

MORTGAGE LENDING UPDATE

By David Griffin

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The Golden Rule

The Golden Rule, as it applies to mortgage lending, is: "The person who has the gold, makes the rules." That is, if you want to be approved for a mortgage loan, you have to meet the investor's program requirements and answer the sometimes odd or irritating questions of the lender's underwriter. Believe it or not (and despite their recent experience) mortgage investors (those who actually have the gold and make the rules) are in the business of making more money with their money. If they don't think you're a good bet to return their funds and more, they'll wait for someone else to come along who is.

The majority of applicants, 73% of the national population, have decent to excellent credit, so the only real question there is how much of a mortgage the applicant can afford based upon their income and current debt load. The remaining 27% of the national population have borderline to terrible credit.

To break down the range of credit scores further, (see www.myfico.com) 13% of the national population has 'primo' credit scores of 800 or better. (The best score or 'top of the chart' is 850). 27% of the population has an 'excellent' score of 750 to 799. 18% have 'great' scores of 700 to 749. 15% have scores of 650 to 699. I would characterize the range from 650 to 675 as 'pretty much okay'. The range from 676 to 699 would be 'good'.

12% of the population has a score between 600 to 649. I (and apparently all the lenders I know) would consider the range of 600 to 619 to be 'poor' and from 620 to 649 would be 'borderline'. 13% have 'bad' credit scores of 500 to 599. The remaining 2% of the population have 'awful' credit scores under 500 down to the lowest possible score, rumored to be 300.

Those with poor to terrible credit would pretty much have seek a property upon which the owner would be willing to offer owner (as opposed to lender) financing or they would have to simply rent a property, perhaps with an option to purchase down the road. (I can't tell you how many times I've heard the words, "But, I can make the payment." Yes, and I've always wanted a pony and still don't have one.)

Obviously, I, being a mortgage loan originator and not a mortgage investor, want to approve every applicant who walks in my door. The truth of the matter is that whether or not they are approved is not up to me. I don't have the key to the room in back where the barrels of cash are kept. The mortgage investor has the key and the price of admission is usually a minimum middle credit score of 620. (There is no guarantee, by the way, that a middle credit score of 620 will mean automatic loan approval, especially if there are weaknesses in other areas of an application.)

Applicants who are well qualified from a credit, collateral and income standpoint are no problem to approve. It's with the borderline applicants that we, with the applicant's assistance, have to show the investor's underwriter that approving the loan would be in the best interest of their employer and the ultimate mortgage investor, the actual provider of the cash. Sometimes we can polish the apple sufficiently and sometimes we can't.

When a loan is declined, it's the borderline applicant's option and the mortgage lender's call to go to a different investor to see if a different program or different underwriter might see things more optimistically. Mortgage loan originators care whether or not the applicant is approved. Mortgage investors don't really care and at the moment they certainly don't need any more headaches.

It's in their best interest to not make a loan when the likelihood of prompt repayment is questionable. Investors are not in the business of making an applicant's dreams come true. That's the job of your mortgage loan originator. That being said, if the investor can make money and make the potential homeowner's dreams come true at the same time, well, it's a great day for everybody.

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.

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