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Nearly One in Five Recent Homebuyers Purchased a Home That Exceeded Their Price Range

Approximately one-third of recent homebuyers who obtained a mortgage through a broker, direct lender or another source have creative or option mortgages

A new Wall Street Journal Online/Harris Interactive Personal Finance Poll finds that nearly one in five (19%) U.S. adults who purchased a home within the last three years for their primary residence say they spent above their suggested price range, while two-thirds (67%) stayed within their price range and 12% were below their price range. When obtaining a mortgage for their new home, recent homebuyers who used a mortgage broker, direct lender or another source were nearly three times more likely to obtain a fixed-rate mortgage (72%) than an adjustable-rate mortgage (26%), and fully a third (34%) opted for a creative or option mortgage.

Below are the results of the online survey of 2,300 U.S. adults conducted between Aug. 19 and 23, 2005, for The Wall Street Journal Online's Personal Journal Edition.

With the skyrocketing price of real estate in the western part of the U.S., it's not surprising to find that those who bought homes in the West within the last three years are more likely to have gone above their suggested price range when purchasing their home (29%) than those in the Northeast (8%), Midwest (12%) or South (22%). Furthermore, those in the Northeast¹ (83%) and Midwest (80%) are more likely to have stayed within their price range when purchasing their home than those in the South (57%) or West (56%).

Mortgage Brokers Versus Direct Lenders

When looking to obtain a mortgage, homebuyers must decide through whom they want to work. According to the survey, mortgage brokers (39%) edge out direct lenders (32%) as the primary source of mortgage providers for recent homebuyers. Less than one in 10 (8%) used another source to obtain a mortgage, while 14% say they did not need a mortgage to purchase their home. Interestingly, younger homebuyers (age 18 to 34) are most likely to have chosen a broker (55%) while homebuyers age 35 to 42 are most likely to have obtained their mortgage through a direct lender (42%).

¹Small base. Data should be used directionally.

Creative or Option Mortgages

In addition to a traditional mortgage, homebuyers also have the option to choose a creative or option mortgage.

“Non-traditional methods of funding a primary residence are becoming more commonplace and acceptable, especially in areas of the country that have seen housing prices skyrocket,” said Anne Aldrich, senior vice president of the Financial Services Research Practice at Harris Interactive. “It is important that consumers be aware of all of the options available to them, as well as the possible risks that they may take on with ‘creative’ mortgage options.”

A little more than one-third (34%) of recent homebuyers who obtained their mortgage through a broker, direct lender or someone else chose one of the following four creative or option mortgages:

- An **interest-only mortgage** – where borrowers pay interest but no principal in the early years of the loan (17%)
- A **piggyback mortgage** – where the loan combines a standard first mortgage with a home-equity loan or line of credit to avoid private mortgage insurance or the higher interest rates on jumbo loans (10%)
- A **payment option mortgage** – where borrowers have four payment options each month and those who elect to make the minimum payment could actually see their loan balance rise rather than fall (4%)
- A **miss-a-payment mortgage** – where borrowers are allowed to skip up to two mortgage payments a year and up to 10 payments over the life of the loan without ruining their credit rating (2%).

TABLE 1
Recent Home Purchase

“Have you purchased a home that you’ve used as your primary residence within the past three years?”

Base: All Adults

	%
Yes	17
No	81
Don't know	1
Decline to answer	1

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TABLE 2
Home Purchase Price Range

"Was the home you purchased within your suggested price range, above this price range, or below this price range? If you have purchased more than one home that you have used as your primary residence in the past three years please think only of the home you most recently purchased."

Base: Purchased a home as primary residence within past three years

	Region				
	Total (n=444)	Northeast (n=80)**	Midwest (n=102)	South (n=159)	West (n=103)
	%	%	%	%	%
Within my price range	67	83	80	57	56
Above my price range	19	8	12	22	29
Below my price range	12	8	7	16	13
Don't know	2	—	1	5	2
Decline to answer	*	—	—	—	*

Note: Percentages may not add up to 100% due to rounding.

* Less than 0.5%.

**Small base. Data should be used directionally.

TABLE 3
How Mortgage Was Obtained

"Through which of the following did you obtain your mortgage?"

Base: Purchased a home as primary residence within past three years

	Age				
	Total (n=444)	18 - 34 (n=171)	35 - 44 (n=112)	45 - 54 (n=77)*	55 + (n=84)*
	%	%	%	%	%
Obtained Mortgage Through Broker, Lender or Someone Else (NET)	79	92	88	73	48
Mortgage broker	39	55	39	30	19
Direct lender	32	32	42	30	17
Someone else	8	4	6	12	12
I did not need a mortgage	14	4	2	17	44
Don't know	5	3	7	6	7
Decline to answer	2	1	2	3	1

Note: Percentages may not add up to 100% due to rounding.

*Small base. Data should be used directionally.

TABLE 4
Ease of Mortgage Process

"How difficult or easy was the process of obtaining a mortgage for you?"

Base: Obtained a mortgage through mortgage broker, direct lender or someone else

	Total (n=370)
	%
Easy (NET)	81
Very easy	45
Somewhat easy	35
Difficult (NET)	18
Somewhat difficult	13
Very difficult	5
Don't know, I was not involved in the process	1

Note: Percentages may not add up to 100% due to rounding.

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TABLE 5
Type of Mortgage Obtained

"Was the mortgage you obtained a fixed or an adjustable rate?"

Base: Obtained a mortgage through mortgage broker, direct lender or someone else

	Region				
	Total (n=370)	Northeast (n=69)**	Midwest (n=90)**	South (n=128)	West (n=83)**
	%	%	%	%	%
Fixed rate	72	85	70	74	62
Adjustable rate	26	14	25	26	38
Don't know	1	—	5	*	—
Decline to answer	*	1	—	—	1

Note: Percentages may not add up to 100% due to rounding.

* Less than 0.5%.

**Small base. Data should be used directionally.

TABLE 6
Creative Mortgage Options

"Which of the following types of creative or option mortgages, if any, do you have?
 Please select all that apply."

Base: Obtained a mortgage through mortgage broker, direct lender or someone else

	Region				
	Total (n=370)	Northeast (n=69)*	Midwest (n=90)*	South (n=128)	West (n=83)*
	%	%	%	%	%
Interest-only mortgages. Borrowers pay interest but no principal in the early years of the loan.	17	13	15	12	30
Piggyback mortgages. Loans that combine a standard first mortgage with a home-equity loan or line of credit to avoid private mortgage insurance or the higher interest rates on jumbo loans.	10	15	10	9	6
Payment option mortgages. Borrowers have four payment options each month. Borrowers who elect to make the minimum payment could actually see their loan balance rise rather than fall.	4	7	9	3	—
Miss-a-payment mortgages. Lets borrowers skip up to two mortgage payments a year and up to 10 payments over the life of the loan without ruining their credit rating.	2	5	2	2	1
Don't know	46	41	44	50	45
Decline to answer	24	29	20	27	22

Note: Multiple-response question.

*Small base. Data should be used directionally.

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Downloadable PDFs of Wall Street Journal Online/Harris Interactive Personal Finance Polls are posted at http://www.harrisinteractive.com/news/newsletters_wsfinance.asp.

Methodology

Harris Interactive conducted this online survey within the United States between Aug. 19 and 23, 2005 among a national cross section of 2,300 adults, ages 18 years and over. Figures for age, gender, race/ethnicity, education, income and region were weighted where necessary to align with population proportions. Propensity score weighting was also used to adjust for respondents' propensity to be online.

In theory, with probability samples of this size, one can say with 95% certainty that the overall results have a sampling error of plus or minus 3 percentage points of what they would be if the entire U.S. adult population had been polled with complete accuracy. Sampling error for the sub-samples listed in the tables is higher and varies. Unfortunately, there are several other possible sources of error in polls or surveys that are probably more serious than theoretical calculations of sampling error. This includes refusals to be interviewed (nonresponse), question wording and question order, and weighting. It is impossible to quantify the errors that may result from these factors. This online sample is not a probability sample.

These statements conform to the principles of disclosure of the National Council on Public Polls.

About the Survey

The Wall Street Journal Online/Harris Interactive Personal Finance Poll is an exclusive poll that is published in the Personal Journal Edition of The Wall Street Journal Online at www.wsj.com/personaljournal.

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The Wall Street Journal Online at WSJ.com, published by Dow Jones & Company (NYSE: DJ; www.dowjones.com), is the largest paid subscription news site on the Web. Launched in 1996, the Online Journal continues to attract quality subscribers that are at the top of their industries, with 744,000 subscribers world-wide as of Q2, 2005.

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designed for professionals in the advertising, marketing, entertainment and media industries. Subscribers to both online editions also get access to the full content of the Online Journal.

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The Wall Street Journal Online network includes CareerJournal.com, OpinionJournal.com, StartupJournal.com, RealEstateJournal.com and CollegeJournal.com.

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