

MORTGAGE LENDING UPDATE

By David Griffin

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Longer closing times

There have been many changes in mortgage lending in the last several months. Underwriting has tightened considerably. What used to be an easy 30 day time line is stretching into 45 days. More questions are being asked. Documents are more closely scrutinized and additional documentation requested. The reason for this is that Fannie and Freddie are coming down hard on mortgage lenders with lax underwriting practices and are requiring the lender buy back suspect or poorly documented loans. Underwriters are running scared and are afraid of losing their jobs because of inadvertently letting something slip through the cracks. The process is no longer fun.

Now that I've told you the bad news, I'll tell you how the process works. 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.

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 is forwarded to the aforementioned 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 equals garbage out".) The appraisal is scrutinized to insure the property's value is supported.

The underwriter then relays his or her concerns and questions back to the loan processor so that he or she can obtain additional financial documentation from the applicant to fill in any blank spots or questionable areas on the file.

Once everything has been signed off on by the underwriter, a "clear to close" is provided and the file is transferred to the closing department for preparation of the closing package. 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.

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. After complaints are voiced about the loan officer's inability to get it done any faster, keys to the property are given to the buyers and best wishes are exchanged all around.

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.(3/3/10)