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The Mortgage Business Keeps Being Tweaked — For Better or Worse

REAL ESTATE TODAY

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I'm so glad to be a Realtor® and not a mortgage professional. They have a much harder job than we do, having to keep track of constantly changing rates and rules. Our rules change annually, if then — their rules can change daily.

So, at the risk of being out of date by the time this column is printed (3 days from now), I asked Shelley Ervin of Clarion Mortgage (303-722-7345) to outline for both of us what has changed and what is currently changing in the mortgage business.

Beginning with new loans with terms greater than 15 years and delivered to Fannie Mae after March 31, 2011 (in other words, all loans currently in the pipeline), new rules will impact the interest rate offered to buyers. These new adjustments will be based on FICO scores and the amount of down payment.

These fees are charged to the lender, not the borrower, but have to be passed on in one way or another. The lender may choose one of two ways to do so — by charging a higher interest rate; or by keeping the rate low and charging extra fees to offset his/her higher costs.

Example: If you are a buyer and have 20% down, but your FICO score is below 740, in order to get the best interest rate, you would have to pay the following fees:

1. With a FICO score below 740, the added fee would be 0.5% of the loan amount
2. FICO below 720, fee = 1.0% of the loan amount
3. FICO below 700, fee = 1.75% of the loan amount
4. FICO below 680, fee = 2.50% of the loan amount

If you make a 25% down payment, the fee goes down a bit; and with a 40% down payment, it goes down a bit more.

If you cannot afford to pay the fees, then you can opt for a higher interest rate (and the lender will pay the fees via the higher rate). It works out that the lender will charge you about 1/8% higher rate for every 20 points in FICO score below 740. For example:

1. With a FICO score 740 or above, the interest rate = 4.75%
2. FICO below 740, rate = 4.875%
3. FICO below 720, rate = 5.00%
4. FICO below 700, rate = 5.125%
5. FICO below 680, rate = 5.25%
6. FICO below 660, rate = 5.375%

Yields on rates vary from day to day, so on certain days, the difference in rates does not represent such a straight line.

Another mortgage professional whom I trust is Norm Lewis of Guild Mortgage (303-910-1629) who tells me that the biggest problem he encounters is with self-employed persons (like, say me!).

Your skill at hiding income and maximizing business expenses can come back to bite you. Norm told me that he just turned down an excellent buyer (great credit, lots of assets) for that very reason — he couldn't prove adequate income. It reminds me of those fisherman in Louisiana who were short-changed by BP in compensating for lost income because they couldn't prove income through their tax returns.

The bottom line here is that every day in every way, the paper-pushers at Fannie Mae, Freddie Mac, and their regulators are coming up with new rules and regulations to complete the 180-degree turn from the days which got us into this mess to an era when there is no loan fraud and no risky loans. Since the regulators aren't always in touch with the front line, they sometimes overdo it. An example was when New York's attorney general devised new rules for hiring appraisers which had all kinds of unintended consequences.

The Federal Reserve is considering a rule that could have the effect of putting all but the four biggest lenders out of business. It requires lenders who originate a home loan to retain 5% of the loan in their portfolio instead of selling 100% of the loan to Fannie Mae or Freddie Mac. The idea is to make them more careful, but where are they going to get all that capital?