher, about the same, or lower than you expected?
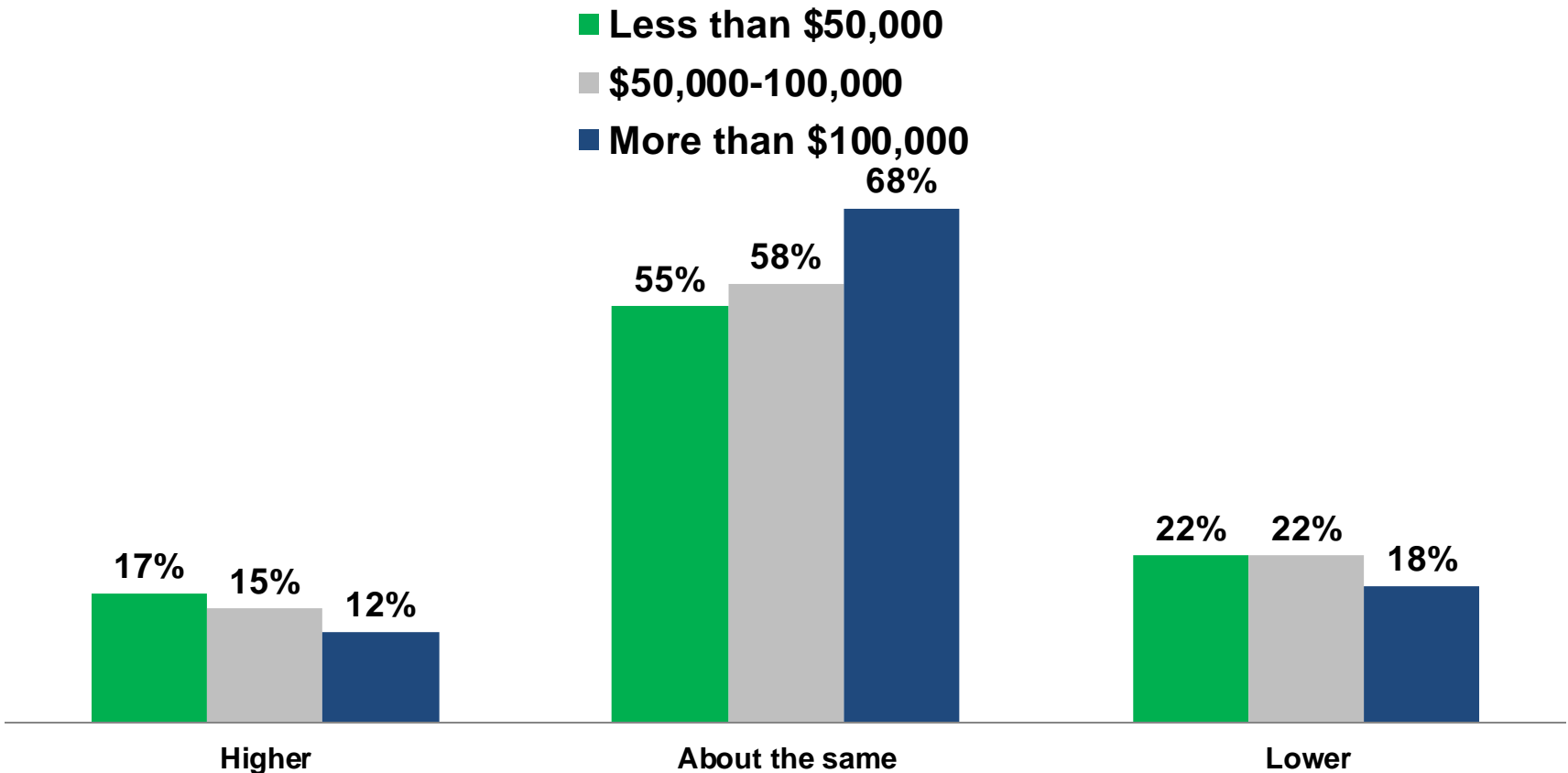
- Less than $50,000
- $50,000-100,000
- More than $100,000

Higher
- 17%
- 15%
- 12%

About the same
- 55%
- 58%
- 68%

Lower
- 22%
- 22%
- 18%

Lower income is defined as less than $50,000 in annual income. Higher income is defined as greater than $100,000 in annual income.

When asked to determine a maximum ARM payment change, 41% of all respondents and 37% of mortgage borrowers were not able to offer a guess

- The share of lower income respondents who said that they did not know the maximum percentage increase was 11 percentage points higher than that of higher income respondents

In your opinion, what is the maximum percentage by which the monthly ARM payment can increase over the lifetime of the loan?
Open-Ended Responses

■ Less than $50,000   ■ $50,000-100,000   ■ More than $100,000

Don't Know (General Population)
- 43%
- 39%
- 32%

Don't Know (Mortgage Borrowers Only)
- 40%
- 37%
- 34%
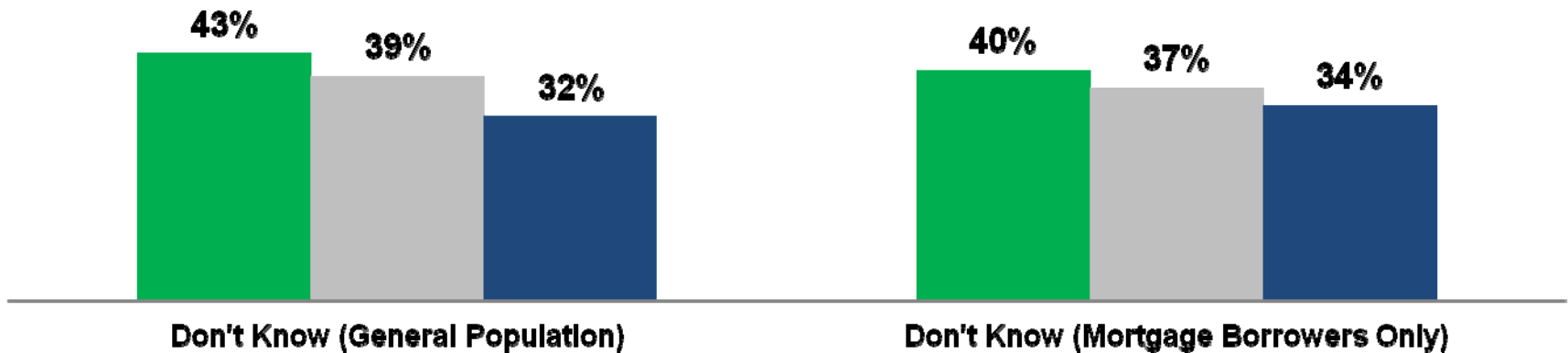
	Don't Know
General Population	41%
Mortgage Borrowers	37%

Lower income is defined as less than $50,000 in annual income. Higher income is defined as greater than $100,000 in annual income.
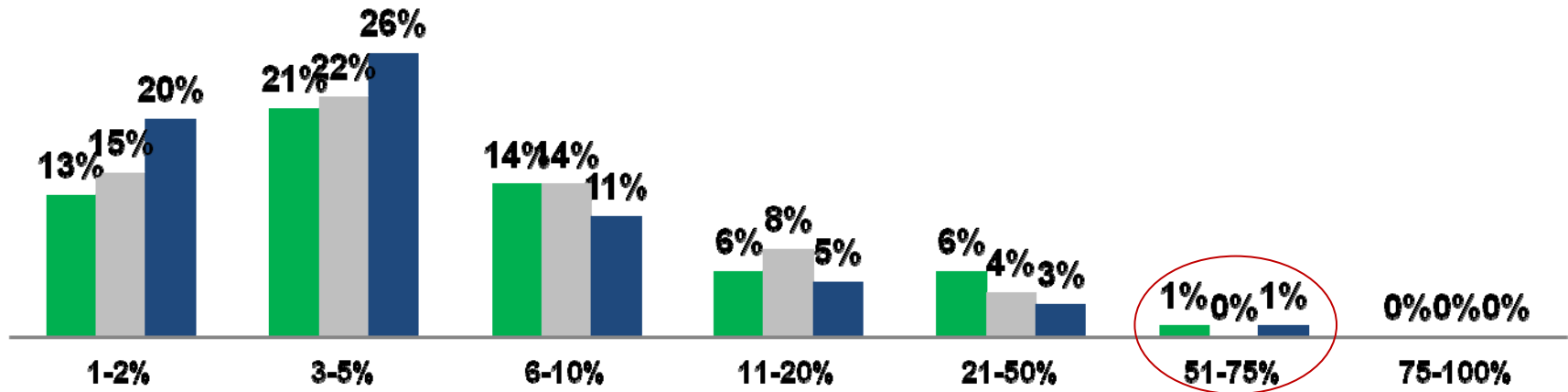
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Even among those with a mortgage, respondents' estimates of the maximum percentage by which the monthly ARM payment can increase were well below our calculation of more than 50%[1]

- Lower income respondents are more likely to say that payments can increase by a greater percentage

In your opinion, what is the maximum percentage by which the monthly ARM payment can increase over the lifetime of the loan?
Showing % General Population, Open-Ended Responses

■ Less than $50,000　■ $50,000-100,000　■ More than $100,000

	1-2%	3-5%	6-10%	11-20%	21-50%	51-75%	75-100%
Less than $50,000	13%	21%	14%	6%	6%	1%	0%
$50,000-100,000	15%	22%	14%	8%	4%	0%	0%
More than $100,000	20%	26%	11%	5%	3%	1%	0%

Mean	Less than $50,000	$50,000-$100,000	More than $100,000
General Population	11.72	8.54	7.75
Mortgage Borrowers	9.54	7.87	7.48

1 We estimated two possible ARM payment increases to compare to what respondents projected. These calculations can be found in the Appendix.
Lower income is defined as less than $50,000 in annual income. Higher income is defined as greater than $100,000 in annual income.

Appendix

Demographic Profile of Income Groups:

- **Less than $50,000:** Spread across age groups, have finished some college or less, have a higher level of unemployment and retirement, and are less likely to have a mortgage
- **$50,000-$100,000:** Likely aged 18-49, have at least a college degree and full-time employment, and are spread across homeownership types though predominantly have a mortgage
- **More than $100,000**: Likely aged 35-64, have at least a college degree and full-time employment, and have a mortgage

Age

Legend: ■18-34 ■35-49 ■50-64 □65+

	Less than $50,000	$50,000-$100,000	More than $100,000
65+	22%	15%	13%
50-64	21%	24%	26%
35-49	24%	33%	41%
18-34	31%	26%	20%

Education

Legend: ■Less than high school ■High school ■Some college □College/grad school

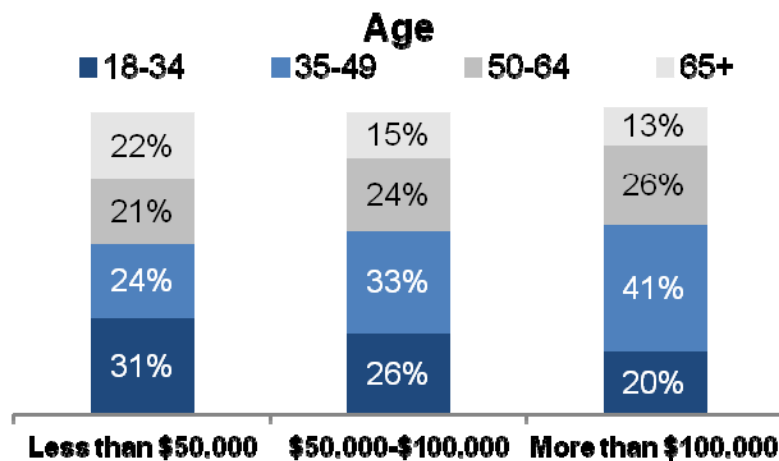|	Less than $50,000	$50,000-$100,000	More than $100,000
College/grad school	19%	48%	67%
Some college	27%	26%	17%
High school	35%	20%	12%
Less than high school	17%	3%	1%

Employment Status

Legend: ■Employed full-time ■Employed part-time ■Unemployed □Retired

	Less than $50,000	$50,000-$100,000	More than $100,000
Retired	26%	16%	14%
Unemployed	19%	9%	11%
Employed part-time	12%	10%	8%
Employed full-time	39%	62%	64%

Homeownership Status

Legend: ■Outright Owners ■Mortgage Owners ■Renters □Boarders

|	Less than $50,000	$50,000-$100,000	More than $100,000
Boarders	7%	3%	2%
Renters	42%	18%	8%
Mortgage Owners	24%	56%	68%
Outright Owners	26%	23%	22%

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Homeownership Attributes and Attitudes of Income Groups:

- **Less than $50,000:** First-time homebuyers who buy a house for its lifestyle benefits, more likely see homeownership as a risky investment
- **$50,000-$100,000:** Likely repeat homeowners who see homeownership as a safe investment with lifestyle benefits
- **More than $100,000:** Repeat homeowners who see homeownership as a safe investment, more likely to buy a house for its financial benefits
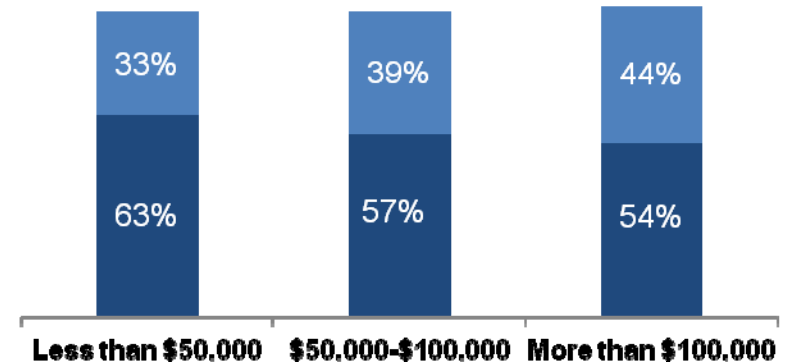
Current Owner Buying Experience
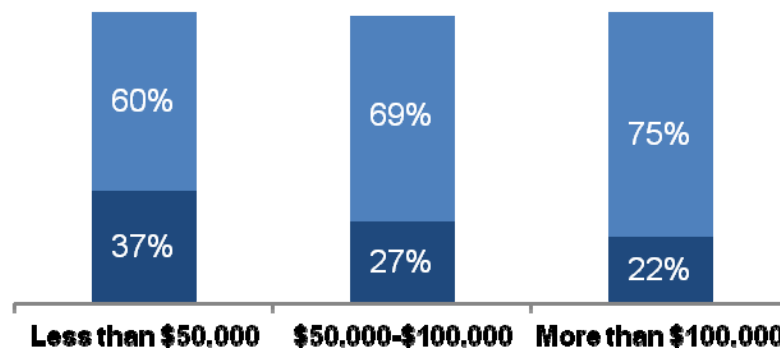*Homeowners Only*

■ First Time Home Buyer   ■ Repeat Homeowner

	Less than $50,000	$50,000-$100,000	More than $100,000
Repeat Homeowner	44%	51%	66%
First Time Home Buyer	56%	49%	34%
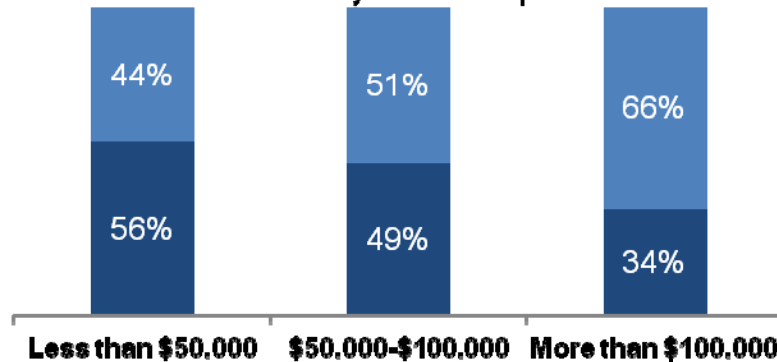
Homeownership Benefits

■ Lifestyle   ■ Financial

	Less than $50,000	$50,000-$100,000	More than $100,000
Financial	33%	39%	44%
Lifestyle	63%	57%	54%

Homeownership as an Investment

■ Risky   ■ Safe

	Less than $50,000	$50,000-$100,000	More than $100,000
Safe	60%	69%	75%
Risky	37%	27%	22%

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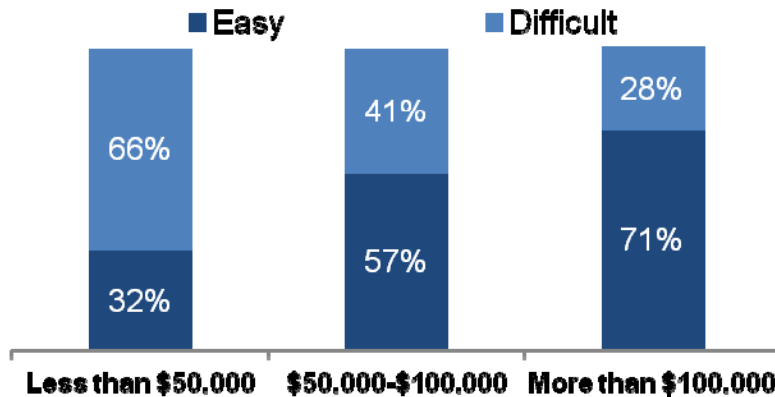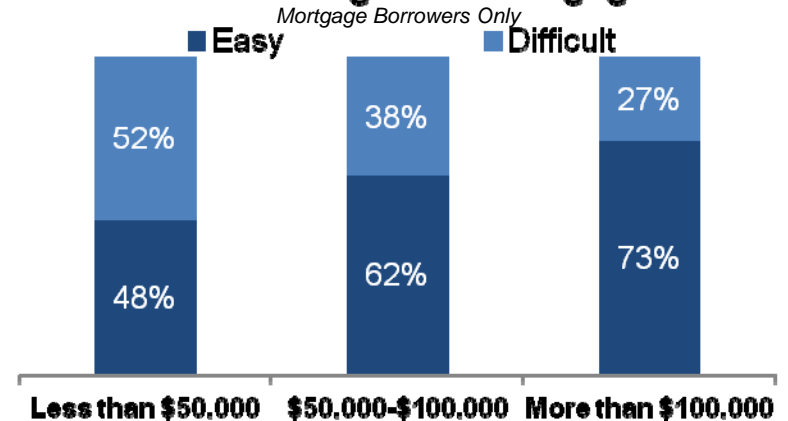
Mortgage Attributes and Attitudes of Income Groups:

- **Less than $50,000:** Think it will be difficult to get a home mortgage or refinance the mortgage on their primary home, more likely to be Underwater
- **$50,000-$100,000:** Think it will be easy to get or refinance a home mortgage today, more likely to be Above Water
- **More than $100,000:** Think it will be easy to get or refinance a home mortgage today, more likely to be At/Above Water
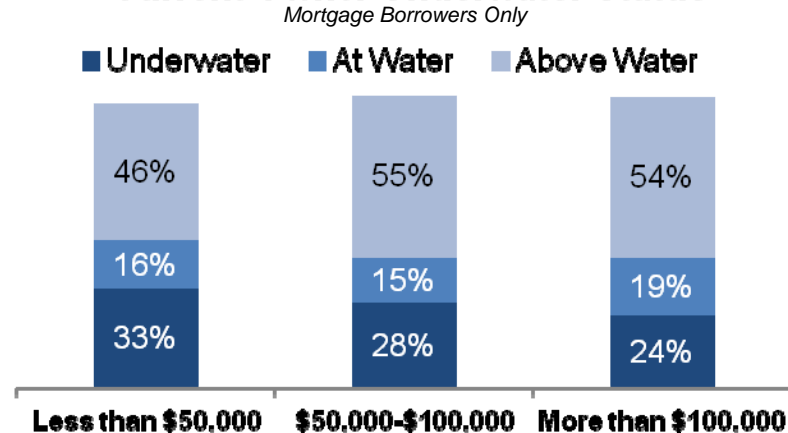

Getting a Home Mortgage Today

■ Easy   ■ Difficult

	Less than $50,000	$50,000-$100,000	More than $100,000
Difficult	66%	41%	28%
Easy	32%	57%	71%

Refinancing Their Mortgage
Mortgage Borrowers Only

■ Easy   ■ Difficult

	Less than $50,000	$50,000-$100,000	More than $100,000
Difficult	52%	38%	27%
Easy	48%	62%	73%

Current Owner Underwater Status
Mortgage Borrowers Only

■ Underwater   ■ At Water   ■ Above Water

	Less than $50,000	$50,000-$100,000	More than $100,000
Above Water	46%	55%	54%
At Water	16%	15%	19%
Underwater	33%	28%	24%

We estimated two possible ARM payment increases to compare to what respondents projected, finding a maximum increase of over 50% in both

- Scenario 1: A 5/1 ARM that originated in the past year with an initial rate in the 3% range
- Scenario 2: A 5/1 ARM that originated at the start of 2005 or 2006 with an initial rate in the 5% range

Scenario 1

Loan Information		
Mortgage Amount	$200,000	
Term (years)	30	
Starting Interest Rate	3%	
Starting Monthly Payment	$843.21	
Maximum Adjustments for 2/2/5		
Months Before First Adjustment	60	
Months Between Adjustments	12	
Initial Adjustment	2%	
Periodic Adjustment	2%	
Lifetime Cap	5%	
Payment After First Adjustment	$1,039.48	
First Increase		**23%**
Maximum Payment	$1,358.75	
Maximum Increase		**61%**

Scenario 2

Loan Information		
Mortgage Amount	$200,000	
Term (years)	30	
Starting Interest Rate	5%	
Starting Monthly Payment	$1,073.64	
Maximum Adjustments for 2/2/5		
Months Before First Adjustment	60	
Months Between Adjustments	12	
Initial Adjustment	2%	
Periodic Adjustment	2%	
Lifetime Cap	5%	
Payment After First Adjustment	$1,298.05	
First Increase		**21%**
Maximum Payment	$1,656.10	
Maximum Increase		**54%**

A 5/1 ARM mortgage has payments fixed for the first 5 years of the loan with annual rate adjustments thereafter

Research Methodology

Q2 2012 Research Methodology

- From April 4, 2012 to June 21, 2012*, Penn Schoen Berland conducted 3,003 telephone interviews among the following audiences:

Sample 1 (General Population)	Sample Size	Margin of Error
General Population (GP), including:	3,003	±1.79%
Outright Owner (own home outright)	753	±3.57%
Mortgage Borrowers (have a home mortgage), **including:**	1,259	±2.76%
• **Underwater Borrowers** (report owing at least 5% more on their mortgage than their home is worth)	357	±5.19%
Renter (rent home)	840	±3.38%
Income Breaks (General Population Sample)		
Less than $50,000 annual income	1,403	±2.62%
$50,000 - $100,000 annual income	872	±3.32%
More than $100,000 annual income	529	±4.26%
Mortgage Borrowers - Income Breaks (General Population Sample)		
Less than $50,000 annual income	336	±5.35%
$50,000 - $100,000 annual income	487	±4.44%
More than $100,000 annual income	362	±5.15%

* Three monthly studies were completed during that time and later the interviews were combined into one dataset. All three studies were identical in wording and placement of questions.

• Note that throughout the presentation "lower income respondents" are defined as those making less than $50,000 per year, while "higher income respondents" are defined as those making more than $100,000 per year

• Note that on each question, respondents had the option to answer "don't know" (volunteered), which is why, in some cases, the total % may not equal 100.

• General population interviews were conducted by dialing both landline (75%) and cell-phone only households (25%) to ensure proper representation of cell-phone only households.

• The data presented in this study has been weighted to make it reflective of the U.S. Census demographic statistics in terms of gender, age, ethnicity, income, education, housing situation, and urbanicity.