

MORTGAGE LENDING UPDATE

By David Griffin

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How does the magic happen?

There have been many advances in the art of mortgage lending in the past several years. The primary improvement has been in the area of approval notification to the applicant. With the advent of Automated Underwriting Systems (AUS), it's now possible to inform the applicant of their preliminary mortgage loan approval while they are still at the loan officer's desk completing the signing of their loan application documents. The primary AUS systems are known as Fannie DO or DU (FNMA or Fannie Mae or Federal National Mortgage Association's Desktop Originator or Desktop Underwriter) or Freddie LP (FHLMC or Freddie Mac or Federal Home Loan Mortgage Corporation's Loan Prospector).

These systems are web based. The loan officer is able to submit the loan application electronically via the Internet to either system or to an investor's site, which incorporates one of these systems. A credit report is pulled on the applicants, credit scores are reviewed, liabilities are added to the application and the AUS system runs calculations to make sure the applicant's income will support the proposed new mortgage along with the existing debts reflected on the credit bureau report. The system will also verify if sufficient funds were entered for down payment purposes and any applicable closing costs.

Now the fun really begins. The loan officer will ask for documentation from the applicant to support the verbal statements of fact made on the application. For example, to support a statement about their income, the loan officer will normally ask for 4 weeks worth of paystubs and two years worth of W-2's. If the person is self-employed the loan officer will ask for copies of the applicants previous two year's tax returns. In addition, the loan officer will ask for two months worth of bank statements to show sufficient liquid assets to close and a check from the applicants to order an appraisal on the property and to pay for the credit report.

So what happens with all the paperwork collected? That information will ultimately be forwarded to a human underwriter for review and final approval. Careful review of the documentation will be made to insure the supplied financial documents actually verify the statements made on the application and relayed to the AUS system via the Internet. (Remember the caveat: "garbage in; garbage out".) This process will normally take about a week to complete. This first week may also include scheduling a home inspection of the subject property.

This brings us to the second week of the application process. If the inspection reveals needed or desired repairs, these items are negotiated with the property sellers. Once an agreement is reached on the inspection and repairs, it is then safe for the lender to order the appraisal on the subject property. Repairs, if any, would commence.

In addition, during the second week, the human underwriter might request that the loan officer obtain additional financial documentation from the applicant to fill in any blank spots or questionable areas of the application. These requests would then be relayed by the loan officer or mortgage loan processor to the applicants.

The third week of the application process would normally be filled with inspecting any repairs made to the property, forwarding the completed appraisal to the underwriter for review and approval and gathering any final requested financial documents from the applicants.

Once everything has been received and approved by the human underwriter, a "clear to close" is provided by the underwriter and the file is transferred to the closing department for preparation of the closing package. This brings us to the fourth week. A time is scheduled with the closing attorney's office and the closing documents are sent, usually via email, to the closing attorney's office. The funds for the loan are then wired to the closing attorney's bank account. A final walk through of the property is arranged for the purchaser just prior to loan closing and then it's off to the attorney's office with the cashier's check for the closing festivities.

At the closing, the HUD 1 Settlement Statement is reviewed. This document shows a breakdown of all costs associated with the home purchase and divides the transaction expenses between buyer and seller based upon the provisions of the original sales agreement. Appropriate documents are signed conveying ownership of the property and the pledging of the property as collateral for the mortgage. Keys to the property are then given to the purchasers and best wishes are exchanged all around. About 4 weeks from start to finish, sometimes less, but a shorter processing time really depends upon the type loan selected and the financial complexity of the applicants.

David Griffin has been financing homes in Macon, Warner Robins and all of Middle Georgia since 1983 and is a member of the Mortgage Bankers Association of Georgia, mbag.org. For an archive of past articles visit mbag.org/ML_Update.htm. (7/9/09)