10 Things Every Agent Should Know about Mortgage Lending

The allied resources an agent has in their business are important to the customer experience of their clients. Key among these allied resources are mortgage relationships. The handoff between the agent and the mortgage representative can make or break a transaction. Robert Griffith, CEO of Primero Home Loans, says that the more agents understand about the mortgage process, the more seamless their transactions can be. Griffith and his team shared the “10 Things Every Real Estate Agent Should Know about Mortgage Lending.”

1. **Mortgage lending is ruled by the Three C’s.** Lenders want to make loans, but won’t unless the application satisfies the standards for Credit, Capacity, and Collateral. The applicant’s credit score must meet a minimum threshold and past credit problems must be adequately explained and documented. The applicant also must have the capacity to make the new mortgage payment based on debt-to-income ratios, and have cash reserves to pay for closing costs. The home that will serve as collateral must be appraised to determine value, the applicant’s intended use of the home must be determined and the applicant must show an equity stake in the form of a down payment.

2. **The minimum down payment is not 20 percent.** A 20 percent down payment is required to avoid the expense of private mortgage insurance (aka “PMI”), but many loan programs allow down payments as low as 3 to 5 percent. FHA loans are available with 3.5 percent down (which can come from a gift from various sources). Eligible military veterans may be able to get a VA loan with zero money down.

3. **In addition to the down payment, closing costs require additional cash.** Closing costs can be reduced by negotiating a credit from the home seller, or by having the lender provide a credit at closing in return for a moderately higher interest rate on the loan.

4. **Life happens, but the pause button must be pressed from loan application through the day of loan closing.** It is critical that the information on the loan application remain true throughout the process. Loan approval will be jeopardized if the applicant changes jobs, gets divorced, buys a car or new furniture, takes on new debt, and so on.
5. **There is more to a credit score than a simple number.** First, credit scores are not set in stone. They can be improved by working with the lender to fix incorrect credit information and selectively paying down or paying off certain open credit accounts. Second, mortgage loans are not only for applicants with the highest scores. Financing is available to applicants with mid-range credit scores (scores run from 300 to 850). For example, FHA loans require a minimum score of 500, or 580 if a minimum down payment of 3.5% will be made. Third, websites where consumers can get their own credit scores are of limited value in determining eligibility for a mortgage loan. These scores frequently differ from those used by lenders, who obtain three scores from three different credit bureaus.

6. **A prior foreclosure does not automatically prevent a new mortgage loan.** Applicants can obtain mortgage financing after a certain amount of time passes following a foreclosure. Generally, the waiting period is seven years for a new conventional loan, three years for an FHA loan, and two years for a VA loan. These time periods may be shortened if the foreclosure was due to uncontrollable factors such as job loss or serious illness.

7. **Mortgage pre-qualifications and pre-approvals are not the same.** Pre-qualifications are based on a limited set of information provided by the applicant, which the lender has not yet verified. Pre-approvals are based on a wider set of information which has been reviewed by a loan underwriter or an automated underwriting system.

8. **Mortgage eligibility requirements vary based on property type.** All homes are not created equal when it comes to mortgage lending. Standard mortgage guidelines are based on free-standing houses that will be occupied by a single group of individuals or a family (aka “single family residences”). Guidelines differ, often significantly, for multi-family properties, properties attached to other properties, homes bought for investment purposes, and second homes, to name just a few examples. Condominium properties, which are prevalent in some markets, frequently cause additional mortgage approval requirements. The lender typically requires the condominium association to complete a questionnaire to show, among other things, the percentage of condo units that are owner-occupied, whether any part of the building is used for commercial purposes, and whether the association faces any pending litigation.

9. **The lowest interest rate is not always the best interest rate.** The price of a mortgage loan is based on a combination of interest rates and fees (aka “points”). A very low interest rate with high fees may over time cost the borrower more than a higher rate with lower fees. This often depends on how long the borrower intends to keep the property before selling it. Also, borrowers who have minimal cash reserves may want to take a moderately higher interest rate in return for a lender credit to help pay for closing costs. It is wise for a borrower to review all the variables with the lender before committing to a specific interest rate.
10. Lenders enforce rules that are made by others. Lenders want to make loans, though the complicated guidelines and long list of required documents seem to suggest otherwise. Today, nearly all mortgage loans are made under guidelines established by the large financial institutions and investment firms (aka the “secondary mortgage market”) that support the mortgage industry by providing the underlying source of money to lend to borrowers. If these guidelines are not strictly met, the mortgage lender can be penalized and possibly forced to buy the mortgage loan back from the secondary market investor at a significant loss. Also, the mortgage industry is heavily regulated by state and federal government agencies, who add additional rules and required documents to the process, and have the power to heavily penalize lenders.