

When the paperwork came, there was a little notice about 30 pages into the documents saying that after 18 months, the loan jumped to LIBOR plus 2 percent. "They could almost fool me, and I'm a finance professor," Mandell points out. "I don't think this was bad faith on [the broker's] part. I think she just didn't know. But there's no amount of education that can keep people from getting stuck if there's bad faith on the part of the lender."

Mandell wishes that every important financial-product contract would have to be run by some disinterested third party who'd triage it and put a big warning label on the front of the document. In the case of his LIBOR bridge loan, the sticker would say, "Be aware that in 18 months this mortgage jumps by 2 percentage points above the floating rate."

Lerman would set up an online test of mortgage knowledge: If you could pass it, you'd know you knew enough to shop for yourself. If you flunked, you'd be referred to someone who would help you understand what you're signing up for when you head to the closing table.

Free lunch here!

Is the problem that home loans are too complex and consumers are simply too busy to learn the basics of finance, or is it that too many people still believe in free lunches?

Mortgages are definitely more complex than the other financial products used by Generation X and Generation Y consumers, says Jeanne Hogarth, program manager for the consumer education and research section of the division of consumer and community affairs at the Federal Reserve Board.

"You might expect 20- and 30-somethings to be more financially savvy when it comes to credit cards and managing bank accounts than when it comes to mortgages, because you don't buy a home every other week the way you get your credit-card statement every month," Hogarth explains.

And some mortgage products are tough to understand, no matter what your age. "Really understanding what it means to have an adjustable mortgage includes knowing when it can adjust and how much it can adjust, and how you include that in your calculation of what you can afford. That's tough for anyone to do," she says.

Hogarth would argue that loan officers should be teachers in addition to being salespeople. "There are things that mortgage bankers could be doing that would help clarify the terms and the conditions of the product so younger, less-experienced consumers could have a deeper understanding of complex mortgage products," she says.

No matter how much time industry players spend educating consumers about the commitment it takes to own a home, or the fiscal self-assessment that should precede a decision to buy a home, there will always be someone somewhere who will buy a house because it comes with a plasma television. "That kind of gimmick-marketing brings people into home-

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ownership who are not ready for it," Hira says.

Young and old alike

Perhaps the solution to all these issues is simply for young people to grow up before they attempt to take on the huge financial responsibility of homeownership. That degree of hesitancy has taken hold among younger

generations when it comes to assuming the obligations of parenthood. Yet, homeownership has not engendered the same age-appropriate fear and restraint.

As people age, they do become better at shopping for financial products—but that only works for a while, according to *The Age of Reason: Financial Decisions Over the Lifecycle*, a National Bureau of Economic Research study that looked at how people of different ages shopped for 10 different products, including first mortgages, home-equity lines and small-business loans.

After controlling for differences in time, costs, credit scores and risk characteristics, the study authors found that younger people and older people make the worst financial decisions—"worst" in this case meaning they ended up paying higher interest rates for reasons that had nothing to do with market fundamentals.

"Young people have very little financial experience and, unfortunately, cognitive abilities start declining at age 20," explains study co-author Sumit Agarwal, a financial economist for the Chicago Federal Reserve Board. Turns out, financial decision-making peaks at age 53, the study found.

"Both younger and older customers are likely to need more help and guidance in choosing products and understanding. Educating people is likely to help the market function better," he says.

To help consumers make better decisions, Agarwal and colleagues have come up with a mathematical formula borrowers can use to determine whether refinancing is wise. They've converted the formula into a calculator that can be found online at www.nber.org/mortgage-refinance-calculator.

More extensive consumer information can be found on the Mortgage Bankers Association's (MBA's) Home Loan Learning Center (www.homeloanlearningcenter.com). MBA created the Home Loan Learning Center to inform consumers about options that best fit their life circumstances when buying a home. The site offers a "Mortgage Myth Busters" quiz; information about how to request credit reports and how credit plays into the mortgage process; a mortgage calculator that helps determine the cost of a loan; and links to relevant state, federal, nonprofit and consumer Web sites.

Knowing isn't doing

Sadly, increasing financial literacy in the hope of making younger Americans better mortgage consumers is like increasing their nutritional knowledge and hoping they'll eat better. Even if you know chocolate cake isn't good for you, it can still look mighty good when the dessert tray rolls up to your table.