

The Home Owner Freedom to Choose Act
to be introduced in the 87th Legislative Session, January 2021
through the Pensions, Investments, and Financial Services Committee
of the Texas House of Representatives

A project of Mortgage on a Mission, a social enterprise
www.mortgagemission.org

I. Executive Summary

Across the nation in 2018, only 1 in 4 home buyers getting a mortgage compared lender offers. As a result, they paid on average \$4000 too much in finance charges. In Texas last year, 303,884 homes were purchased by someone with the help of a mortgage. With 77% of mortgage borrowers not comparing offers (according to the CFPB), hundreds of thousands of Texans paid too much in upfront lender fees and are paying higher housing payments due to high interest rates. As the state of Texas faces an ongoing affordable housing crisis, and small business owners need more consumer spending to grow and flourish, when Texas home buyers pay too much for their loan, the entire state suffers. The main challenges to helping Texans find collective savings of between \$578 and \$917 million per year are to 1) help them realize that they can save, 2) teach them how to find savings, and 3) show them how to compare loan offers. We must also recognize the fact, highlighted by research from UC Berkeley, that mortgage lenders still fail to comply with federal Fair Housing law, and that minority borrowers pay hundreds of millions in excessive interest. Helping Texans be better consumers will help close the racial wealth gap by promoting equity and fairness in the market.

II. The Economic Impact

In Texas last year, 345,323 homes were bought and sold. 88% were purchased using a mortgage (303,884). With very few mortgage borrowers comparing offers, the Texas economy suffers in several ways. According to Freddie Mac's study in 2018, home buyers pay on average \$1000 more in upfront fees when they do not shop. They also pay a higher interest rate, which increases their housing payment every month. Paying more in interest means spending less in the local economy. Paying more on a mortgage also means more people rent and fewer will buy, reducing the home ownership rate.

For a typical loan of \$250,000, Freddie Mac estimates the savings between \$2089 and \$3904 over the expected life of the loan. Borrowers can experience these savings by getting an additional four lender quotes. For Texas in 2018, using Freddie Mac's data, the state's mortgage borrowers who did not comparison shop could have saved \$187 million up front (in lower fees) and could have saved between \$391 and \$730 million (in lower interest rates) experienced over time between 2018 to 2023.

III. The Data

24% of all Texas home sales occurred in the North Texas region of Dallas, Collin, Tarrant, and Denton counties (83,511 homes). Using local MLS data, we notice that across North Texas, except Tarrant county, the estimated loan amount is higher than the Freddie Mac loan amount of \$250,000 that was used to calculate savings in their study. We can make county-level adjustments to the data from Freddie Mac accordingly. **Mortgages in 2018 resulted in North Texans paying \$185 million too much, in both upfront fees and higher rates over the life of the loans.**

County	Homes sold ¹	Avg. Sale Price ²	Homes financed ³	Avg. loan amount ⁴	# of borrowers with one lender ⁵	# of borrowers who could save ⁶	Upfront savings on fees ⁷	Avg. savings over life of loan (per loan) ⁸	Avg. County savings over life of loan (total)
Dallas	24,554	352,659	14,241 21,607	275,074	16,634	13,307	\$13.31 million	\$3296	\$57.17 million
Collin	16,561	372,379	9605 14,574	290,456	11,220	8676	\$8.68 million	\$3476	\$38.84 million
Tarrant	27,641	279,036	16,032 24,324	217,648	18,726	14,982	\$14.98 million	\$2607	\$54.04 million
Denton	14,755	354,902	8558 12984	276,823	9997	7998	\$8.00 million	\$3326	\$34.60 million
Total	83,511		73,490				\$29.84 million		\$184.65 million (up front and life of loan total)

IV. Helping Texas Buyers Shop Smartly

The Home Owner Freedom to Choose Act empowers Texas mortgage borrowers by reminding them of several key facts about applying for a mortgage. This information is provided to mortgage applicants at around the same time as they first have their credit pulled by a mortgage lender. Mortgage lenders will be required to disclose this key information to consumers with enough time for them to adjust their choice of lender to find savings. The three key pieces of information will address common misconceptions:

1) Many mortgage borrowers do not realize that comparison shopping can save them money, a lot of money.

Showing Texas borrowers that getting additional quotes can save several thousand dollars is necessary to incentivize them to take the effort to shop. Quoting the data from various studies about saving \$1000 up front and \$2000 - \$4000 over the life of the loan would likely encourage people to try and compare offers who otherwise would not.

2) Helping Texas borrowers shop carefully is also necessary.

Even when shown that they can save, some borrowers will be afraid to do what is necessary to shop. Many home buyers believe that multiple applications with different lenders can harm them by reducing their credit score from multiple credit inquiries. This common misconception prevents buyers from comparison shopping. According to the Consumer Financial Protection Bureau, applying with multiple lenders within 14 days does not harm a borrower's credit score, since they all count as a single inquiry. This is a common misconception that is preventing borrowers from even trying to find savings.

3) Helping borrowers compare Loan Estimates is still needed.

Convinced of their savings, and armed with the knowledge to shop, a borrower also needs to know how to review lenders' Loan Estimates. Home buyers will rarely purchase more than a few homes in their lifetime, and so knowing how to review a Loan Estimate is a skill that few outside the industry possess. Leveling the playing field between consumer and lender is critical. Many borrowers believe that the lender with the lowest estimated cash to close is the most affordable option. This is not the case, as lenders are legally allowed to estimate property taxes and home insurance, and some lenders may underestimate these non-lender costs to reduce their cash to close figure, and meanwhile charge the borrower high lender fees. Borrowers need to realize that only two pieces of information matter on the Loan Estimate: the rate and the Section A lender fees. Borrowers should ask all lenders they apply with to quote the same rate, and the lender with the lowest fees is the one that is making the most affordable offer.

V. Policy Recommendations

The State of Texas has a vested interest in keeping consumers money within the state economy, rather than leaving it in higher finance charges on their mortgage. The question will be how to effectively 1) raise awareness among consumers of the need to comparison shop, 2) help consumers quickly and easily find the most affordable lender, and 3) measure the actual change in consumer behavior, and the economic impact.

We believe the least intrusive regulation would be to require lenders to disclose to consumers, at the point of pulling credit, the information contained herein. To better understand how consumers will respond to this information, we recommend the Pensions, Investments, and Financial Services Committee of the Texas House conduct hearings on the subject and bring in industry representatives, consumer advocacy groups, and others to better understand how to help the public make better decisions. Measuring the economic impact and actual change to consumer behavior is also important to know if legislation, once passed, has had the desired effect.

Footnotes:

¹ **The number of housing units sold in 2018 is from data provided by local MLS, accessed by the Real Estate Center at Texas A&M University.**

<https://www.recenter.tamu.edu/data/housing-activity>

² **Data on the average sales price of housing units is also from local MLS.**

<https://www.recenter.tamu.edu/data/housing-activity>

³ **88% of home purchases were made with a mortgage in the U.S.**

<https://www.nar.realtor/research-and-statistics/research-reports/home-buyer-and-seller-generational-trends>

⁴ **Average loan-to-value in Texas was 78%.**

<https://www.statista.com/statistics/460677/average-ltv-in-the-usa-by-state/>

⁵ **According to the CFPB, 77% of buyers who buy a home with a mortgage only apply with one lender.**

https://files.consumerfinance.gov/f/201501_cfpb_consumers-mortgage-shopping-experience.pdf

⁶ **Freddie Mac in their study estimate that 80% of buyers who shop 5 lenders instead of 1 will find interest rate and lender fee savings.**

http://www.freddiemac.com/research/insight/20180417_consumers_leaving_money.page?

⁷ **Freddie Mac estimates upfront savings at \$1000 per loan when buyers compare lender offers. Home buyers will likely use this one-time stimulus of saving differently than the 60 months of savings that they experience by paying a lower interest rate. To calculate the money multiplier effect, this one-time stimulus is listed separately.**

http://www.freddiemac.com/research/insight/20180417_consumers_leaving_money.page?

⁸ **Freddie Mac estimates savings for a \$250,000 loan due to a buyer finding a lower interest rate at between \$2089 and \$3904 which they experience monthly over the life of their loan. For larger loans, they estimate that savings are in proportion to the loan size. We can adjust expected savings by dividing the average county loan amount by \$250,000 and multiplying this adjustment factor by the lower and upper estimates on total present value savings. Here we have calculated the lower and upper estimates as adjusted for the county's lower or smaller loan amount, and averaged the two results.**

http://www.freddiemac.com/research/insight/20180417_consumers_leaving_money.page?

⁹ The study by UC Berkeley finds that African-American and Latino mortgage borrowers when buying a home are charged on average 0.076% higher on their interest rate and when refinancing are charged 0.034% higher, resulting in over \$700 million more in excessive interest paid per year on outstanding mortgage debt.

<http://faculty.haas.berkeley.edu/morse/research/papers/discrim.pdf>

¹⁰ <https://www.texasrealestate.com/wp-content/uploads/2018TexasHBHSReport.pdf>

¹¹ <https://www.trec.texas.gov/more-consumer-resources>

¹² <https://www.nar.realtor/research-and-statistics/research-reports/home-buyer-and-seller-generational-trends>

¹³ <https://www.recenter.tamu.edu/articles/tierra-grande/Eye-on-Texas-Mortgage-Debt>