

An Introduction

In reviewing our closed loan customer surveys, we've noticed one very major issue. We, in the Mortgage Lending Industry (we'll just shorten that to MLI) seem to wear our clients down as the mortgage application process wears on. If we tell you that might happen and why it might, I'm hoping it will seem a little easier for you. The loan approval process has always been somewhat of a mystery to the consumer. During the decades of the 1990's and 2000's that process almost became automatic with a very small amount of documentation which meant we bothered you less. Then the "Great Recession" or the "Financial Crisis" happened and in late 2008 much of that changed. It isn't that what we were doing before was wrong. But because the decade of 2010 brought increased regulation and quality control measures to the application process we find the process as a whole became much more difficult which means we need more help from you to get the loan approval, hence the "wear down."

What Should You Expect

A lot of documentation is the first thing that comes to mind. If you know the requests are going to come, we hope you'll feel better when they do. The 2 main areas you will be asked to provide a lot of contribution to will be verifying your income and cash to close. The problems most likely start with communications. The MLI, like a lot of Industries, talks a different language than most of the consumer population uses in their thought process. Which means, if the MLI asks you for something, it may not process through to you the same way. Quality Control in the MLI starts with the premise, and this is unfortunate, that the information on the loan application must be **proven** (not assumed) correct to within certain decimal place or other tolerances. To that end, from start to finish, all documentation submitted must be tabulated to tell a complete story, free of any thing that could indicate a concern or contradiction.

In the initial phase of the application process, both the Mortgage Loan Originator and the Mortgage Loan Processor will do everything they can to let you know exactly what you will need to back up the information on the Loan Application. If you feel a short cut can be taken, I assure you, it cannot. If you feel that even though your situation is "different" and things can be handled, talk it over with the Origination staff so we can guide you to the loan approval. I need to assure you that with the level of overview in the MLI, the best way to a quick approval is with complete communication between our staff and you.

Funds That Are Needed To Close

Most sources are acceptable. A few are not. It's the ones that aren't that cause the problems even though you think there should be none. At application we are required to give you a good estimate of what you will need to close. That money must be verified according to MLI

standards, not according to what you (would logically) or anyone who might be advising you, thinks. Know where the funds are coming from. Any funds appearing within 60 days of the loan application will not only have to be explained, they will also need to be “sourced” to the satisfaction of the MLI (many times to the point of ridiculousness.) At application, it is best to have a reasonable plan and required cash deposited. MLI standards are to ask for 2 months of statements to verify the funds are properly sourced and on deposit. If funds are coming from other sources (sale of assets, retirement or stock withdrawals or loans or even the sale of a cow – it has happened) your Mortgage Loan Originator can tell you what will be needed and what is allowed as long as communications remain open. Shortcuts are very rarely an option.

Gifts

Gifts are perfectly acceptable to use as a down payment. The perfect way to handle gifts would be to declare on the loan application that a gift will be used for the down payment and verify an immediate transfer thereafter. Once the loan application is started, the funds in the donors’ account (the ones used as a gift) must be verified with a proper account statement, the funds transfer must be verified out of that account (i.e. a copy of the check) and the deposit to your account must be verified through a bank statement reflecting the transfer. Any shortcuts or other documentation that muddies the transfer will cause delays. (As an example, a cashier’s check or money order not identifying the source of the funds.) **When asked for a bank statement, the statement will not be valid unless it has the name and address of the account holder, the account number and a 30 day transactional history included on the statement. It must also contain all of the pages.** In essence, the same statement you would receive in the mail. It is best to have the transfer completed before the Underwriting stage is reached in order to get immediate clearance of that condition.

Income

What you think you make may not be verifiable for the MLI. This is a simple communications matter but one which has caused a lot of misery. There are a couple of components to consider. Stable employment and level of earnings. **We will require your paystubs showing a 30 day period (3 if you are paid bi-weekly, 5 if you are paid weekly).** That paystub must also contain year to date figures. Most likely W-2’s and/or tax returns for the past 2 years will be required. Self-employed buyers are perfectly acceptable, however, their proof of income will require a more intensive evaluation. Not having that documentation is an issue that needs to be addressed. There are many components to evaluating/adjusting income. Consult with your Mortgage Loan Originator as to any situations which may not be considered mainstream. Income usage requires absolute logical proof **according to MLI standards.** That is a lot of catches that might be tripped.

Valuations/Appraisal

This is the other major area of your loan application and one you most likely have no control over. Appraisal standards will apply. Not only is the value that is given to the property analyzed but so is the data that was used to establish that value. A low appraisal does not stop you from purchasing a house you feel is worth more.

Regulations

The federal, state & (in some cases) municipal governments and their various agencies give us an environment to work in. Housing is one of the most regulated industries because it is viewed as one of the most important industries. The MLI needs to work according to those regulations and guidelines to get you from your application to your closing. Sometimes those regulations will delay things (they shouldn't but they do.) Sometimes they will cause us all to jump through some hoops to meet them. However, the application process is not about us. It's about working with the industry and the government's regulatory environment and the economic environment (in effect at that time) to get your goals completed.

In Summary

Most of the professionals in the MLI are really good at what they do and are good at adapting to the situation at hand. We ask that you keep an open line of communication with us until we get you to the close. We may not always have the answer you want to hear, but we will have the explanation for why that answer needs to be what it is. Thanks for reading.