Mortgage Journeys: A Video Ethnography of the Homebuying and Mortgage Process

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Abstract

Prior research suggests that comparison shopping for mortgages when purchasing a home helps secure a lower interest rate. In theory, the benefits of mortgage shopping should be particularly strong for lower- and moderate-income (LMI) first-time homebuyers, who may face particular underwriting challenges but who also may qualify for city- and state-level first-time homebuyer assistance programs. We have only limited data about the mortgage shopping behaviors of LMI homebuyers, however, and how those behaviors may influence mortgage outcomes. This article presents new ethnographic data about how LMI first-time homebuyers access information and how that information shapes their mortgage shopping in three phases of the homebuying process. We find that study participants' mortgage-shopping behaviors evolved in three phases of a homebuying process, and they took steps that differed from best practices, especially during the stressful purchase phase, when mortgage shopping could have the biggest benefits. The study draws on longitudinal ethnographic video and interview data collected from 14 low-income first-time homebuyers in Boston, Massachusetts and Knoxville, Tennessee in 2015. The findings from the paper illuminate the need to improve the ease of gaining—and being able to act on—information about mortgages at all stages of the homebuying process.

Introduction

Successful homeownership in the United States is associated with a range of social and economic benefits for homeowners and their families. Prior research suggests that homeownership may improve psychological well-being (Manturuk, 2012; Manturuk, Riley, and Ratcliffe, 2012), child outcomes such as educational attainment (Rohe and Lindblad, 2013), and social and political engagement (Manturuk, Lindblad, and Quercia, 2012). Research has also found a positive relationship between physical health and homeownership status (Rohe and Lindblad, 2013). For middle-class Americans that have net assets, housing wealth is their dominant form of wealth (Kuhn, Schularick, and Steins, 2018).

Homeownership, however, and any benefits it bestows are not evenly distributed. Low- and moderate-income (LMI) Americans have historically faced challenges in achieving homeownership, a result of economic and underwriting barriers such as a lack of downpayment or overall savings, low credit scores, and debt-to-income ratios. Other factors limiting low-income and minority homeownership include racial discrimination in lending, household composition, and age (Haurin, Herbert, and Rosenthal, 2007).

One of the critical components of buying a home is successfully shopping for a mortgage. Mortgage shopping is important because it can help to reduce the interest rate of the mortgage and thus the monthly mortgage payment, offering savings to the homeowner over the life of the mortgage. For LMI homebuyers, mortgage shopping can also mean the difference between being able to qualify for a mortgage or not: some mortgage lenders offer first-time homebuyer products offered by a city or state, whereas others do not. Identifying the most suitable and affordable mortgage can also help contribute to the sustainability of homeownership, especially for LMI homeowners, for whom differences in monthly payments may be more important than for homeowners of greater means.

Recent survey research has provided helpful insights about consumer financial attitudes, housing views, and mortgage-shopping behavior in the aggregate. Specifically, research suggests that a significant proportion of homebuyers do not engage in shopping for a mortgage; they rely primarily on their friends, family, and real estate agents for information when looking for a mortgage (for example, CFPB, 2015; Fannie Mae, 2015). Important gaps remain in our knowledge, however, particularly about how LMI first-time homebuyers shop for mortgages. For example, survey research does not assess how potential first-time LMI homebuyers use this information when shopping for a mortgage or the specific activities they undertake when mortgage shopping. In this article, we will address this gap in the existing research literature and provide a granular understanding of how a small sample of LMI first-time homebuyers in two cities went about preparing for and buying their first home and shopping for their mortgage.

The remaining sections of the article begin with a literature review, which shows that, although mortgage shopping is advantageous, a majority of consumers apparently do not shop for a mortgage. A confounding issue in the research literature, however, is that it has not previously described what people actually do if and when they shop for a mortgage. In fact, we found that our study participants shopped for mortgages in evolving ways in three key stages of the home-purchase process, but their stages and steps differed from expectations held by industry stakeholders (housing professionals, policymakers, and researchers).

We briefly review the study design, methodological approach, and characteristics of the study participants before presenting key insights from the data about mortgage shopping. In the findings section, we present data on the mortgage-shopping behaviors of study participants at three different stages of the home-purchase process. We discuss both real and perceived barriers to getting a mortgage. In the discussion section, we explore in more depth the implications of study participants' actual mortgage-shopping activities and the challenges they faced in accessing a mortgage. We conclude by drawing out potential policy and practical responses to this mismatch between mortgage-shopping best practices and actual practice.

Literature Review

Mortgage shopping is a critical yet understudied component of the homebuying process. Studies of mortgage shopping have mostly focused on borrowers' reported behaviors from surveys rather than observing mortgage shopping as a homebuyer undertakes this activity. As a result, our understanding of how the process unfolds is constrained by researchers' existing ideas about how it occurs. In the following literature review, we examine the research to date on mortgage shopping, including why mortgage shopping matters and the role of information sources in the mortgage process.

The Importance of Mortgage Shopping

The U.S. mortgage market is characterized by a large array of private and government mortgages, from 30-year, fixed-rate mortgages to adjustable-rate mortgages to Federal Housing Administration (FHA)-insured loans. Mortgages originated and backed by state Housing Finance Agencies (HFAs) often come with additional grant programs that cover some of the closing costs for a first-time homebuyer or have lower downpayment requirements. Some of these products are targeted to LMI families. Each specific mortgage product has different downpayment, underwriting, and qualification criteria, creating a potentially confusing and complicated mortgage product landscape. In addition, individual lenders do not usually offer the full range of available mortgage products. Whereas the mortgage industry understands these differences, consumers often do not have a good sense of different mortgage qualification criteria (Fannie Mae, 2015).

Given the number of different mortgage products available to first-time homebuyers, and with variability state by state, or city by city, learning about and shopping around for a mortgage is critical. Research has shown that mortgage shopping lowers the costs of the mortgage thousands of dollars over its lifetime (CFPB, 2015). According to Freddie Mac, borrowers that got five different rate quotes saved on average 0.166 percent on their interest rate, which would translate to almost $3,000 over the life of a $250,000 mortgage (Freddie Mac, 2018).[1]

Despite the potential benefits of mortgage shopping, many potential borrowers do not shop around for a mortgage. Analysis of the Consumer Financial Protection Bureau's National Survey of Mortgage Borrowers, a nationally representative survey of 1,922 homebuyers, revealed that almost one-half of those surveyed did not shop around for a mortgage. Borrowers who were less familiar with the mortgage process tended to shop less (CFPB, 2015). A Fannie Mae study of recent homebuyers found that approximately one-third of all homebuyers did not obtain multiple quotes for their mortgage (Fannie Mae, 2015).[2]

[1] Theoretically, mortgage shopping is also important to ensure that a borrower gets a mortgage product that is safe (that is, a mortgage product that is not structured in an inherently risky way) and suitable (that is, how appropriate the product is for a given borrower's financial situation). Researchers have not yet tested the relationships between mortgage suitability and safety and mortgage shopping.

[2] First-time homebuyers, the focus of this study, did not seem to shop around more or less frequently than did repeat buyers.

Research Is Limited on What Activities Borrowers Engage in When Shopping for a Mortgage

Mortgage shopping is a complicated process that includes multiple different activities, such as accessing a variety of information about mortgage products from friends and family, reading online and other mortgage educational sources, getting prequalification letters from mortgage lenders, and applying for multiple preapprovals. In other words, a continuum of activities related to mortgage shopping influence the kind of mortgage product with which a borrower ends up. Having never navigated the process before, first-time homebuyers may be expected to have less information and experience to draw on and therefore engage in more limited mortgage shopping than do repeat buyers or rely more heavily on advice from friends, family, or professionals (real estate agents or lenders). On the other hand, at least some first-time buyers may try to compensate for a lack of experience by engaging in more research and shopping, whereas repeat buyers rely on past experience (whether or not it is optimal).

A challenge with prior research is that it does not provide sufficient detail to describe respondents' specific mortgage-shopping actions. For example, the 2015 Fannie Mae survey data does not reveal how respondents interpret receiving multiple "mortgage quotes"—that is, respondents may interpret this term broadly to include prequalification, preapprovals, and mortgage applications. As a result, fewer respondents may be doing some of the more involved mortgage-shopping activities, such as getting multiple preapprovals from different lenders and for different mortgage products. Less indepth mortgage shopping might be expected to limit the benefits of mortgage shopping.

Potential homebuyers are shopping for not only a mortgage product but also a mortgage lender. Prior research finds that the mortgage channel can significantly affect what mortgage products are available to a borrower; for example, some mortgage lenders do not offer first-time homebuyer program products. Analysis of mortgage data from the Great Recession suggested that mortgage broker-originated loans were more expensive (Ernst, Bocian, and Li, 2008) and significantly more likely to go into foreclosure than were loans from correspondent lenders[3] (Jiang, Nelson, and Vytlacil, 2014). Several other pre-Recession studies found that the route a borrower took in getting a mortgage (whether through a retail bank, a mortgage lender, or a mortgage broker) influenced the specific type of mortgage product that the borrower ended up with (Apgar, Bendimerad, and Essene, 2007; Jiang, Nelson, and Vytlacil, 2014). In addition, many studies of fair housing practice have found evidence of widely varying mortgage denial rates by applicants' race and ethnicity (Ross et al., 2008; Turner and Skidmore, 1999). When national surveys ask questions about mortgage shopping, they do not ask from how many and what types of mortgage lenders a borrower sought a quote nor whether a borrower received multiple quotes from the same or different mortgage lenders. Understanding these mortgage-shopping behaviors is important because they influence the array of products that a borrower will be informed about and may affect the suitability of the borrower's final mortgage.

[3] Correspondent lenders are wholesale lenders who underwrite and fund mortgages using their own money. This contrasts with mortgage brokers, who originate a mortgage on behalf of a lender for a fee but do not fund the mortgage.

In addition, some research suggests that borrowers are not assessing mortgage lenders based on the products they offer. Instead, factors such as the geographic proximity of the mortgage lender or the lender's reputation influenced a borrower's decision to work with a particular mortgage lender as much as did the mortgage product they offered (CFPB, 2015).

Access to Information and Shopping for a Mortgage

In addition to the activities a borrower undertakes, understanding the information they gain through those activities is critical to thoroughly understand mortgage shopping. Research suggests that the greater the diversity of sources of information about the mortgage, the lower the borrower's interest rate (Pittman, 2008); however, how this information influences mortgage shopping is unclear. Does access to a larger number of information sources mean that borrowers are seeking out a greater number of preapprovals from different mortgage lenders or going through a process to compare interest rates for multiple mortgage products from different lenders before getting a preapproval letter? Further, some sources might be more accurate than others. Multiple nationally representative surveys find that homebuyers' primary and most trusted source of information about mortgage products was a mortgage lender or broker, followed by a real estate agent (CFPB, 2015; Fannie Mae, 2015).

Research has examined the tremendous influence of housing professionals' information on the home search process. Real estate agents have greater knowledge of the process than do homebuyers, but their incentives in the home purchase transaction are not fully aligned with their clients because they are paid through commissions and benefit from closing a large number of transactions quickly. On the seller's side, this translates into pushing homeowners to sell faster and for lower prices (Levitt and Syverson, 2008), whereas on the buyer's side, it manifests as pressure to buy quickly and overshoot their initial price ranges (Besbris and Faber, 2017). On the mortgage side, evidence from fair-lending enforcement tests has suggested that at the preapplication stage, mortgage lenders may give less information about housing affordability, loan products, and downpayment assistance and less coaching on strategies to qualify for affordable mortgage products to African-American and Hispanic testers (posing as prospective homebuyers) than to White testers with the same financial profiles, although the degree of differential treatment varies by market and by lender (Ross et al., 2008).

Fewer consumers obtain information about their mortgage product from outside sources, such as websites, financial and housing counselors, or personal acquaintances (such as friends, relatives, or coworkers) (CFPB, 2015). We are not aware of literature that has investigated the accuracy or completeness of information that prospective homebuyers obtain through family and friends, although it is likely highly variable. One type of information that prospective homebuyers seek from family and friends is a referral for a trusted mortgage broker. Reid (2010) found in 100 interviews in California among low-income and minority communities that borrowers were most likely to get referrals for mortgage brokers from their close families and friends: borrowers preferred mortgage brokers who were part of the local community.

Economic status also influences where borrowers get information about their mortgage. In comparing mortgage-shopping behavior between higher- and lower-income borrowers, Fannie

Mae's National Housing Survey® found that higher-income borrowers are more likely to use online tools or applications, whereas lower-income borrowers are more likely to rely on real estate agents, mortgage lenders, family, and friends for advice and recommendations (Fannie Mae, 2014). Many lower-income and other first-time homebuyers, however, do not have parents or other close relations who are homeowners who can share firsthand knowledge (Pittman, 2008).

These patterns of access to information about mortgages match those seen in other parts of the homebuying process. Real estate agents, in particular, exert a fundamental role not only in responding to homebuyers' preferences but to shaping their preferences, price thresholds, emotions, and experience of the homebuying market as stressful and time pressured (Besbris, 2016). Real estate agents also appear to act as gatekeepers for access to adjacent professionals, such as appraisers (Gotham, 2014; Korver-Glenn, 2018).

In sum, the research suggests that potential homebuyers are getting referrals for mortgage lenders from family and friends and real estate agents. Once potential homebuyers have an established relationship with a real estate agent and a mortgage lender, they are likely to trust these professionals' recommendations for mortgage products. What we do not understand well from the literature to date is what mortgage information potential homebuyers have when they come to the homebuying process, how they make decisions along the way, or how they seek out additional information. Better understanding these gaps in the literature on mortgage shopping can help policymakers better design aspects of the mortgage-shopping process (to the degree that this is within their control) and to think about novel approaches to homebuyer education.

Research Approach and Data

Mortgage Journeys Study Design

To better understand the mortgage-shopping process, we need data about how homebuyers seek out information, what factors are influencing them, and how they make decisions across the entire span of the homebuying process. To get this data with this granularity, we chose a deliberately small sample of LMI first-time homebuyers just beginning their home searches. We collected indepth longitudinal video ethnography data from these individuals in 2015 in a Fannie Mae-sponsored study called the Mortgage Journeys Study.[4] Data collection incorporated five key elements: (1) indepth interviews; (2) participant video diaries; (3) observations of mortgage and home purchase events; (4) short weekly online surveys (about their housing search, attitudes, and mortgage knowledge); and (5) review of participants' finances and any mortgage-related documents they obtained. Researchers visited each participant in person at least three times at different points in their homebuying journey to conduct indepth interviews and observations of homebuying activities. We interviewed each participant for an average of 10 hours; observed 13 participant homebuying events, including prequalification appointments, loan closings, and online research plus general market activities such as homebuyer education classes in each site; and reviewed approximately 14 hours of video diaries. Researchers also spoke with participants on the phone as needed to manage survey data collection and help participants with conducting video diaries.

[4] Key results of the Mortgage Journeys Study have been released by Fannie Mae. For details, please see Palim (2018).

In most cases, study participants enrolled in the study before they were prequalified for mortgages. In other cases, participants enrolled in the time between their prequalification and up to a month before their closing.[5] Participants' involvement in the study varied in length of time, depending on the timeline of their homebuying and mortgage experience. Data were collected from December 2014 to July 2015.

Our ongoing data collection allowed us to develop robust case studies of each participant that captured more of the ups, downs, and shifts in their home searches than can be obtained by one-time data collection. Researchers were able to build strong rapport with participants, who openly shared details about their home search. Notably, participants shared sensitive emotions and financial information; talked about issues in their lives, such as relationship tensions and job anxieties; and effused excitement and frustration over their home searches. We were able to observe the different emotional tenor of the three different home purchase stages and to note the differences in mortgage-shopping behavior at each stage. We were also able to observe how contextual life factors affected each participant's mortgage shopping.

Participant Characteristics

We recruited a small (n=14) purposive sample of prospective homebuyers in two different states.[6] As shown in exhibit 1, most participants lived in higher-cost urban Massachusetts (n=9 in greater Boston, n=1 in Worcester), whereas fewer lived in lower-cost Tennessee (n=4).[7] Most participants (n=10) were female, white (n=8), and partnered (n=8). No participants had minor children living with them at the time of the study. Participants' incomes ranged from 26 percent Area Median Income (AMI) (in both sites) to 105 percent AMI in greater Boston (and Worcester) and 97 percent AMI in Knoxville.[8] By the end of the study, one-half of participants (7) had purchased homes.

[5] Due to challenges recruiting all participants before prequalification, we accepted one household in Tennessee that had placed an offer on a home.

[6] Our recruitment criteria were that households earn less than area median income (AMI), be first-time homebuyers, be sure of their decision to purchase a home within the next 6 months, were not yet prequalified for a mortgage, and have regular access to the internet to complete study activities. We recruited through flyers at financial institutions, retailers with community information boards, libraries, and community centers; online and newspaper advertisements; real estate agents; and housing counseling agencies.

[7] Our research sites were greater Boston and greater Knoxville. One participant we recruited in Boston concluded that the city was too expensive and shifted his search to Worcester, where he had grown up.

[8] We chose those sites so that we had one site in a higher-than-average-cost housing market and one in a lower-than-average-cost market, both where the lead researchers had existing connections to real estate professionals.

Exhibit 1

Participant Characteristics

		Boston (n=10)	Knoxville (n=4)	Total
Gender (F/M)		8/2	2/2	10/4
Race	White	5	3	8
	African-American	3	1	4
	Latino	0	0	0
	Asian-American	1	0	1
	Other	1 (Haitian American)	0	1
Income Range		$24,000-95,000*	$15,600-$58,000	n/a
(AMI)		($90,000)	($60,000)	
Single		3	3	6
Partnered/Married		7	1	8
Children Present		1 (Adult Child)	0	1
		1 (Pregnancy)		
Purchased Home as of 9/16/15		5/10	2/4	7/14

Analysis

We conducted interpretive analysis of interviews and participant video diaries focused on beliefs, concepts, and values about homebuyer experiences. Interpretive analysis is designed to understand the meaning of events from the perspective of those experiencing them; it is explicitly about the discovery of new information rather than testing hypotheses. We conducted ongoing analysis during data collection to make sense of each participant's journey as data was collected and to inform additional data collection. Once all data were collected, we used a combination of qualitative coding in NVivo 10 software and team analytic debriefings to draw together key themes that provided insights and responses to the study research questions. We incorporated emergent themes related to the research questions into the analysis as relevant. Video material was organized into key themes that emerged from the analysis process.

Limitations

Although we are able to understand participant perspectives indepth through this study, both the small sample size and its limited geographical area limit the conclusions we can draw. The experiences of 14 individuals in two locations are not statistically generalizable to homebuyers in general, LMI homebuyers, or the markets in which the research was conducted. Rather, the study provides exploratory insights into homebuyer perspectives, demonstrating the social processes of getting a mortgage and buying a home rather than being a representative sample of homebuyer experiences. We point readers to the discussion section for further discussion on these limitations.

Additional limitations include that the study was conducted before the qualified mortgage rule and new mortgage disclosure documents were implemented, so findings on those topics should be read in that context.[9] The technological requirements of being involved with the study may have introduced a degree of bias into the sample; in particular, older and less technology-savvy participants may have self-excluded. In addition, the time commitment involved in participating in the study may have precluded some interested participants, such as families with young children. The study was also conducted only in English, and non-English-speaking households' experiences may be considerably different. Finally, the study only followed households over 6 months, and some participants' homebuying journeys were longer; as a result, we did not gain the full range of insights possible had we followed them longer.

Findings

This section presents our major findings from the Mortgage Journeys video ethnography. We begin by providing an overview of the three different phases in the homebuying and mortgage process observed for LMI first-time homebuyers in the study: preparation, decisions, and purchase. We then review each phase in detail, first presenting the defining characteristics of the phase, then the real and perceived barriers that study participants faced, and finally how participants approached mortgage shopping in each phase. We conclude that participants engaged in mortgage-shopping behavior in each phase; however, the ways they engaged in mortgage shopping differ from best practices recommended in the mortgage industry, owing to limited information that the homebuyers have, perceived mortgage barriers, financial self-perceptions, and the structure of the mortgage transaction, making comparison shopping challenging.

Phases of the Homebuying and Mortgage Journey

We identified three main homebuying phases within which different mortgage shopping and preparation activities occurred: (1) Preparation, (2) Decisions, and (3) Home Purchase.[10] Exhibit 2 provides an overview of each phase. Participants might move easily from one phase to the next, or they may experience flux, moving from one to the next, only to move back to a prior phase as a result of a failed house offer or after discovering a major fault with the home. Although the graphic shows a linear progression, the process was usually nonlinear because participants faced a range of different barriers along the way in purchasing their home. Homebuyers' timelines ranged from 6 months to more than 2 years;[11] during the course of the study, a few put their home searches on hold indefinitely. Participants faced barriers related to both their home and mortgage searches in all phases of the process, from the preparation phase to the active search, until purchase.

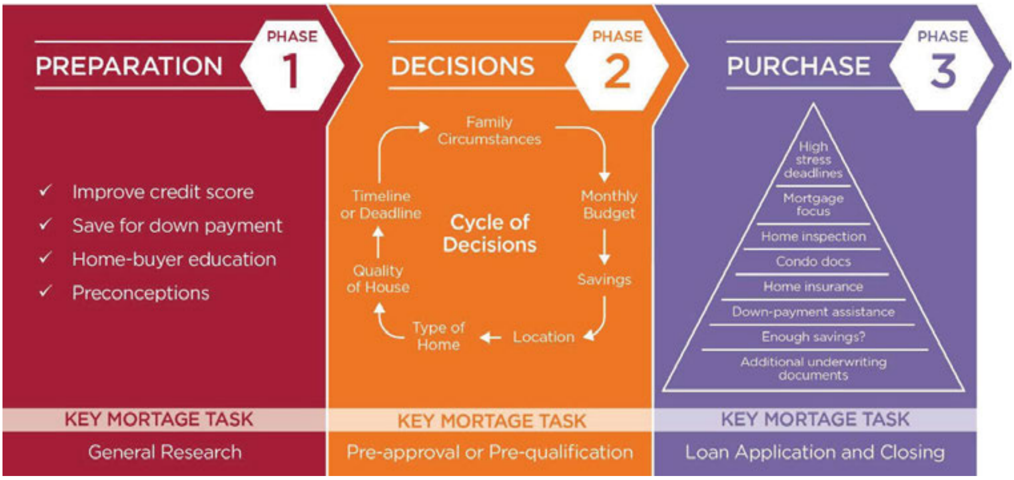
[9] In the wake of the Great Recession sparked by record defaults on subprime mortgages, the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (Dodd-Frank) established new rules to prevent some of the worst excesses seen in the subprime mortgage market. Specifically, Dodd-Frank established mortgage lending consumer protections, including the criteria for a Qualified Mortgage (QM), the intent of which was to establish that a mortgage be suitable for a borrower's financial situation (Bocian, 2012). As a result, predatory mortgage products designed to strip equity from a borrower were regulated out of the marketplace.

[10] These phases are similar to the four phases that CFPB identifies: (1) Prepare to shop (our preparation phase); (2) Explore loan choices (our decisions phase); (3) Compare loan offers (our purchase phase); and (4) Get ready to close (our purchase phase). See CFPB (n.d.a).

[11] If a participant's journey lasted longer than the study period, that participant reported being engaged in the home search process prior to the study period.

Exhibit 2

Three Nonlinear Phases of Homebuying for Mortgage Journey Participants



We now review each of the phases in greater detail, describing the characteristics of each phase, then discussing the real and perceived mortgage barriers that participants faced in each stage, how they overcame those barriers, and the mortgage shopping they completed. Understanding the mortgage barriers that participants faced is critical because it influences how they went about mortgage shopping.

Preparation Phase

In the preparation phase, participants in the Mortgage Journeys study did preparation work, such as improving their credit score; saving for the downpayment; and, in some cases, attending homebuyer education—either short events presented by realtors or longer courses offered by nonprofit housing counseling agencies. At this stage, they had limited preconceptions and preferences about their desired location, desired housing characteristics (for example, condo or multi-family, fixer-upper or move-in ready), and mortgage terms or lenders, although some were starting to form. Four of the Mortgage Journeys study participants were still in the preparation phase at the end of the study.

Preparation Phase Mortgage Barriers and Strategies to Overcome Them

In the preparation phase, participants encountered both real and perceived barriers based on their past circumstances, current circumstances, or both, as shown in exhibit 3. Real barriers to getting a mortgage related to their past included having no or thin credit files, low credit scores, low levels of savings, a history of credit denials, or a lack of income history. Present-day barriers participants faced included unemployment, job loss, family crises that derailed homebuyers' preparation for buying a home, and a lack of knowledge about homebuying. In the current study, Franklin[12] was

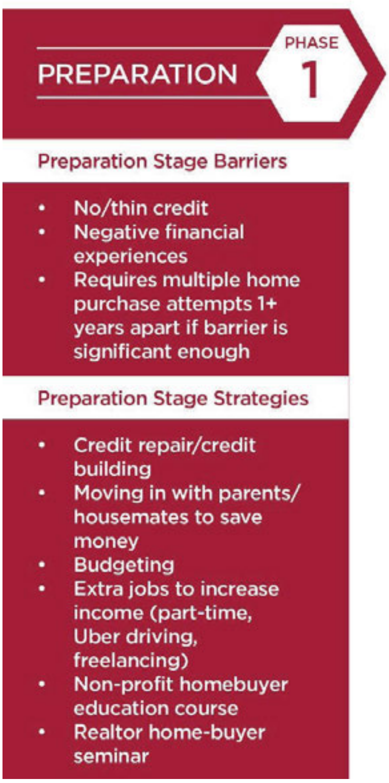
[12] All names in the paper are pseudonyms.

an expecting father and veteran considering a Veterans Administration loan. He was waiting to gain sufficient employment history at his new job before applying for a mortgage. He was an informed-enough borrower to know, through conversations with lenders and a homeownership education class his partner attended, that improving his employment history would give him access to a more affordable mortgage; however, he was laid off close to the end of the study period, and the couple put their home search on hold indefinitely. Another participant, Gina, had been saving money and working on her credit, but a family crisis (her son being arrested) along with an already unstable housing situation meant she had to put her homebuying journey on hold indefinitely for the second time since she had started down the path of preparing to buy a home.

Participants were aware of their barriers to accessing a mortgage and what they needed to do to overcome them, and their strategies are shown in exhibit 3. A common barrier was the lack of savings for a downpayment. Two participants moved in with their parents and others with roommates to save money, whereas others cut weekly expenses and checked their budgets frequently. Another strategy to build savings was to increase income through extra jobs. James, a 21-year-old single man, started driving for Uber to save extra money. To deal with poor credit, participants worked to pay off debts. Study participants with poor credit sometimes hesitated about talking with a bank or mortgage lender at this early stage. Duncan instead went to speak with a nonprofit mortgage lender, and a few others worked on improving their credit only.

Exhibit 3

Preparation Stage Barriers and Strategies to Overcome Them



To compensate for a lack of knowledge about the homebuying process, participants took homebuyer courses offered by both nonprofits and realtors. From our observations of both types of class, we noted that both focused on providing relatively impartial information along with introductions to a set of real estate professionals (realtors, mortgage lenders/brokers, and insurance brokers). Unlike their realtor counterparts, however, nonprofit classes included questions to ask of real estate professionals and additional critical lenses through which to assess the homebuying process.[13]

Mortgage Shopping in the Preparation Phase

In the preparation stage, participants formed vague preconceptions about mortgages as they weighed the costs of their tenure choice, most often a monthly mortgage payment against rent. At this stage,

[13] Research has not established whether the nonprofit homebuyer classes differ in content or successful homeownership outcomes.

participants focused on the total monthly mortgage payment and not its composition—such as principal, interest, taxes, and insurance—or the interest rate or whether it was a fixed or adjustable rate. Some participants used online mortgage calculators to make estimates of affordability, although these calculators cannot take into account specific factors about a particular home nor details such as the interest rate or type (fixed or adjustable) it was advertising. These kinds of activities helped participants prepare for shopping for a mortgage but did not constitute active shopping either for a mortgage originator or a mortgage product.

Participants' self-perceptions shaped the mortgage search from the beginning. For example, participants that considered themselves "low credit" or "uncreditworthy" approached only certain lenders (for example, credit unions over retail banks) or considered only specific products at the prequalification stage.[14] One study participant, Duncan, had previously been denied a business loan and, because of this, wanted to avoid mainstream lenders, which potentially cut him off from valuable and reliable information. He explained, "I actually Googled 'mortgages for bad credit.'" Through these results, he learned about Federal Housing Authority (FHA) mortgages and later connected to the nonprofit Neighborhood Assistance Corporation of America, which provides financing and housing counseling.

Decisions Phase

The decisions phase is characterized by looking at homes, analyzing budgets, thinking about the quality and location of the home, obtaining a prequalification letter, and synthesizing all this information. The key mortgage-related task in this phase is obtaining a prequalification letter or a mortgage preapproval.[15] The decisions phase ends with the acceptance of an offer to buy a home. One participant described this as the "cycle of decisions" phase, meaning that during this phase they looked at a house; considered all the financial implications, including the cost of the mortgage and repairs; and then had to decide if the property would work for them; if not, they returned to the search for a new property. Two study participants were still involved in the cycle of decisions by the end of the study.

At the time of the study, Cortney from Boston was earning $52,000 a year employed as a teacher and working over the summer at a summer camp. To save money, she was living with her parents. Motivated to own a home due to the high cost of renting, she also saw it as a way to build equity. In the spring of 2015, she met with a realtor and started attending open houses to get a sense of the available housing stock. She got prequalified by a mortgage broker recommended by the realtor she met with early in the process so she could keep looking at properties. Cortney saw the summer as a key time to focus on the home search process because once the school year began, it was harder to carve out time to go and see properties. She was focused on whether a property was the right one; she was willing to wait or continue saving to purchase a more expensive property. Over the summer, she found a potential property but after some consideration decided not to move forward

[14] One can understand this in light of the brain's negativity bias—to remember previous negative events more strongly than positive events, even of similar intensity (for example, Baumeister et al., 2001).

[15] A prequalification letter is a letter documenting the mortgage amount a borrower is likely to get, based on information submitted by the borrower, whereas a preapproval relies on secondary data checks, including review of the borrower's credit score.

with an offer; the property was not quite right. She was guided in her financial decisionmaking by her financial advisor, who was also a family friend. He provided suggestions to her about how much to put down for the downpayment and how to budget as a homeowner. By the end of the study, she was still looking for the right home, continuing to live with her parents and save for a downpayment.

Decision Stage Barriers and Strategies to Overcome Them

The decision stage is a tumultuous, cyclical one, in which participants explore housing options in their preferred neighborhoods and learn about costs and financing options through prequalifications. As the numbers became more specific, individuals reported being able to make more sense of whether and how they would be able to manage the mortgage. Patricia, a Haitian-American woman in her late twenties, had gone through a previous cycle of trying to purchase a home prior to being in the Mortgage Journeys study. During her first attempt to buy a home, as the information from the seller became more specific, she was able to see that the combination of the condo fees and the likely mortgage payment would not be affordable for her. With a renewed understanding that a higher credit score could lower her interest rate and mortgage payment, she had gone back to the drawing board and started working on improving her credit score to over 700.

During this stage, some participants also learned they had insufficient savings to cover a downpayment on their preferred house (see summary of decision stage barriers and strategies in exhibit 4). Participants responded by returning to the preparation phase or by searching for additional resources to help with the downpayment. Resources that participants sought out included first-time homebuyer downpayment assistance and low downpayment government or nonprofit mortgage products. Indeed, six participants used various first-time homebuyer programs and mortgage products. Participants considered the Neighborhood Assistance Corporation of America, the Veterans Administration, the Federal Housing Administration, municipal downpayment assistance programs, and State housing finance agency first-time homebuyer loans. Participants found out about these programs through active online research, referrals from trusted professionals or family and friends, and general day-to-day conversations.

In the decisions phase, participants also faced barriers beyond their control that precluded them from moving forward in their home purchase. These included unemployment, family crises, and a change in household composition that changed the parameters of the home search. Facing and dealing with barriers in the cycle of decisions phase often meant extending the anticipated timeline for purchasing the home, putting the search on hold, or changing the location of the home search. Barbara's case illustrates how, despite overcoming a barrier of insufficient savings through a Housing Finance Agency (HFA) product, other barriers sent her from the decisions phase back into preparation.

Barbara had attended a homebuyer education course at a nonprofit in Knoxville as part of her preparation to buy a home. She frequently referred back to materials in the binder that had been given to participants and was trying to follow the instructors' advice closely. Because of this, she had become focused on obtaining a low downpayment first-time homebuyer loan through the

Tennessee Housing Development Agency and on using a credit union instead of a bank; however, she discovered that her preferred credit union did not offer her preferred type of mortgage. Barbara was shopping for both mortgage product and mortgage originator but found a mismatch.

Her savings were insignificant, and she could not increase her income due to medical conditions that limited how much she could work. She researched neighborhoods and available housing stock by driving through neighborhoods and doing some limited online research; however, her car needed several costly repairs that constrained her ability to both search for housing and build her savings. During the course of the study, she moved from the cycle of decisions phase back to preparation—researching neighborhoods, looking at homes, rebuilding her credit after amassing debt on a store credit card, and trying to continue saving even as she encountered unexpected expenses.

Exhibit 4

Decisions Phase Barriers and Strategies

Mortgage Shopping in the Decisions Phase

During the decisions phase, participants' main mortgage-related focus was obtaining a preapproval letter. Mortgage Journeys participants worked hard to get mortgage preapprovals for loan products that they perceived would make financial sense for them, based on their available financial resources for a downpayment and closing costs, along with ongoing monthly income. Similar to their behavior during the preparation phase, Mortgage Journeys participants continued to focus closely on the monthly mortgage payment and the total mortgage amount, which would determine whether or not they could buy their preferred home.

We observed Mortgage Journeys participants selecting lenders for preapproval based on several factors, including their self-perceptions (discussed later), misinformation and confusion about the mortgage process, and referrals from their realtors. Echoing research suggesting homebuyers are not always informed about the mortgage process, a few participants were confused. One study participant, Nancy, provides an example of how misinformation about the mortgage process could influence participants' shopping behaviors. Nancy explained the common fear that too much shopping around for a mortgage can lower one's credit score and lead to obtaining worse mortgage terms:

> *One fast-talking mortgage guy, that I didn't like because he sounded like a salesman, said that I could prequal*

> *everywhere in 30 days and it won't affect my credit score. And somebody told me that wasn't true. I think it was our friend at [financial institution they used]. I was like, concerned. Your credit score drives your interest rate on the mortgage. So the more mortgage shopping you do, it would negatively affect your credit score…and that probably drove the number of people I let draw prequals for me. I just didn't want that many people looking at my credit and showing up as several queries.*

Referrals from real estate agents were the most common way participants identified their mortgage lenders, although in a few cases, other considerations drove the choice.[16] Betsy and her partner "literally took the guy's word who worked with our realtor….We did no shopping, no research, nothing." Similarly, Steve and Joelle chose their mortgage broker because she co-led an hour-long first-time homebuyer seminar Joelle attended. Steve described their working relationship with this pair as "a match made in heaven," and they did not speak to any other lenders (see Besbris, 2016 on how realtors evoke emotional connections to their clients). In these cases and in Nancy's case of confusion about mortgage shopping, the perceived value of housing professionals' advice shaped how little shopping around participants did (however, Nancy did not listen to advice encouraging her to shop around because she had absorbed fear about lowering her credit score).

Once prospective buyers selected a lender for a preapproval, buyers who moved into the purchase phase usually continued working with this lender and very rarely reevaluated lender or mortgage choices. The only times we observed Mortgage Journeys participants reevaluate lender or mortgage choices was in a reactive way if something went wrong with either their lender or product (as we discuss later).

Purchase Phase

The purchase phase is the final phase of the homebuying process and requires homebuyers to focus on multiple aspects of the home purchase simultaneously and within a short amount of time. These can be broken down into three main categories: (1) activities related to the house and home contract, (2) activities related to the lender, and (3) activities related to the mortgage product and loan terms. Slippage in any of those areas can jeopardize the closing date. With a great deal of emotion—excitement, anticipation, and nervousness—riding on the successful completion of the home purchase, Mortgage Journeys participants who reached this stage (n=7) overwhelmingly focused on activities related to completing the home purchase: the inspection, reviewing condo documents, negotiating or completing repairs, and submitting a variety of different documents necessary for the mortgage application to move ahead (see Besbris, 2016 on real estate agents' role in invoking anxiety and pressure to buy quickly because of scarcity in the market). Homebuyers were actively involved in both the home- and mortgage-related parts of this phase but in different ways. Study participants paid close attention to details of the purchase agreement, especially repairs and price concessions. In Tennessee, the inspection could be an opportunity for homebuyers to improve the quality of the home and/or lower the purchase price. Both Steve and Joshua in Knoxville negotiated on repairs after they had a signed purchase agreement and the house went through inspection. Joshua was able to negotiate for the seller to complete repairs of plumbing, electrical, exhaust, and subfloor issues. Steve and Joelle had repairs, including repair of their

[16] These other considerations included whether a lender offered a downpayment assistance program or first-time homebuyer mortgage or, in one case, if a lender worked with a participants' preferred attorney for closing.

electrical unit, completed at the seller's expense. We did not see any buyers in Boston use this strategy, perhaps because the tight housing market and associated higher competition for houses allowed sellers to reject demands for repairs more easily.

Mortgage Journeys participants were more passive or reactive about mortgage-related parts of the purchase phase compared to the home-related tasks. Homebuyers at this stage actively submitted a formal loan application with their selected lender and provided requested documentation—a significant amount of work. Once they submitted their loan documentation, however, the title search and underwriting process happened largely out of their view, with no active homebuyer involvement. A few participants did mention getting calls from unknown professionals at this stage—such as the title insurance agent—and not being sure who they were or how they were involved in the process.

Purchase Phase Barriers and Strategies

Study participants in the purchase phase reported overwhelming levels of stress with tight timelines to review large numbers of documents, communicate with real estate professionals, and complete closing. Participants described the large volume of paperwork required and the associated stress of not understanding what was in the documents.[17] During this final and high-pressure phase, Mortgage Journeys participants also learned more specific information about first-time homebuyer programs. Although participants had learned some details about those programs in the decisions phase, actually qualifying for the programs happened in the purchase phase. In two cases, including James' (discussed in the following section), participants encountered problems at the last minute that threatened to derail their home purchases.

Unresponsive real estate professionals sometimes put the closing date in jeopardy; participants felt helpless and that they would do whatever they were told or needed to do to finalize the closing, whether or not that was the optimal financial decision. In scenarios in which participants decided not to move forward with the purchase, they returned to the decisions phase.

Mortgage Shopping in the Purchase Phase

Recommended best practice for mortgage shopping is to ask for multiple loan estimates from different lenders after selecting a home,[18] yet this high-stress and deadline-driven purchase phase was not conducive for Mortgage Journeys participants to comparison shop. A signed purchase agreement sets a firm deadline with an aggressive timeline, often 30 to 45 days, leaving very little room for slippage in a typical closing process. In broad brush, the closing process includes a series of steps related to the home purchase and several mortgage-related activities. In this compressed, high-stress, and deadline-driven process, homebuyers had limited ability to engage with all aspects

[17] Even after having it explained by mortgage and real estate professionals, participants who reviewed their loan packets with researchers did not understand what was in the documents after the loan closing and expressed feelings ranging from indifference to frustration that none of the professionals involved had taught them what the documents meant.

[18] For example, the Consumer Financial Protection Bureau (n.d.b.) recommends this practice in several resources, including in Your Home Loan Toolkit and on its Owning a Home portal. See https://files.consumerfinance.gov/f/201503_cfpb_your-home-loan-toolkit-web.pdf and https://www.consumerfinance.gov/owning-a-home/process/compare/request-multiple-loan-estimates/.

of the process. Many Mortgage Journeys participants were savvy in shopping around for a mortgage in the preparation and decisions phase of the process (primarily looking for prequalifications) and also in shopping for homes, yet they did not shop around for multiple loan estimates once they had selected a home.

From observing seven Mortgage Journeys participants completing the home purchase phase, we conclude that the structure of the transaction creates an environment of stress, anxiety, and fear, which limits mortgage shopping at the purchase phase. The purchase phase is high pressure with limited time, looming deadlines, and a fear of being rejected from the mortgage process. Participants nervously waited for their approval and were visibly happy and relieved when they got it. Although those factors may create stress for all homebuyers, for first-time homebuyers, this is the first time they are completing a large, complex, financial transaction with significant financial consequences, which further enhances their stress.

Exhibit 5

Purchase Phase Barriers and Strategies

Barriers to Mortgage Shopping

Participants encountered multiple barriers to effective mortgage shopping at the purchase phase, including inaccurate information about the negative effect of multiple mortgage applications on their credit, overreliance on trusted advisors, decision fatigue, and a perception of insufficient time to reach out to multiple lenders and compare loan terms. Exhibit 5 summarizes these barriers and participants' strategies in response. No one mentioned considering submitting multiple mortgage applications.

As discussed in the preceding section and suggested in other literature, trusted professionals played major roles in guiding participants to mortgage products and through the application and closing process (Besbris, 2016; Besbris and Faber, 2017; Korver-Glenn, 2018). To alleviate their stress, participants placed a heavy reliance on trusted advisors and chose not to focus on mortgage details compared with home selection, which seemed easier to understand. They responded to mortgage professionals who were understanding of and responsive to their personal situations and demonstrated accessibility (see CFPB, 2015 on factors affecting lender selection). In our study, Patricia chose a lender who "seemed reasonable, she seemed understanding, maybe she was a family person and understood where I was coming from" in purchasing a multifamily home with her sibling. Those professionals often discouraged shopping around both implicitly and explicitly, however (see Besbris and Faber, 2017, and Levitt and Syverson, 2008 on real estate professionals' incentives). For example, by omitting the need to shop around, momentum carries participants forward with the same lender recommended by a trusted advisor. Only nonprofit entities—housing counseling agencies and a nonprofit lender—encouraged clients to shop around. Further, realtors with strong mortgage broker relationships implicitly discouraged shopping around because that broker is seen as "the" person who works with that realtor, as if part of a "package deal" (see Temkin, Levy, and Levine, 1999 for a case study of an integrated real estate–mortgage lender system).

Phillip and Rose present an interesting case study in receiving constrained advice, even with apparent advantages in the mortgage search. Phillip's family had financial assets that they might have shared with him, but he did not feel comfortable asking for financial assistance. Further, after a period of unemployment, Phillip secured a job supporting a mortgage underwriting team. When pushed by Rose to ask for help with the downpayment, his family members refused. Rose and Phillip received periodic discouraging advice and suggestions from family members in both the decisions and purchase phases of the homebuying process. As they considered taking on a larger mortgage to afford a house in a neighborhood of Boston they wanted to live in, family members gave them negative (and possibly realistic) feedback about taking on the monthly payment for a $400,000 house on their $74,000 income.

After many sleepless nights; a series of gut-wrenching arguments about whether they could stretch to cover the costs; detailed consideration of their budget, analyzed in Excel; and being unable to secure help from Phillip's family, it was with a great deal of relief that they did not buy the property and returned to the "cycle of decisions" phase. Rose described how much she was in love with the property and how hard it was to let it go. In late spring 2015, they put down an offer on a single-family home for $274,000 in a lower-priced neighborhood, farther from the center of Boston. Working with the same mortgage company that Phillip worked for, they signed a 30-year fixed-rate mortgage and moved into the property in a residential neighborhood in a middle-class suburb of Boston. The emotional journey through the different stages of the homebuying process—and Phillip's sense of obligation to his employer—left little room for Phillip and Rose to consider getting mortgage applications from other mortgage lenders or banks.

Another key aspect of homebuyers' flagging attention to the mortgage emerges from the "decision fatigue" literature. Taken together, these psychological and economic studies show that people perform worse on mental tasks the more decisions and trade-offs they have had to make (Danzinger, Levav, and Avnaim-Pesso, 2011; Levav, Reinholtz, and Lin, 2012; Spears, 2010). The effect can be seen both within a day (for example, decisions deteriorating over the course of a day) or over a sustained period of time (for example, living in poverty). Further, humans tend to choose an urgent activity with a deadline over a more important activity (Zhu, Yang, and Hsee, 2018). In the home purchase phase, the set of deadlines pushes forward decisions toward purchasing the home and getting the mortgage, even when multiple mortgage applications (mortgage shopping) might be more financially optimal. As Besbris (2016) finds, real estate agents directly contribute to this time pressure by creating a sense of urgency and scarcity in their clients. Worth exploring in further research is whether homebuyers' decisionmaking capabilities are depleted by making early-stage decisions, leaving less decisionmaking power for later decisions, such as obtaining multiple mortgage quotes.

Given these purchase stage barriers, buyers' choices about lenders and products in earlier phases of the process were by and large "sticky" at the time of actually applying for the mortgage. In other words, although the industry and consumer advocates separate the process of preapproval and mortgage application, in practice, borrowers in our study collapsed those phases. Study participants' mortgage shopping occurred during the preparation and decisions phase before choosing a specific house and, therefore, prior to knowing the actual mortgage terms. When things went awry at the purchase stage with one of those earlier decisions, homebuyers did not have the emotional or mental capacity to adjust their mortgage choices within the perceived high-pressure timeline of their contract.

James' experience illustrates how time pressure inhibits comparison shopping for even a highly motivated, informed, and savvy homebuyer. James, who planned to become a realtor, began his home search by engaging closely with details about the mortgage. As the timeline progressed and he neared the mortgage closing and home purchase, however, the details became overwhelming. A few days before closing, he realized that he needed to get the city of Worcester's downpayment assistance program because his savings would not cover the downpayment and the closing costs. The mortgage lender that he was working with was not actually qualified to provide that program due to some bureaucratic problems with the city. Within the last 24 hours before the loan closing, James had to find another bank with whom to get a mortgage. Understandably, he talked about this experience as highly stressful.

As he explained, "I would have loved" to have seen all the options for every lender who was qualified to work with the HFA downpayment assistance program he used. "But given I was so crunched for time I felt like I needed to rush, so I used the general guidelines I had for what I wanted, a 30-year loan product," and did not have time to compare specific loans: "I just went with the first thing that I could." Although James was more specific about his preference to shop around at the purchase stage, his experience of the high time and emotional pressure leading to suboptimal comparison shopping was typical of other participants who went through the complete home purchase process.

Factors Influencing Participants' Mortgage Shopping Experiences

Across all stages of the homebuying process, five major influences shaped participants' attitudes and behavior toward mortgage shopping: social networks, real estate professionals, downpayments, time and technology, and participants' financial self-perception. Social networks and real estate professionals have been widely documented as shaping the home search process (for example, Besbris, 2016; Besbris and Faber, 2017; Korver-Glenn, 2018; Pittman, 2008); the same held true in our analysis of mortgage-shopping behavior. Access to money for a downpayment—again noted as a barrier to homeownership in general (for example, Goodman et al., 2017)—was fundamental to the types of mortgages participants sought. Lack of or a limited downpayment created preferences for low-downpayment mortgage products or sent several participants in search of downpayment assistance programs or gifts or loans from family members. In other cases, limited savings confined participants' budgets to lower home prices. Having flexible time and access to technology gave some participants advantages in the entire home search process, including the mortgage. They could respond quickly to opportunities or requests during working hours, for example, by taking advantage of a flexible schedule to have meetings or using down time at work to scan and fax paperwork. Those without such benefits had more challenges completing home purchase tasks.

Finally, participants' financial self-perception has not been described in prior literature about financial decisionmaking;[19] however, we found that whether participants considered themselves as having bad credit was a major negative influence on their mortgage search process. Other identities, including an aspiration to live debt-free and self-identifying as Black, each affected participants' attitudes and behaviors about mortgage shopping.[20] Those influences on the mortgage-shopping process were at play at all stages of mortgage shopping, although the degree of influence for each one varied by participant and by stage of home purchasing.

Summary: Mortgage Shopping Varied by Stage in the Homebuying Process

As shown in the preceding sections, Mortgage Journeys participants' mortgage-shopping behavior varied by the stage they were at in the homebuying process. Exhibit 6 summarizes Mortgage Journeys participants' shopping behavior through each of the different stages. The table also includes best practices recommended by the Consumer Financial Protection Bureau (CFPB) to highlight where Mortgage Journeys participants converged and diverged from these best practices.[21]

CFPB breaks down the homebuying process into four steps that roughly mirror the three phases identified in this paper: (1) Prepare to shop (our preparation phase); (2) Explore loan choices (our decisions phase); (3) Compare loan offers (our purchase phase); and (4) Get ready to close (our purchase phase). The steps listed in exhibit 6 are the detailed recommendations from the four steps identified by CFPB (in some of the variations, we have consolidated some of CFPB's recommendations for ease and to better describe our participants' behavior). In the left column, the graphic shows recommended home shopping behaviors that Mortgage Journeys participants engaged in. The middle column shows activities in which participants either did some variation on the recommended behavior or did so partially. For example, we added homebuyer education as a variation on best practice because it is not explicitly recommended by CFPB but can be a way to accomplish several of their steps (including "build a network of advisers," "learn about loan costs," and "understand the kinds of loans available"). Further, our participants varied in whether they undertook homebuyer education early and proactively or late in the process in response to a loan that required it. The type of homebuyer education also varied, ranging from a one-hour seminar

[19] Besbris (2016) presents a detailed study of how real estate agents incite emotional responses in prospective homebuyers, including individualizing their matches to homes by connecting to salient, positive aspects of homebuyers' identities. Our findings extend this into the mortgage side of the transaction, including both positive and negative identities, although the power of negative identities (for example, not creditworthy) seemed stronger.

[20] Specifically, three of our four Black participants (three African-American, one Haitian-American) were wary of the way they believed lenders might treat them because of their race. We did not see this perception among White or Asian participants in the study. An extensive literature documents racial discrimination in mortgage lending (for example, Ross et al., 2008; Turner and Skidmore, 1999), and awareness of those patterns from social networks contributed to Black participants' trepidation.

[21] Consumer Financial Protection Bureau, n.d.a.

given by a realtor and her team to a full-day course given by a nonprofit organization.

As exhibit 6 shows, participants' mortgage-shopping behavior hewed closer to best practices advice in the early stages but not in the later stages, when the time pressures and complexity increase—precisely at the time the stakes for the mortgage get higher. CFPB's recommendation is to keep open one's field of choices partway through the purchase phase (that is, to submit multiple mortgage applications). By contrast, Mortgage Journeys participants conducted the most research and comparison shopping for their mortgages at the decisions phase; the purchase phase was largely for them to execute those decisions.

This may explain some differences in understanding between consumers and professionals (industry, consumer advocates, and policymakers). Our study suggests that homebuyers perceive shopping around at the prequalification stage to be sufficient, not fully understanding the difference that shopping around at the application stage—when a specific home has been selected—can make to their costs of homeownership. Mortgage Journeys participants also did not seem to distinguish the differences between mortgage originator and mortgage product as specifically as do industry analysts. This goes some way toward explaining how homebuyers perceive themselves to have shopped around for mortgages (that is, researched lenders and products), whereas industry analysts do not (because they do not apply for more than one mortgage).

Exhibit 6

Mortgage Shopping by Homebuying Phase and Best Practices

	BEST PRACTICES FOLLOWED	VARIATIONS ON BEST PRACTICES	BEST PRACTICES NOT FOLLOWED
PHASE 1 PREPARATION	Check (and build) credit	Decide how much to spend on a home	Consider total costs of homeownership
	Determine down payment	Assess spending	Create a loan application packet
	Assess whether to buy now	Homebuyer education	
	Build network of advisers		
PHASE 2 DECISIONS	Understand available loan types	Contact multiple lenders	Learn about loan costs
	Research first-time homebuyer programs	Select the kind of loan that meets your needs	Request & compare multiple loan estimates
			Gather & update paperwork
PHASE 3 PURCHASE	Submit documents & answer questions from lender		Request, review & compare multiple loan estimates
	Schedule home inspection		Consider negotiating loan estimates
	Close loan		Shop for homeowner's insurance, title insurance & closing services
			Review documents before closing

Source: Authors' adaptation of CFPB's "Buying a House: Tools and Resources for Homebuyers"

Discussion

The Mortgage Journeys project enabled several insights about mortgage shopping with implications for housing policymakers, regulators, and industry professionals. Underlying those insights is the observation that the current structure of the home purchase created barriers to mortgage shopping for study participants. This section will discuss those insights before turning to policy suggestions for the mortgage industry to increase the ease of mortgage shopping at each phase of the home purchase process.

Before turning to the discussion of the findings in more detail, we wish to speak to potential concerns about the study's sample size and whether findings based on that sample are sufficient to inform policy. A small, in-depth qualitative sample of this nature obviously cannot be representative or account for every possible scenario across the United States; however, it can provide insights that challenge the assumptions and foundations of mortgage education and mortgage-shopping policy. Those insights come from looking at the underlying social processes that influence mortgage shopping. Four key social processes transcend this study's small sample, providing key insights for the mortgage industry. First, the three phases of the homebuying process and types of mortgage shopping associated with each, which do not match industry perceptions of mortgage shopping; second, the absence of real estate professionals promoting mortgage shopping; third, the distinction in shopping for a mortgage product and shopping for a lender, particularly for first-time homebuyers; and fourth, how participants' financial self-perceptions influenced all these processes.

The first key insight reveals the mismatch between participants' mortgage-shopping activities in each of three phases of the homebuying process and industry expectations of mortgage shopping. Our data illustrate three key stages in the home purchase process (preparation, decisions, and purchase), involving increasing numbers of homebuying and mortgage-related activities and progressively shorter and more deadline-driven time frames. As first-time homebuyers encounter each of the phases, their mortgage-shopping behavior changes. They are most active in mortgage shopping in the two earlier phases of the home search and least active in mortgage shopping in the purchase phase.

As we note earlier in the paper, industry guidelines do not match the mortgage-shopping behaviors of study participants, mostly at the purchase stage. Although industry guidelines rightly encourage consumers to shop for their mortgage once they have an accepted offer on a house (seeking multiple preapprovals or making multiple loan applications), the structure and emotional tenor of the purchase phase presented barriers to mortgage shopping for study participants. The real estate industry—including mortgage lenders—needs to develop tools and processes to enable more accurate mortgage shopping in the decisions phase of the home purchase or reduce the barriers to mortgage shopping in the purchase phase. Later in this section, we suggest some ways policymakers might do that.

The second key insight is that, with the exception of one study participant, we did not hear real estate agents and mortgage lenders encouraging study participants to shop around for a mortgage at any stage in the process. Industry actors such as realtors and lenders, acting as trusted advisers, are not incentivized to profit when consumers shop around; indeed, they may lose a client with whom they have a close relationship or be forced to cut their profit, and, as Besbris (2016) points out, real estate professionals are incentivized to close as many deals—and at the highest price they can—as quickly as possible. Policymakers need to consider how to incentivize real estate professionals to promote mortgage shopping so that homebuyers and real estate professionals' transactional goals are aligned.

The third insight from the paper is the distinction of shopping for a mortgage lender and shopping for a mortgage product. Some study participants were actively shopping for both the lender and the product, whereas other study participants did not shop for either and trusted the recommendations made early in the home purchase journey by trusted advisers. Helping borrowers understand this distinction and developing recommendations for how borrowers can shop for each at the same time is a critical component.

The fourth insight from the paper is how participants' financial self-perception and prior experiences influence the mortgage search. Self-perceptions and experiences strongly influenced mortgage product and lender preferences. For example, previous denials of credit or having had family and friends experience foreclosures with a particular bank during the Great Recession strongly influenced which lenders those participants sought out and how they presented themselves in the larger home and mortgage search. Although this research cannot outline exhaustively the different kinds of financial self-perceptions, it does highlight the need for the mortgage industry and policymakers to take note of the role of financial self-perception and to consider how to engage with those self-perceptions to homebuyers' benefit.

Understanding homebuyer experiences in this more granular way can help the mortgage industry better reach and serve potential low- and moderate-income homebuyers and ensure that certain segments of the population are not excluded from the benefits of homeownership. More specifically, consumers' perspectives—especially when they do not match the current industry consensus on best practices—can help improve ways the mortgage transaction is structured to allow for easier comparison of mortgage products and to help first-time homebuyers draw on a wider set of prospective lenders.

Policy Implications

This study has the potential to both inform future research and offer some preliminary ideas for making the homeownership and mortgage process more transparent. Increasing the transparency and ease for first-time homebuyers in shopping for both the mortgage originator and the mortgage product is critical because it promotes access to sustainable homeownership and consumers' financial well-being. As policymakers and mortgage industry professionals consider how to do this, incorporating end-user research is critical.

The key insights from this paper could lead to a call for greater consumer education. As a case in point, a response to a research brief about this project from the Mortgage Bankers' Association (MBA) placed the onus of the mortgage-shopping process on consumers (Finkelstein, 2018). From this interpretation, the correct policy intervention is more consumer education to train consumers how to conform to the industry's standards of best practice. Although we support additional education of first-time homebuyers, focusing only on consumer education would miss the key insight that the structures in the homebuying process discouraged Mortgage Journeys participants from being able to follow best practices. We believe that shifting the "choice architecture" of the homebuyer process is critical for first-time homebuyers to truly engage in mortgage shopping at all stages of the homebuying journey. In this final section of the paper, we suggest some possible directions for policymakers and industry to consider with that goal in mind.

Shift mortgage-shopping "choice architecture": The primary goal of restructuring the mortgage-shopping process should be to ease the process of comparison shopping and increase transparency for consumers, particularly at the mortgage application stage. We urge housing policymakers and industry professionals to follow the turn in other industries toward using human-centered design and behavioral insights to gain additional consumer insight and to test emerging ideas for a revised choice architecture. Based on the key insights from this paper, we suggest several options to alleviate friction points and enable easier and more transparent mortgage shopping.

To address the lack of mortgage shopping in the purchase phase, one option might be to increase the ease of submitting multiple mortgage applications. We suggest the creation of a mortgage application portal where consumers could submit a single application, including required documentation, once they had an accepted sale and purchase agreement on a property and have the application sent to multiple institutions for a mortgage quote.[22] Ideally, applications could be either online or in person through a participating lender so that consumers with lower access to or comfort with technology would not be excluded from the service.[23] Prospective homebuyers could choose to receive multiple quotes from different types of mortgage institutions (for example, a credit union within X miles of the home, an online-only lender, a regional or national bank). Such a tool might also incorporate standard comparisons of mortgage rates between different types of mortgage originators (for example, broker, lender, and bank). Achieving scale with the new mortgage portal is critical to increase consumer choice and improve rates of mortgage shopping among a large number of participating lenders and type of products—including first-time homebuyer products.

Although creating a national mortgage portal or an underwriting clearinghouse may sound daunting, it is not unprecedented. For example, the Free Application for Federal Student Aid (FAFSA) provides an approximate analogy: prospective college students and their families gather

[22] Mortgage brokers offer the service of contacting multiple institutions to provide clients with mortgage quotes; however, the brokerage system is not necessarily transparent, and mortgage brokers' incentives may not be aligned with consumers' needs. Some online mortgage calculators also present comparison shopping options: they estimate mortgage information based on details a consumer enters on the website, then link to "offers" from many lenders showing a lender name, annual percentage rate, and estimated monthly payment. Each entry has a link to "learn more," which takes the user to the lender's website to provide details of their expected mortgage again. This lender-by-lender process is more burdensome for the consumer, especially in providing documentation, and does not allow for ready comparability of quotes.

[23] Recent years have seen an increase in online lenders—such as Rocket Mortgage, SoFi, and Lenda—that attempt to streamline the mortgage application process. They do so by getting electronic information about applicants' earnings, assets, debts, and credit scores through financial institutions. Although this eases the burden on consumers to find, copy, and deliver copies of financial documents, applicants receive a quote only from the lender they select, rather than obtaining multiple quotes they can compare.

financial information for one application, and the results can be sent to multiple colleges and lenders of the student's choice. Already in the mortgage industry, major players have created the Mortgage Electronic Registry System (MERS) to facilitate mortgage sales on the secondary market. MERS is a private database that allows secondary mortgage market actors to keep a mortgage registered to MERS even as it is bought and sold by different investors, rather than having to update county-level public records with each transaction. These examples suggest that when sufficient benefit and sufficient will exist, an integrated system such as we suggest is feasible.

Enable prepurchase mortgage education: This study's key findings could be the basis for a prepurchase mortgage education or counseling tool to increase borrowers' awareness of the kinds of factors that may influence their mortgage journey. By making those factors explicit, housing counselors could help homebuyers best align the mortgage product (according to a variety of features) for their particular situation or suggest how to identify and navigate sources of information. Although we envision this for use in housing counseling, it could also potentially be used by real estate agents or other trusted advisers. Alternatively, it could be a self-guided tool or a smartphone app. Such a tool would help make explicit potential homebuyers' financial self-perceptions, for example, by exploring positive or negative banking, credit, and debt experiences, as well as those of family and friends, that might influence their mortgage journey. Homebuyers could then explore their options and compare products from a broader range of lenders.

Homebuyers most often use housing counseling services as a loan closing requirement—too late to affect loan choice. This study and others have found that homebuyers respond to professionals that are emotionally available to them at critical moments in the homebuying and mortgage journey. Instead of providing counselors, and in addition to real estate professionals, policymakers might consider making homebuying coaches available to first-time homebuyers. A coaching model differs from current homebuyer education courses.[24] Services are client led, provide one-on-one guidance, and only deliver content specific to each person's situation. Both a prospective tool and homebuyer coaching would reach their broadest audiences by being available online or, in the case of coaching, online (video chats, chat windows) or by phone.[25]

Another avenue for broadening mortgage education is to embed the content into widespread media, such as HGTV or popular financial advisers. The mortgage preparation content could be embedded in existing programs or incorporated into a new show focused on first-time homebuyers. Hosts could also increase the amount of financing-related tips they give in segments around commercial breaks.

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[24] A major difference between homebuyer education and coaching is that homebuyer education intentionally covers a broad set of topics—including home maintenance and potential delinquency—that prospective buyers may not even be aware of. By contrast, financial coaching (on which homebuyer coaching could be based) is explicitly driven by a client's goals. If practitioners were to develop homebuyer coaching services, standards and practices would be needed for how to allow client priorities to drive the engagement while still introducing content beyond their immediate concerns.

[25] HUD's first-time homebuyer study found that study participants assigned to use remote housing counseling services did so at more than twice the rate of participants assigned to in-person homebuyer education (63 percent versus 26 percent) (Moulton et al., 2018).

Work with real estate agents and lenders to encourage more comparison shopping: Real estate agents and mortgage lenders both have strong incentives to keep homebuyers within their networks, and little evidence indicates that either group routinely encourages comparison shopping and may indeed discourage it. Homebuyers could potentially benefit from engaging a third-party adviser with no financial stake in their purchase. Because of the primacy of real estate agent and lender relationships, they are key partners to engage in referring prospective homebuyers to nonprofit housing counseling or homebuyer education.

Currently, real estate and mortgage broker education has limited—if any—information on such services. Including information on third-party nonprofit education options in real estate professionals' training is an important first step. We further suggest that state government or nonprofits pay a small referral fee to real estate agents who refer their clients to a third-party certified nonprofit housing counseling or homebuyer education resource. States could also structure an incentive, such as a mortgage interest rate buy-down (an eighth of a point, for example) or a rebate for some amount of closing costs, after a first-time homebuyer has gone through a certified homeownership education program.

These are only a few of the potential routes that policymakers could consider to increase homebuyers' mortgage shopping. We are confident that industry stakeholders and policymakers will see additional ways to engage with the insights from this paper. By better understanding first-time homebuyers' attitudes, resources, and experiences, industry and policymakers are better equipped to meet their needs.

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