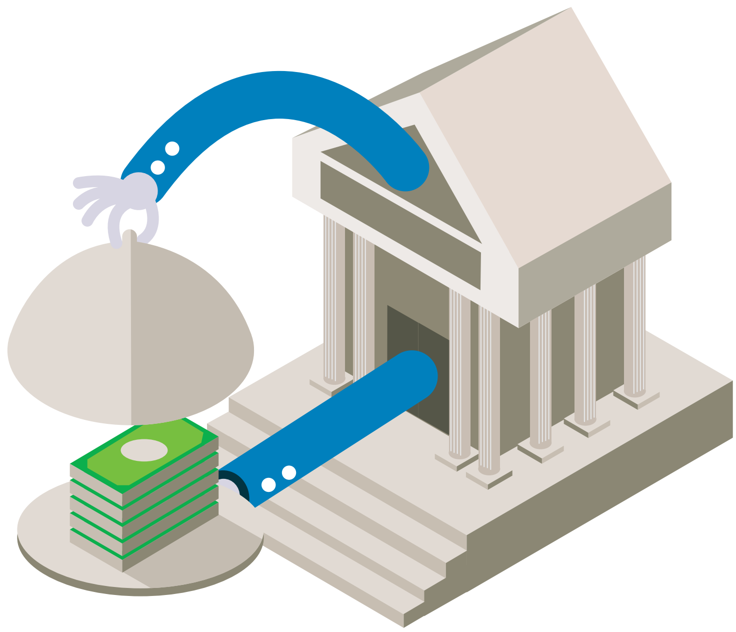
Help your buyers get approved

Three mortgage professionals share insights to help you and your clients navigate today's lending landscape.

by Ward Lowe

Ward Lowe is associate director of communications/new media at the Texas Association of REALTORS®.



Running the mortgage-approval gauntlet can intimidate your clients. And while *mortgage expert* may not appear on your résumé, your clients will benefit from your support as they deal with financing deadlines, questions, paperwork, and maybe even disappointment. The following insights, opinions, and guidance from people working every day in lending will help you serve your clients as they navigate the process.

"We've weeded out people who, honestly, had no business buying a house."

–Josh Brown

"Having done this for 30 years, I would say 2010 to 2012 were some of the strictest guidelines we've had—that includes the '80s," says Mark Hairston.

The subprime mortgage crisis resulted in strict requirements for borrowers, making it harder for many buyers to qualify for loans. "The current environment makes sense. You have to show you're responsible," says Brown.

ILLUSTRATIONS © iStock/Thinkstock

Meet the experts

Mark Raskin
- Senior loan officer at PrimeLending, Dallas
- Board member of the Texas Mortgage Bankers Association

Mark Hairston
- Mortgage planner at United Lending, Austin
- GRI instructor

Josh Brown
- Mortgage banker at Sente Mortgage, Austin
- Member of the Texas Mortgage Bankers Association

"Don't make any big life changes."

–Mark Hairston

When your clients are in the midst of buying property, remind them not to do anything that will alter their credit profile in any way.

"I had clients buying a home contingent on the sale of their current one," says Hairston. "The buyer of my clients' home was approved for his loan but switched jobs in the middle of the process—nobody found out until the end. We couldn't close; we'll do the deal eventually, but it's going to take time. Anything that changes between loan application and closing—new job, buying a car, having your credit score go down—disrupts the process."

"Buyers need to understand the value of being preapproved."

–Mark Raskin

"Having clients begin the financing process early on is paramount," says Raskin. "Nobody wins—especially your buyer—if you find the perfect home only to learn when presenting an offer that your client can't afford the property."

Josh Brown agrees that you should encourage your buyers to start the loan process as soon as you begin your representation: "A lot of borrowers wait until they're under contract to get loan approval. Once they're under contract, they've already got a lot going on—inspections, repairs, moving, and more. If they get preapproved before starting to look for a property, that's one less thing to do later in the transaction. Whenever they find a house, they'll have to sign only loan disclosures and maybe update a couple of documents. The reality is that they have to go through the whole process anyway and might as well do it when they're not so busy. Plus, if I uncover any problems early, I have time to fix them. If I find problems when they're under contract, it's harder to get that done before closing."

"They might be up to their eyeballs in debt."

–Josh Brown

Another reason why preapproval is important? Your clients' lifestyle may not indicate their true financial health.

"Appearances can be deceiving," says Brown. "You may think because your clients drive luxury cars or show other signs of wealth that they'll soar through the loan process." However, they could be living paycheck to paycheck.

“There’s more than one credit-scoring model.”

–Mark Hairston

Financial institutions are starting to offer credit scores at no additional charge to consumers who use their services. Your clients should be careful, however, before they rely on that score to predict how they’ll fare with a mortgage application.

“FICO scores are the most popular among mortgage lenders,” says Hairston. “Many of the scores released to consumers—by your credit card, by your bank—use the VantageScore model. It’s not accurate in terms of getting a mortgage loan, and that confuses people. The VantageScore for most people is higher than the FICO score.

The VantageScore does add value, says Hairston, as it allows consumers to track movement on their score. “It’s based on the same criteria of late payments, credit inquires—things like that. If your VantageScore goes down, your FICO score will go down.”

“A 620 score is typically required for most conventional loan products.”

–Mark Raskin

You can’t assume a client with a high credit score will qualify for a mortgage, but it’s a good bet a client with a low score won’t qualify. “The better your credit, the more flexibility lenders have,” says Mark Hairston.

“I think a 620 score is pretty fair,” says Josh Brown. “I’d say the majority of consumers have at least that.”

While a 620 credit score is often the minimum to qualify for a loan, a higher credit score can mean more options for the borrower. Other factors can make higher scores more desirable.

“Jumbo products—loans greater than $417,000—typically require a larger downpayment as well as a higher score,” Raskin says.

“FHA loans get a bad rap.”

–Josh Brown

A lot of borrowers don’t know they’re eligible for a loan from the Federal Housing Administration and that those loans have less stringent credit requirements. “A 600 FICO score at this point is almost a ‘normal’ qualifying score for FHA,” says Mark Hairston. “And you get approved with a score as low as 580, although it’s not automatic.”

“Buyers who qualify can get an FHA mortgage loan with 3.5% down,” says Brown. “And the FHA will let the seller pay closing costs. If a buyer can negotiate that and the property appraises, he or she can pretty much get the property for only a low downpayment.”

While the low downpayment can help buyers, those who can afford more upfront should consider it. “One thing to remember about FHA loans,” continues Brown, “is that if the loan is for 90% or more of the sales price, the borrower pays mortgage insurance for the life of the loan. If the borrower puts down more than 10%—even if it’s only 10.01%—the mortgage insurance will go away after 11 years.”

"People can increase their credit scores by 30 to 40 points in 60 days."

–Mark Hairston

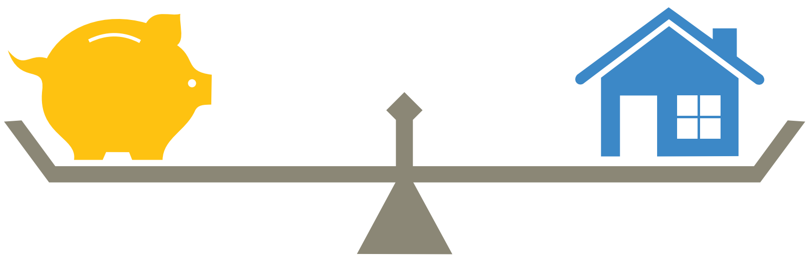
Credit scores take into account a consumer's past and present. Unless there's an error on his credit report, a buyer can't change his past. But he can affect his future by taking—or avoiding—certain actions. Paying overdue accounts, using less of his available credit, and leaving any current accounts open can all help boost a FICO score, depending on other particulars of a buyer's financial situation.

"If a consumer uses credit cards often, paying them off before the bill cycle's end date—not after the cycle closes—will assist with debt-to-income ratios and may have a positive effect on his FICO score," says Mark Raskin.

"A common challenge is with self-employed borrowers and their debt-to-income ratios."

–Mark Raskin

"Even though many self-employed borrowers can comfortably afford a mortgage payment from a cash-flow perspective, their net income as reported on a tax return might not accurately reflect this, and they may not qualify," says Raskin. "I suggest self-employed borrowers consult a CPA or tax attorney on which expenses to write off if a home purchase is in the horizon. This can have a big impact on how income is reported on their tax return."



"There are two types of loans that are assumable by the buyer."

–Mark Hairston

Do your sellers have an FHA or VA loan? If so, their loan may be assumable by a buyer, which might prove attractive to potential buyers.

"Let's say someone bought a house in 2012 with an FHA loan at 3.5%," says Hairston. "In 2017, they want to sell, and interest rates by then have gone up to 6%. If you represent that seller, that's an attractive feature of that property—if potential buyers can assume it."

Now, a seller may not remember that his FHA or VA loan is assumable—they get a lot of information at closing. But it's worth some investigation to perhaps increase the marketability of that property.

If you're working with buyer clients getting FHA or VA loans, encourage them to check with their lender about whether the loan they're applying for is assumable. ✯