By Greg Holmes
National director of sales and marketing
Credit Plus Inc.

Score Your Clients More Points

Use all available tools to ensure credit scores meet today's tough limits

Normally, housing leads the economy into recovery. This time around, however, housing has shown no signs of providing the power to get things moving. That's not to say that 2011 wasn't a decent year. In August of this past year, the Mortgage Bankers Association (MBA) predicted that residential mortgage origination volume would be $100 billion higher than earlier anticipated at $1.1 trillion.

Although this is good news, it's likely that the higher-than-expected volume is homeowners taking advantage of low mortgage rates to refinance existing loans. That trend may now be nearing an end or at least starting to taper off.

As the new year unfolds, mortgage brokers and originators must do everything they can to close loans despite tight lending requirements. These limits have made clients' credit scores more critical than ever, and brokers and originators should take advantage of existing tools to maximize scores to secure funding.

Forecasting trends

Looking ahead, there is nothing on the horizon that would indicate a significant increase in interest rates this year. In addition, home prices in most areas of the country (with the exception of certain areas like New York, California and Washington, D.C.) are expected to remain at low levels, making this a true buyers' market. Nonetheless, the MBA has predicted that mortgage companies will do only $931 billion in originations in 2012, the lowest since 1997.

Tighter lending standards have made mortgages harder to get lately. That doesn't look to change anytime soon. Lenders are continuing to raise the bar on their documentation and credit-score requirements.

The contrast between lending standards in 2006 and today is stark. Five years ago, major lenders typically required a FICO credit score in the mid-500s or higher for loans. Today, that requirement has increased almost 100 points. Large lenders are requiring scores in the mid-600s for Federal Housing Administration (FHA) loans, which is beyond what the agency itself requires.

Mortgage companies are tightening standards on FHA loans partly because of the higher costs they face in servicing delinquent accounts. Fannie Mae and Freddie Mac have adopted tougher guidelines for loans, as well.

Tools to help

Fortunately for mortgage professionals, a variety of scoring tools and technologies are available to help them close more loans. These scoring tools can analyze credit files and alert mortgage professionals to opportunities they may have otherwise overlooked. Scoring tools in many cases suggest positive actions that applicants may take to possibly reach their target scores.

Because every point counts in the current lending environment, it's worthwhile for mortgage professionals to alert applicants to problems with their credit scores, like misreported, inaccurate or outdated information; incorrect account status or balance; and removal of derogatory information or accounts reported in error. Taking a second look at an applicant's credit score can result in a follow-up plan for the broker and the applicant to review.

Fraud still looms

Mortgage fraud will continue to be a concern for mortgage professionals this year. A large increase in the number of suspicious activity reports (SARs) filed with the Financial Crimes Enforcement Network (FinCEN) has made this clear. Financial institutions filed 29,558 SARs in the second quarter of 2011, up from 15,727 in second quarter of the previous year.

Although a large majority of the reports involved mortgages closed in the height of the real estate bubble, there are enough new cases being filed to indicate that mortgage-fraud activities have not subsided. It's not a surprise that the top categories for suspicious activities were misrepresenting income and fraudulent use of Social Security numbers. Income verification will become more and more important as the new ability-to-pay rules work their way into the industry. Consequently, lenders are protecting themselves by requesting income tax records directly from the Internal Revenue Service (IRS).

This information can be obtained by using Form 4506-T to order a transcript of an applicant's tax return. It's important that all of the information on the form is correct and legible. Otherwise, the IRS may reject the request, resulting in delays and frustration.

Services are available to expedite the process and summarize the results in an easy-to-understand report. Typically, these

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Greg Holmes is national director of sales and marketing at Credit Plus Inc., in Salisbury, Md. Credit Plus has been a provider of credit and mortgage-information services since 1928. Reach Holmes at beyondbundled@creditplus.com.

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services confirm the applicant's income and also verify that the Social Security number provided by the applicant matches the number on file with the IRS. Line-by-line income figures provided by the applicant can be compared to those on file with the IRS to show where discrepancies exist.

Get onboard

Closing as many loans as possible this year will require diligence and persistence. Following up on credit scores and making sure that applicants receive every point they deserve is critical. Be sure to look at all of the tools and technology available to the industry today. Just a few points can make a difference.

The plethora of new rules and regulations recently enacted are changing the home mortgage industry. They may seem onerous right now, but many may be good for the industry in the long run. Hopefully, they will prevent a future recurrence of the train wreck of defaults and foreclosures currently underway.

Start now to build a strong plan for your business this year and stick with it. Put the tools and safeguards in place to help you stay on track. Everyone doing their best in the coming year could potentially lead to greater market confidence and a housing recovery in 2013 and beyond.