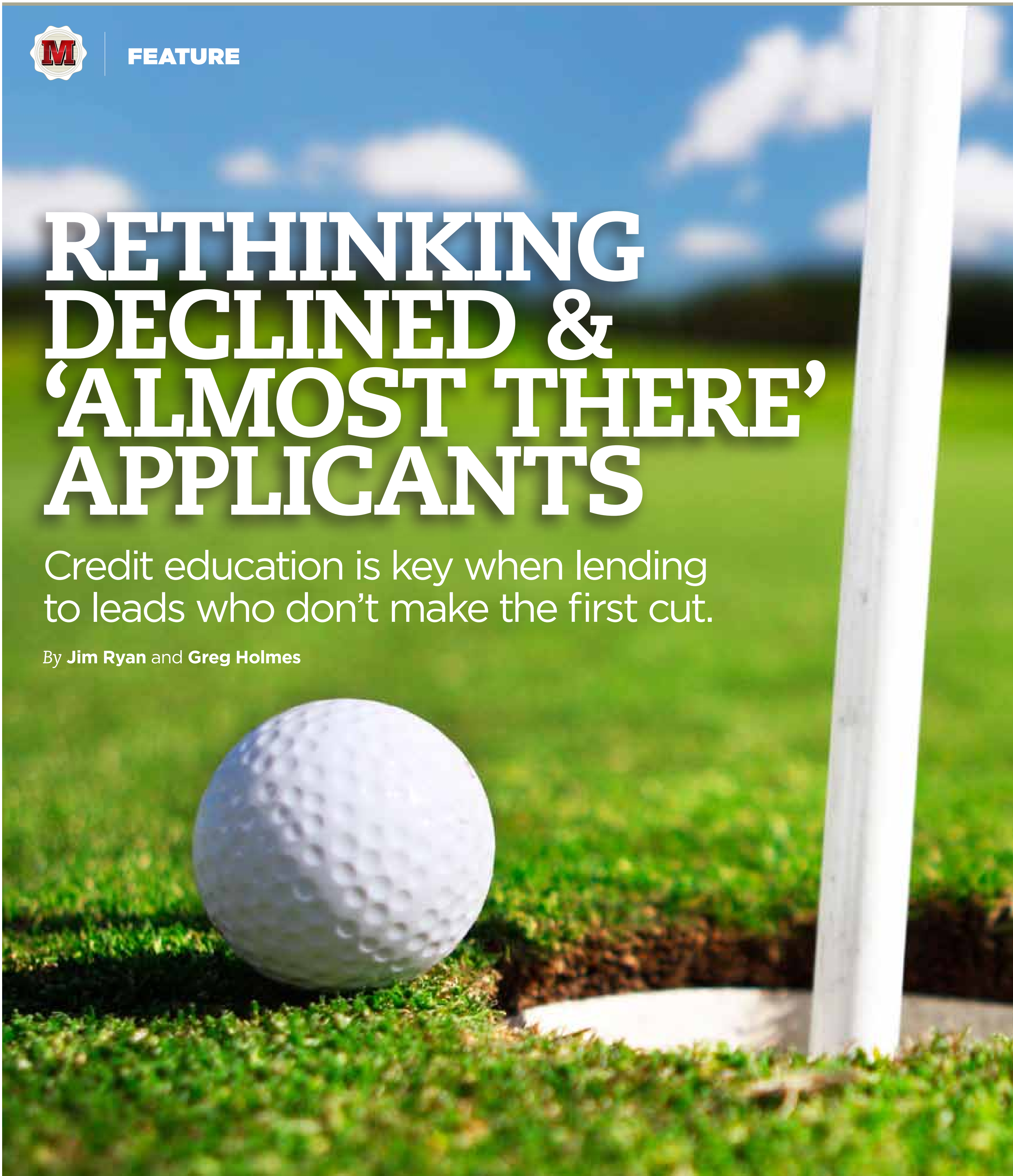
FEATURE

RETHINKING DECLINED & ‘ALMOST THERE’ APPLICANTS

Credit education is key when lending to leads who don’t make the first cut.

By **Jim Ryan** and **Greg Holmes**



FEATURE

Lenders love a good lead-generation program. Advertising, direct mail, online banner ads—they all serve to bring business in the door. But what happens when your new applicant gets declined for the mortgage loan they want? Or you realize they probably won't get approved even before they fill out an application? Is that money spent getting them to contact you wasted? Do you send them packing?

Don't!

There is a whole new line of thinking about loan origination that's paying off for mortgage professionals across the country. It involves hanging onto those leads that didn't quite measure up and steering them toward a program that will help them learn how to better manage their credit so they can, ultimately, become homeowners.

The new philosophy involves an emphasis on credit education: Teach people how to make good financial decisions and show them how their decisions impact their credit score, qualification, and interest rate. The goal is to improve consumer knowledge so that once the consumer qualifies for a mortgage loan, s/he doesn't return to the behavior that so negatively affected their ability to get credit. Consumers who are able to maintain a more creditworthy lifestyle are also more likely to be able to follow through on their dreams when they want to move up to the next house.

Hopeful Homebuyers Fear Rejection

Fear of rejection because of a less-than-stellar credit history is preventing many potential homebuyers from getting into the market. A recent national consumer survey conducted by loanDepot, an independent mortgage lender, showed that 46 percent of today's potential homebuyers are afraid they won't qualify for a mortgage. Many overestimate the influence of their debt when compared to their income. Unfortunately, most of them are drawing these conclusions based on assumptions: just 27 percent of that group took steps to see if they would qualify for a mortgage, while the other 73 percent simply put their homeownership dreams on hold.

The survey also revealed that most Americans don't understand credit scores, especially respondents who hoped to buy a home in the next two years. Half didn't know the minimum score they needed to qualify, while 18 percent thought they needed a score of 680 to 770+ to get a mortgage loan, even though some major lenders are currently approving FHA loans for borrowers with credit scores as low as 600.

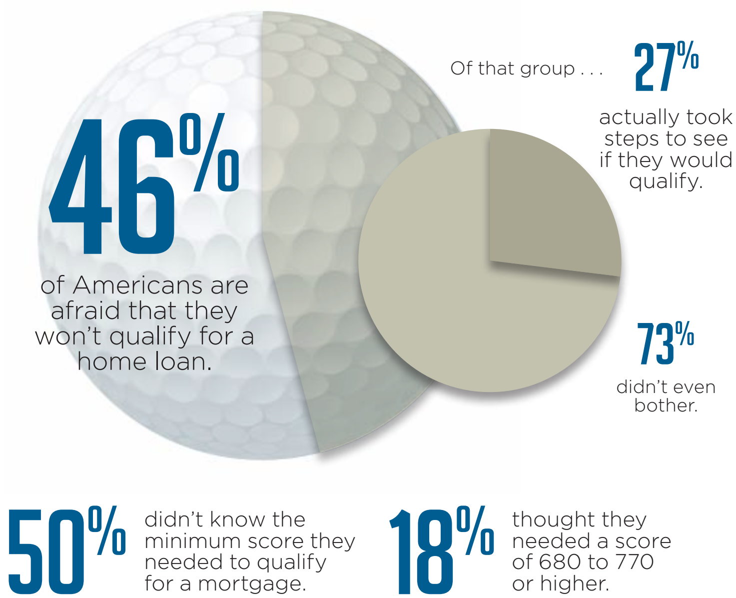
To confuse the issue even further, a report from the Federal Reserve of New York that compared mortgage applications from May 2013 to February 2014 showed that applicants with scores under 680 were rejected at about six times the rate of those with scores over 760. With all the confusion and uncertainty about what is required to qualify for a loan, what's a consumer to do?

Education Helps Consumers Qualify

Many of the people who are shying away from homeownership are first-time homebuyers, often younger adults who haven't been working long enough to build the financial foundation that new regulations require. According to the loanDepot study, the market share of first-time buyers has

Americans Don't Understand Credit Scores

Fear and misinformation are keeping potential homeowners out of the market.



declined from 54 percent of all sales in March 2009 to 28 percent in February 2014.

Knowledge may help to ease their fears. Once potential homebuyers understand what is involved in creating a credit score and how different actions affect both their score and their ability to qualify for credit, they are in a better position to begin to make smart decisions that may improve their creditworthiness.

To be clear, this isn't about quick-fix credit repair—it's about teaching consumers how to responsibly manage money and debts, and how to make a conscious effort to change their behavior over both the short- and the long-term so they maintain a good credit history. Mortgage professionals are in a unique position to steer declined and "not-quite-ready" applicants in the direction of the help they need.

There are several reputable companies that offer Web-based financial and credit management education for consumers. Some of the sites provide these services for free, while others charge a small monthly fee that is paid by either the applicant or the mortgage professional.

These online services use a score simulator to analyze consumers' spending and payment history, demonstrate how various actions may affect their credit, and provide personalized debt and spending management guidance. All also provide regular credit reports and credit scores to enrollees so they can track their progress.

Some of the sites provide daily credit monitoring and notify consumers if significant changes occur in their credit report. Some offer identity theft protection and assist with fraud resolution if identity theft occurs. One even provides a lender portal with an online dashboard so lenders can keep track of enrolled consumers, with their permission. The portal automatically notifies lenders when customers reach a target threshold that the lender has set, thereby helping lenders know when to get back in touch.

The bottom line is, credit management sites give lenders the opportunity to help consumers become more creditworthy and, thus, move forward with their dreams of homeownership.

Credit Education Pays Off for Lenders

Over the past five years, it has become clear that many consumers need help understanding how to better manage their credit and improve their credit history—and they are grateful when a lender steps in to help by recommending credit management education. "We want people to know that just because they were denied a mortgage loan doesn't mean we can't work with them to achieve homeownership," said Karissa Stiglic, social media/marketing coordinator at Gateway Funding Diversified Mortgage.

That sentiment is echoed by Mortgage Investors Group in Knoxville, Tennessee, where credit management is seen as a cornerstone of responsible lending. "Instead of credit repair, we recommend a program that focuses on improving and shaping credit behavior. We pay the fee for the borrower for six months, as long as they come back to us to close," said Jesse Lehn, EVP of operations.

"Many applicants don't understand what impacts their credit score," he continued. "Credit is misunderstood, especially among young people fresh out of college or high school. As first-time homebuyers, they typically don't have a credit history and don't have the experience to understand credit score cause and effect. We use this avenue to direct borrowers who aren't able to qualify and need a path to better credit management." The company approves loans with a credit score as low as 620 if there is no other risk, but really prefers scores above 640. It denies 5 to 10 percent of loan applications due to credit.

Over at Aspire Financial, Inc. (dba TexasLending.com), the team tries to help as many people as they can regardless of their credit situation, whether they are pre- or post-application. "We see many people who are looking for help with their credit before they even begin the application process. In our experience, many people are unaware of how credit works and how their behavior affects their credit," said Goni Karamuco, corporate lead manager at Aspire. "Currently, we have 200 to 300 people enrolled in various stages of an online credit education and management program."

Credit Management Programs Can Feed Your Pipeline

There's an old saying: "Give a man a fish and you feed him for a day; teach a man to fish and you feed him for a lifetime." Credit management teaches consumers what they need to know in order to make their credit work for them instead of against them. Credit education sites can help potential homebuyers get into financial shape so they can get into the home they want. And, as they're learning what they need to know, the pipeline will be consistently filled with qualified leads. **M**

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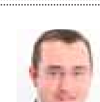

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