

the Mortgage Commentary

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Ten things borrowers should not do

The top ten list of things borrowers should DO OR NOT DO after making a loan application was first compiled over fifteen years ago, and updated as necessary from time to time. You might have seen it before. But in case you haven't --

NUMBER TEN: DO BRING a current (unexpired) driver's license to the loan sign off. Several documents that you will be signing must be notarized and the notary needs to see your license as evidence you are who you say you are. If you forget your license, you may have to go back home and get it, and if it's expired you may have to go to the DMV and get a temporary license.

NUMBER NINE: DO NOT BUY a new car or even go shopping for one without talking to your loan consultant first. If you must visit a showroom, do not give the sales person your social security number since that will allow a credit check to be run. Credit checks will drop your credit score. And a difference of only one point in your score can make a difference in your mortgage rate or even impair your ability to get the loan you need.

NUMBER EIGHT: DO NOT RESPOND to a letter from a credit card company saying that you are pre approved for a card. Your response could trigger a credit inquiry with the same potential results as NINE, above.

NUMBER SEVEN: DO NOT INCUR any new debt or monthly payments. New debt will decrease your credit score and new payments will increase your debt to income ratio, potentially reducing the amount of loan you need to close escrow.

NUMBER SIX: DO NOT FILE for divorce. This is not marriage counselor advice but rather it is loan related advice. Once you file for divorce, lenders will not close on a mortgage loan until they have a final decree setting forth the financial terms of the settlement: who pays whom how much for how long. They need this to establish the ratio of debt to income.

NUMBER FIVE: DO NOT CLOSE any revolving credit accounts before or after

making a loan application. Old credit helps your score, almost as much as making payments on time.

NUMBER FOUR: DO NOT CONSOLIDATE credit card debt by cancelling several cards and transferring to one new card, even for a better rate. One new credit card with a balance equal to its limit is worse for your credit score than three old cards, each with a balance of less than 30% of each limit. Consolidating debt can be a triple whammy: you lose the benefit of old credit; your score drops because of new credit; and it drops further because the amount owed is at the limit.

NUMBER THREE: DO NOT QUIT or change your job without first discussing with your loan consultant. The day before funding your new loan, the lender will call your employer as shown on your loan application to verify that you work there. If they learn that you don't your loan will not be funded (or closed obviously) until your new employment situation is documented, verified and accepted.

NUMBER TWO: DO INFORM your loan consultant immediately of any changes to the transaction. Lat minute changes such as lender holdbacks, seller credits, price change, and the like can cause a delay until changes are approved by the lender. And there is no assurance changes will be approved, so it's best to advise the loan consultant before any changes are made.

NUMBER ONE: DO NOT FORGET to make payments on your present loans and credit cards. In the excitement of buying a new home (purchase) or getting a better rate (refinance) it is easy to forget about making a payment on another loan. But the consequences can be serious — up to and including cancellation of the new loan.

The above DO's and DO NOT's are the ones that historically cause the most problems. So keep this Mortgage Commentary somewhere safe and where you can locate it in the event that you (or someone you know) should be thinking about taking out a new loan.

Contact your representative and tell them to co-sponsor HR3044 and/or to support the amendment to the CFPA which will eliminate the HVCC altogether.

HVCC, the problem

HVCC is not an automobile model, although it could be. As mentioned in previous Commentaries, it stands for Home Value Code of Conduct and it governs the way appraisals are ordered.

The essence of the new rules is that loan originators cannot select the appraiser. We must now request the appraisal from the lender's appraisal management company (AMC) which then selects the appraiser.

The HVCC applies to all conforming loans originated after May 1st, 2009. It has proven to be unwieldy, ineffective, and costly since it became effective.

Appraisals cost the borrowers more because the AMC's add on their fee. And since the AMC's typically select the lowest bidder, the appraiser does not have time to do a quality job and therefore the quality tends to be lower.

Appraisals take longer because the appraiser has no incentive to provide superior service as was the case when the originator selected the appraiser.

But the real damage can be compared to the damage done to your home by termites. You're going on about your business, enjoying your home and are completely unaware that termites are eating your house bite by bite. You don't see the damage unless you have periodic inspections or until you sell your home and have an inspection. But the damage is being done.

AMC's all too frequently select appraisers with no local knowledge of a neighborhood. The result is usually a low appraised value which becomes a low comparable, and in turn, lowers the values in the neighborhood. If it's your neighborhood, your home's value has been depressed without your knowledge. And that's not a good thing. It's a bad thing.

HVCC, the solution

Admittedly appraisal fraud did play a role in the mortgage melt down. Since the major perceived source of bad appraisals was undue pressure on appraisers by mortgage originators to meet a certain value, the idea was that a firewall between originators and appraisers would solve the problem. And the HVCC built that firewall.

The intent was good, but the method adopted had unintended consequences as have been stated. Solutions: significantly change the HVCC or eliminate it altogether.

The hurdle standing in the way of either of these solutions is politics. Enough representatives in congress must be convinced of the collateral damage resulting from the HVCC to eliminate or change the rules. Right now there are two promising things going on in congress that could help.

One: a bill (HR 3044) to establish an 18 month moratorium on the HVCC, allowing time for thoughtful changes to keep its intent while eliminating its unintended consequences has been introduced in the House and it has 121 co-sponsors. Another 100 will move it forward. The Bay Area's representatives are not among the co-sponsors. They should be.

Two: a bipartisan amendment by the House Financial Services Committee would terminate the HVCC within the provisions of the proposed new Consumer Financial Protection Agency (CFPA).

So — if you are concerned about maintaining the value of your home, contact your representative and tell them to co-sponsor HR3044 and/or to support the amendment to the CFPA that eliminates the HVCC altogether.

Also if it's been awhile, you might think about having a termite inspection. Who knows what could be going on without your noticing?



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