

Article Last Updated: 9/23/2006 11:43 PM

Money sense, language might affect loan rates

Personal finance

By Lesley Mitchell
The Salt Lake Tribune
Salt Lake Tribune

Jorge Fierro can't forget the day his sister called for his advice about a car loan.

"A car dealer was quoting her and her husband a rate of 12 percent, and she wanted to know if this was a good rate," said Fierro, who lives in Salt Lake City. "I couldn't believe it. I said, 'Hold on, don't sign anything; that rate is at least 4 or 5 points too high.' "

Fierro, president of a family catering business, is well versed in finances and eventually went with his sister and her husband to the car dealership and helped them negotiate a lower rate.

But that experience and others like it left him wondering whether other Latinos are at greater risk for paying higher rates. Or is everybody with less financial knowledge at risk?

A recent study by the Consumer Federation of America shows it may be a bit of both. The study, which encompassed 2.5 million refinanced home loans from 30 different lenders, found that black and Latino homeowners were more than twice as likely to get higher-rate "subprime" loans than other racial and ethnic groups. Although the disparity is highest in states such as Texas, Utah and its cities are about in line with the national average.

Nationally, of the 2.5 million loans analyzed, about 671,000 were subprime, said Patrick Woodall. Of the 671,000 loans, he estimates that more than 100,000 could have been granted at lower prime rates. In Utah, about 20,000 loans were analyzed, with about 5,000 granted at subprime rates. Woodall estimates that about 1,000 of those subprime loans could have been granted at better "prime" rates.

Instead, over the course of a loan, such borrowers are paying thousands or tens of thousands of dollars more than they should. "That's a significant amount of money," he said.

Woodall acknowledges he does not know for sure how many, if any, subprime borrowers could have qualified for lower rates.

Rates for a variety of consumer loans vary from borrower to borrower, of course, based on how much of a risk they pose to a lender. Applicants with good credit generally get the best prime rates and those with the worst credit often end up with subprime loans and pay the highest rates.

Woodall said overall, credit quality and incomes among Latino and black borrowers may not be as high as some other ethnic groups, which explains in part why a disproportional high share of Latinos and blacks might be getting the higher-rate loans.

But he believes credit quality and income don't explain the entire disparity and that in some cases lenders are more likely to offer these minority borrowers a higher rate because they think they can get away with it.

He points to the fact that there has been no shortage of mortgage companies that have been accused of wrongdoing in recent years.

In January, state officials announced that up to 3,000 Utahns may be eligible for refunds as part of a \$325 million settlement with Ameriquest Mortgage Co. The company was accused, among other things, of convincing homeowners

to refinance their properties and providing them with high-fee loans with undesirable terms.

Ameriquest did not admit to any wrongdoing as part of the settlement but agreed to pay what amounts to be the second-largest mortgage settlement ever.

Preston L. Cochrane, president of credit counseling company AAA Fair Credit Foundation, said Latinos - especially those with difficulties with English and those with little knowledge of how lending works - are at greater risk of being offered not only higher rates, but bad loan terms, as well.

For example, he has seen a number of borrowers take out interest-only loans only to realize later that they were building no equity. Interest-only mortgages require that the homeowner initially pay only the interest on the loan for a set period.

Or there are those who take out adjustable-rate loans but don't understand that the rate can skyrocket in a short amount of time, boosting their monthly payment significantly.

John Norman, executive director of the Utah Association of Mortgage Lenders, said consumers can increase their odds of getting a good lender by looking for someone who has been in the business a long time and seek continuing education from trade organizations such as his group to increase their knowledge of lending.

One way to do the former is to review his organization's list of certified lenders. To be a certified lender, a company or individual must meet a variety of criteria, including subscribing to a code of ethics.

"It doesn't provide any guarantees, but it does go a long way to identifying people who are professional . . . and if a borrower has a problem with one of our lenders, our ethics committee would investigate," he said.

Certain borrowers undoubtedly are at greatest risk of getting a higher-rate loan or one with less desirable terms.

West Jordan businessman Cesar Escobar said he believes a lack of financial knowledge and a less-than perfect command of the English language is a bad combination when it comes to getting a good deal on a loan.

"In that instance, you're more likely to just take whatever rate you're offered," he said.

Angel Bumpers-Goulding, founder of the local chapter of the Black Chamber of Commerce, agrees. She said there might be some level of discrimination going on with unscrupulous lenders.

But Bumpers-Goulding, who owns a hair salon and has worked in the mortgage industry, believes a bigger problem is bad credit. She thinks many minority borrowers don't have the same credit quality because they may come from families with less household income and financial resources, and less financial knowledge.

But she says all borrowers - minorities included - need to take responsibility for not only avoiding a bad loan but for getting the best deal. They need to do what they can to use credit responsibly, to monitor their credit report and to shop around for a loan.

"It's up to everybody to do their homework before they go to apply for a mortgage," she said. "That's the only way to get a good deal."

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On choosing a certified lender:

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JOHN NORMAN

Executive director, Utah Association of Mortgage Lenders

* Shop for loans before you start looking for a house or car. And before you visit a mortgage lender to get pre-approved, check your credit report and get a credit score. Each of the three credit reporting companies - Experian, Equifax and Trans Union - are required to furnish consumers with one free credit report each year. For information, visit www.annualcreditreport.com or call 877-322-8228.

* Shop for rates from several different lenders. A good place to start may be where you have your checking and savings accounts. Sites such as www.bankrate.com provide comparison data for several lenders in Utah.

* Do not be afraid to ask for a better deal than the one you are being offered. Rates and terms are negotiable.

* When shopping for a home loan, do not go only to a mortgage broker, even though he or she might represent a number of different banks and mortgage companies.

* When shopping for an automobile, do not accept only the loan a car dealer offers without first going to banks and mortgage companies to inquire about rates.

Source: Consumer Federation of America