



REALTOR®/Lender Task Force

COMMON PITFALLS IN MORTGAGE UNDERWRITING

As all of you know, mortgage lending has gone through tremendous change and is continuing to be an ever evolving and challenging part of our lives. An effective loan officer with good foresight will typically request the following from the borrower in order to process a mortgage loan upfront: last 30 days in paystubs, last 2 years Federal Tax Returns and respective W2's and/or 1099's, last 2 months bank statements, last quarterly statement of any 401-K, a copy of their driver's license and their social security card, and, if applicable, any recorded separation agreement or divorce decree. The loan officer will scrutinize the pay stubs for miscellaneous deductions, for any child support, garnishments for tax liens, etc. The loan officer will also analyze the last 2 years Federal Tax Returns for any undisclosed second businesses with a loss and/or any unreimbursed business expenses.

Now, in addition to that, loan officers need letters of explanation for: 1) any inquiries in the last 120 days to ascertain if any new debt was acquired for the down payment and/or buyer's expenses, 2) any address variations that show on the credit report due to the possibility of identity theft, 3) any large deposits into their bank accounts within the past 60 days with any and all supporting documentation to confirm the letter of explanation. If the borrower cannot source and document the deposits, those deposits will be deducted from the borrower's funds available for the transaction, and 4) if the w2s show a decline in income from one year to the next or if the year-to-date totals do not add up to the amount of monthly income disclosed, a letter of explanation will be needed.

Further, if there is a story to tell regarding their credit, it is imperative that the borrower write a strong, compelling, and verifiable letter of explanation of what happened in their lives to cause this isolated incident. Bad things happen to good people and FHA loans allow for "the story."

Gifts can be another area of frustration to the borrower and the donor if not done appropriately. The easiest way to handle a gift is to have the donor give the gift at closing via a cashier's check from the bank and made payable to the closing attorney. In this manner, the donor only needs to provide their last month's statement from the account where the money is located. Then all parties will execute the Gift Letter. If the funds are deposited into the borrower's account during the loan process, then the underwriter will need a copy of the cancelled check, the donor's withdrawal slip from their account, and proof that the funds have been deposited into the borrower's bank account.

Repairs can be another snag in underwriting. On a Government loan the appraiser is required to make sure the house meets minimum HUD standards. If the home does not, the appraiser will recommend certain repairs to be completed and then require a final inspection to make sure the repairs are done in a workmanlike manner. Of course, the appraiser is the eyes for the lender. The underwriter will condition the loan to have those repairs completed with a final inspection to confirm. Timing is critical so that there is enough time to complete the repairs, etc. and still close on time.

These are only a few of the pitfalls in mortgage underwriting. As guidelines change and mortgage lending evolves, rest assured there will be even more obstacles to overcome. You will want to buckle up for a bumpy ride and remember, **A LOAN IS NOT 100% APPROVED UNTIL YOU GET THE KEYS FROM THE ATTORNEY AT CLOSING ☺.**

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