

# FROM A LENDER'S PERSPECTIVE...

## SOME KEYS TO PROSPERING IN THIS NEW LENDING ENVIRONMENT

*Part 2 in a series brought to you by Peter Cefaratti,  
Mortgage Consultant with Allied Home Mortgage Co.*



Well, another week has passed, and several more large mortgage companies have suddenly evaporated in the heat of the market. In the offices around town, there's a little more stress to get transactions closed before the buyer's rate lock expires, because the loan program will not exist after that. Preapproved buyers looking for the right homes suddenly must start the loan process over again, and it's not going to be as easy this time. We sense that we may have to make some changes in how we do business, but exactly what changes are needed?

In my reading about the current lending scenario, and reflecting on the challenging real estate market we had in California in the 1990s, both similarities and differences are apparent. Some of the strategies that worked then will work now. Some may not. However, the market is what it is. Tight credit and fewer buyers are conditions that may be with us for some time. This offers challenges and opportunities for us. This is a market which demands a move **back to the basics**. Some of the keys for real estate agents and lenders are:

1. Higher credit scores are even more valuable to buyers. Higher scores allow higher loan-to-value loans and reduced documentation such as no ratio and stated income loans. This does not mean that all those with lower credit scores will be unable to obtain a loan, just that those loans will be more expensive in terms of rate, fees, and amount of down payment required. However, the reality is that many who “qualified” for loans this spring are now not seen as good risks by mortgage companies. They will now have to verify their income. One way to help them is to coach them on practical ways to increase their credit scores. There are also reputable credit repair businesses out there we can recommend. With persistence and a little time, lower-scored clients can become viable buyers.
2. FHA loans are back in style. That's because mortgage investors still have some confidence in these loan guidelines and HUD guarantees. FHA loans may become the “subprime” loans of choice, because they have no credit score minimum. In some instances, 100% financing is available. During the past few years, FHA loans have accounted for a shrinking portion of the loans closed, because the loose guidelines of alternative programs have pulled the typical FHA borrower away. In response, FHA has loosened appraisal, inspection, and other guidelines to boost loan volume (and probably to keep its bureaucracy growing.) Bills now in Congress would increase FHA loan limits, increase loan terms to 40 years, and eliminate the 3% down payment

requirement. FHA loans are wonderful tools to get buyers into homes. To ensure success, be sure to work with a lender experienced with the program.

3. Buyers notice property condition. My wife and I are remodeling our home, and we like to go to open houses to get ideas for our '60s ranch. I am amazed at the number of tired, cluttered homes that sellers are offering in this tight market. We must be up to the challenge of helping sellers do their part in marketing their homes. Negotiating discounts on storage and staging services might be a good sales proposition for agents. Five hundred dollars spent up front can make thousands for a seller. Fifteen to 30% fewer buyers in the market means homes for sale MUST be clean, tidy, and uncluttered to attract an offer, unless the price is discounted. Let's work together to help sellers see that reality.
4. Experience counts. Back in the old days before the year 2000, most borrowers had to prove their income to lenders. This is now back in style! A loan agent's ability to analyze personal or corporate tax returns to maximize income for loan qualification can be the key to loan approval. Align yourself with professionals who have been successful in the real estate market in the days before the shortcuts and loose guidelines. Remember that loan approvals are usually given by underwriters in offices who never meet our clients. All they see are papers in a loan file and images on a computer screen. I know from experience that letters of explanation for derogatory loan characteristics can save a deal. Work with a lender who understands the logic of the underwriter. A good lender can paint a picture with the loan file which gives the underwriter a reason to say, "YES!"
5. Encourage sellers to obtain loan approval when they list their homes. Our clients all want smooth transactions. If sellers need financing to purchase their next home, be sure that they get started in the process ASAP. Don't take anything for granted. The transactions will be smoother if any problems in the loan area are dealt with early on.
6. Communicate, communicate. Is there anything more key in business, especially in a time of change and uncertainty? All the parties to a transaction will feel more secure and less stressed when they know what's going on. Honest, competent advice to sellers and buyers upfront are a trademark of a professional. That includes telling the seller to clean the grout in the shower. It means assessing buyers' credit profiles realistically, and gently telling them that their first step is credit repair or selling a car to get rid of a payment. It means helping clients to understand the benefits of first doing some things they don't want to do, so that we can help them reach their objectives sooner. It also means that a lender will let a REALTOR® know up front that a client is not presently a good candidate for a mortgage. In this case, a motivated buyer will follow a step-by-step plan to be a viable buyer in the future, but a REALTOR® should want to know that her time is better spent with a more viable prospect.

I hope you found this helpful and encouraging. A positive attitude will draw good clients to you, so be diligent, investigate new strategies, and work the niches that seem promising. Next week I will discuss strategic financing and seller incentives which can draw offers. If you have helpful ideas to share, please call me. I would love to have your input.

*Peter Cefaratti is a Mortgage Consultant with Allied Home Mortgage Company in Charlottesville. He is a former real estate agent and investor with over 16 years experience in the mortgage arena. Peter can be reached at (434) 284-2121 or [petercefaratti@comcast.net](mailto:petercefaratti@comcast.net).*